HANCOCK JOHN INCOME SECURITIES TRUST /MA
Form N-2
September 09, 2003

As filed with the Securities and Exchange Commission on September 9, 2003

1933 Act File No. 333-

1940 Act File No. 811-4186

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

X REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

__ Pre-Effective Amendment No. ______
__ Post-Effective Amendment No. ______

and/or

X REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

X Amendment No. 15

JOHN HANCOCK INCOME SECURITIES TRUST
Exact Name of Registrant as Specified in Charter

101 Huntington Avenue, Boston, Massachusetts 02199
Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(617) 375-1500
Registrant's Telephone Number, including Area Code

Susan S. Newton, Secretary, John Hancock Income Securities Trust
101 Huntington Avenue, Boston, Massachusetts 02199
Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copies to: David C. Phelan, Esq.
Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	R
Preferred Shares	40 shares	$25,000.00	$1,000,000.00	

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

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

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION ______________, 2003

_______ SHARES SERIES M
_______ SHARES SERIES T
_______ SHARES SERIES W
_______ SHARES SERIES TH
_______ SHARES SERIES F

[JHF LOGO]

JOHN HANCOCK INCOME SECURITIES TRUST
AUCTION PREFERRED SHARES

John Hancock Income Securities Trust (the "Fund") is a diversified, closed-end management investment company organized in 1972. The Fund is offering _______ shares of its Series M Auction Preferred Shares, ________ shares of its Series T Auction Preferred Shares, ______ shares of its Series W Auction Preferred Shares, ________ shares of its Series TH Auction Preferred Shares, and _______ shares of its Series F Auction Preferred Shares (collectively, the "Preferred Shares" or "APS").

INVESTMENT OBJECTIVE. The Fund's investment objective is to generate a high level of current income consistent with prudent investment risk.

PORTFOLIO CONTENTS. The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of freely marketable debt securities issued by U.S. and foreign corporations and governments. Under normal circumstances the Fund will invest at least 80% of its assets (net assets plus borrowing for investment purposes) in income securities, consisting of the following: (i) marketable corporate debt securities, (ii) governmental obligations and (iii) cash and commercial paper. The Fund may also invest up to 20% of its total assets in income-producing preferred and common stocks. At least 75% of Fund's total assets will be represented by debt securities which are rated, at the time of acquisition, investment grade (i.e., at least "Baa" by Moody's Investors

Service, Inc. ("Moody's") or "BBB" by Standard & Poor's Rating Group ("S&P")) or in unrated securities determined by the Fund's investment adviser to be of comparable credit quality. While the Fund focuses on intermediate and longer-term debt securities, the Fund may acquire securities of any maturity and is not subject to any limits as to the average maturity of its overall portfolio. There can be no assurance that the Fund will achieve its investment objective.

INVESTMENT ADVISER. John Hancock Advisers, LLC (the "Adviser") is the Fund's investment adviser and administrator.

BEFORE BUYING ANY PREFERRED SHARES YOU SHOULD READ THE DISCUSSION OF THE MATERIAL RISKS OF INVESTING IN THE FUND IN "RISK FACTORS" BEGINNING ON PAGE ___. THESE RISKS ARE SUMMARIZED IN "PROSPECTUS SUMMARY--SPECIAL RISK CONSIDERATIONS" BEGINNING ON PAGE __.

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.

	PRICE TO PUBLIC	SALES LOAD	PROCEEDS TO FUND(1)
Per share	$ 25,000	$ 250	$ 24,750
Total	$ --	$ --	$ --

(1) Plus accumulated dividends, if any, from the date the APS are issued, but before offering expenses payable by the Fund estimated to be $______

The APS are being offered by the underwriters subject to certain conditions. The underwriters reserve the right to withdraw, cancel or modify the offering in whole or in part. It is expected that the APS will be delivered to the nominee of The Depository Trust Company on or about ______, 2003.

Investors in APS will be entitled to receive cash dividends at an annual rate that may vary for successive Dividend Periods for such shares. The dividend rate on the Series M APS for the initial period from and including the date of issue to, but excluding, , 2003 will be % per year. The dividend rate on the Series T APS for the initial period from and including the date of issue to, but excluding, , 2003 will be % per year. The dividend rate on the Series W APS for the initial period from and including the date of issue to, but excluding, , 2004 will be % per year. The dividend rate on the Series TH APS for the initial period from and including the date of issue to, but excluding, , 2003 will be % per year. The dividend rate on the Series F APS for the initial period from and including the date of issue to, but excluding, , 2003 will be % per year. For each subsequent period, the Auction Agent will determine the dividend rate for a particular period by an Auction conducted in accordance with the procedures described in this Prospectus and, in further detail, in Appendix D to the Statement of Additional Information.

The APS, which have no history of public trading, will not be listed on an exchange or automated quotation system. Broker-Dealers may maintain a secondary trading market in the APS outside of Auctions; however, they have no obligation to do so, and there can be no assurance that a secondary market for the APS will develop or, if it does develop, that it will provide holders with a liquid trading market (i.e., trading will depend on the presence of willing buyers and sellers and the trading price will be subject to variables to be determined at the time of the trade by such Broker-Dealers). A general increase in the level of interest rates may have an adverse effect on the secondary market price of the APS, and a selling shareholder that sells APS between Auctions may receive a price per share of less than $25,000. The Fund may redeem APS as described under "Description of Preferred Shares--REDEMPTION."

The APS will be senior in liquidation and distribution rights to the Fund's outstanding common shares ("Common Shares"). The Fund's Common Shares are traded on the New York Stock Exchange under the symbol "JHS." This offering is conditioned upon the APS receiving a rating of "Aaa" from Moody's.

You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest and retain it for future reference. A Statement of Additional Information, dated   , 2003, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus, which means that it is part of the Prospectus for legal purposes. You can review the table of contents of the Statement of Additional Information on page ___ of this Prospectus. You may request a free copy of the Statement of Additional Information by calling (800) 225-6020 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (http://www.sec.gov).

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

You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the underwriters are not, making an offer of these securities in any state where the offer 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.

Certain capitalized terms used in this Prospectus are defined in the Glossary that appears at the end of the Prospectus.

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PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the APS, especially the information set forth under the heading "Risk factors." You should read the more detailed information contained in this Prospectus, the Statement of Additional Information and the Fund's By-laws. Certain capitalized terms used in this Prospectus are defined in the Glossary that appears at the end of this Prospectus.

THE FUND

John Hancock Income Securities Trust (the "Fund") is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund was organized in 1972 and commenced operations in 1973. See "The Fund." John Hancock Advisers, LLC (the "Adviser") acts as the Fund's investment adviser and administrator. The Fund's common shares ("Common Shares") are traded on the New York Stock Exchange under the symbol "JHS." As of _______, 2003, the Fund had ___________ Common Shares outstanding and net assets of $_______ million.

THE OFFERING

The Fund is offering an aggregate of ______ Series M APS, _______ Series T APS, _______ Series W APS, ________ Series TH APS and _______ Series F APS, each at a purchase price of $25,000 per share plus accumulated dividends, if any, from the date of original issue. The APS are being offered through a group of underwriters led by _____________ (collectively, the "Underwriters"). See "Underwriting."

The APS entitle their holders to receive cash dividends at an annual rate that may vary for the 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 the APS will be seven days. Deutsche Bank Trust Company Americas (the "Auction Agent") will determine the Applicable Rate for a particular period by an Auction conducted on the Business Day immediately prior to the start of that Dividend Period. See "The Auction."

The APS are not listed on an exchange. Instead, investors may buy or sell APS in an Auction that normally is held weekly by submitting orders to Broker-Dealers that have entered into an agreement with the Auction Agent or to certain other Broker-Dealers. The Auction Agent reviews orders from Broker-Dealers on behalf of Existing Holders that wish to sell, or hold at the auction rate, or hold only at a specified Applicable Rate, and on behalf of Potential Holders that wish to buy, APS. The Auction Agent then determines the lowest Applicable Rate that will result in all of the outstanding APS continuing to be held. The first Auction Date for Series M APS will be   , 2003, for Series T APS will be   , 2003, for Series W APS will be , 2004, for Series TH APS will be , 2003, and for Series F APS will be , 2003, each being the Business Day before the Initial Dividend Payment Date for the Initial Dividend Period for the relevant Series of APS, , 2003 for Series M APS, , 2003 for Series T APS, , 2003 for Series TH APS and , 2003 for Series F APS. During the Initial Dividend Period of Series W APS, dividends will be payable monthly on the first Business Day of each month, commencing on , 2003, and the final dividend payment with respect to the Initial Dividend Period will be made on , 2004. After the Initial Dividend Period, dividends on Series W APS will be paid weekly except during a Special Dividend Period. 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, the Auction Date for Series M APS generally will be Monday, for Series T APS generally will be Tuesday, for Series W APS generally will be Wednesday, for Series TH APS generally will be Thursday and for Series F APS generally will be Friday.

Generally, investors in the APS will not receive certificates representing ownership of their shares. The Securities Depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's Broker-Dealer will maintain record ownership of APS in book-entry form. An investor's Broker-Dealer, in turn, will maintain records of that investor's beneficial ownership of the APS.

INVESTMENT OBJECTIVE AND POLICIES

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate a high level of current income consistent with prudent investment risk.

PORTFOLIO CONTENTS

The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of freely marketable debt securities issued by U.S. and foreign corporations and governments. Under normal circumstances the Fund will invest at least 80% of its assets (net assets plus borrowing for investment purposes) in income securities, consisting of: (i) marketable corporate debt securities, (ii) governmental obligations and (iii) cash and commercial paper. The Fund may also invest up to 20% of its total assets in income-producing preferred and common stocks. While the Fund focuses on intermediate and longer-term debt securities, the Fund may acquire securities of any maturity and is not subject to any limits as to the average maturity of its overall portfolio.

At least 75% of the Fund's total assets will be represented by debt securities which are rated, at the time of acquisition, investment grade (i.e., at least "Baa" by Moody's Investors Service, Inc. ("Moody's") or "BBB" by Standard & Poor's Rating Group ("S&P")) or in unrated securities determined by the Fund's investment adviser to be of comparable credit quality. The Fund may invest up to 25% of its total assets in debt securities rated below investment grade or in unrated debt securities determined by the investment adviser to be of comparable quality.

In managing the Fund's portfolio, the Adviser concentrates first on sector selection by deciding which types of debt securities and industries to emphasize at a given time, and then which individual debt securities to buy. When making sector and industry allocations, the Adviser tries to anticipate shifts in the business cycle, using top-down analysis to determine which sectors and industries may benefit over the next 12 months. In choosing individual securities, the Adviser uses bottom-up research to find securities that appear comparatively undervalued. The Adviser looks at bonds of all quality levels and maturities from many different issuers, potentially including U.S. dollar-denominated securities of foreign corporations and governments. The Adviser may use short-term trading as a means of managing the Fund's portfolio to achieve its investment objective. There can be no assurance that the Fund will achieve its investment objective.

FOREIGN SECURITIES

Although the Fund will focus on securities of U.S. issuers, the Fund may invest in securities of corporate and governmental issuers located outside the United States that are payable in U.S. dollars.

OTHER SECURITIES

Normally, the Fund will invest substantially all of its assets to meet its investment objective. The Fund may invest the remainder of its assets in securities with remaining maturities of less than one year or cash equivalents, or it may hold cash. For temporary defensive purposes, the Fund may depart from its principal investment strategies and invest part or all of its assets in securities with remaining maturities of less than one year or cash equivalents, or it may hold cash. During such periods, the Fund may not be able to achieve its investment objective.

HEDGING AND INTEREST RATE TRANSACTIONS

The Fund may, but is not required to, use various hedging and interest rate transactions to mitigate risks and to facilitate portfolio management. The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, equity, fixed income and interest rate indices, and other financial instruments and purchase and sell financial futures contracts and options thereon, and enter into various interest rate transactions such as swaps, caps, floors or collars or credit transactions and credit default swaps. The Fund also may purchase derivative instruments that combine features of these instruments. The Fund generally seeks to use these instruments and transactions as a hedging or portfolio management technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Fund's portfolio, protect the value of the Fund's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, manage the effective maturity or duration of the Fund's portfolio, or establish positions in the derivatives markets as a

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temporary substitute for purchasing or selling particular securities. The Fund does not engage in these transactions for speculation, but only for hedging or other permissible risk management purposes and to facilitate portfolio management.

THE INVESTMENT ADVISER AND ADMINISTRATOR

John Hancock Advisers, LLC is the Fund's investment adviser and administrator. The Adviser is responsible on a day-to-day basis for investment of the Fund's portfolio in accordance with its investment objective and policies. The Adviser makes all investment decisions for the Fund and places purchase and sale orders for the Fund's portfolio securities. The Adviser also provides office space to the Fund and administrative and clerical services relating to the Fund's books and records and the preparation of reports.

The Adviser serves as the investment adviser to several closed-end and open-end investment companies which focus on investing in fixed income securities. The Adviser also serves as the investment adviser to several leveraged dual-class, closed-end investment companies which focus on investing in preferred stocks and other securities. The Adviser was organized in 1968 and had, as of _______, 2003, approximately $____ billion in assets under management, of which approximately $____ billion was invested in fixed income securities. The Adviser manages approximately $____ billion in leveraged dual-class funds. The Adviser is an indirect wholly-owned subsidiary of John Hancock Financial Services, Inc., a financial services company.

LEVERAGE

The Fund expects to utilize financial leverage on an ongoing basis for investment purposes. After completion of the offering of the APS, the Fund anticipates its total leverage from the issuance of APS will be approximately 33 1/3% of the Fund's total capital. This amount may change, but total leverage will not exceed 50% of the Fund's total capital. Although the Fund may in the future offer other preferred shares, the Fund does not currently intend to do so.

The Fund generally will not utilize leverage if it anticipates that it would result in a lower return to common shareholders over time. Use of financial leverage creates an opportunity for increased income for common shareholders but, at the same time, creates the possibility for greater loss (including the likelihood of greater volatility of net asset value and market price of the shares and of dividends). There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. Because the fees paid to the Adviser will be calculated on the basis of the Fund's managed assets, the fees will be higher when leverage (including the APS) is utilized, giving the Adviser an incentive to utilize leverage. See "Risks factors--RISKS OF INVESTMENT IN PREFERRED SHARES--Leverage risk."

SPECIAL RISK CONSIDERATIONS

Risks of investing in the Preferred Shares include:

THE PRIMARY RISKS

- If an Auction fails you may not be able to sell some or all of your APS and the Fund is not obligated to redeem your APS if the Auction fails

- Because of the nature of the market for APS, you may receive less than the price you paid for your shares if you sell them outside of the Auction, especially when market interest rates are rising

- A rating agency could downgrade the rating assigned to the APS, which could affect liquidity

- The Fund may be forced to redeem APS to meet regulatory or rating agency requirements or may voluntarily redeem the APS in certain circumstances

- In certain circumstances, the Fund may not earn sufficient income from its investments to pay dividends on the APS

- If interest rates rise, the value of the Fund's investment portfolio generally will decline, reducing the asset coverage for the APS

LEVERAGE RISK

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective and policies. These include the possibility of higher volatility of the net asset value of the Fund and the Preferred Shares' asset coverage.

INTEREST RATE RISK

The APS pay dividends based on shorter-term interest rates. The Fund invests the proceeds from the issuance of the APS primarily in debt securities issued by corporate and governmental issuers, which bear intermediate to longer-term interest rates. The yields on intermediate to longer-term debt securities are typically, although not always, higher than shorter-term interest rates. Shorter-term interest rates may rise so that the amount of dividends to be paid to holders of APS exceeds the income from the debt securities and other investments purchased by the Fund with the proceeds from the sale of the APS. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the APS offering) is available to pay dividends on the APS, however, dividend rates on the APS would need to exceed the rate of return on the Fund's investment portfolio by a wide margin before the Fund's ability to pay dividends on the APS would be jeopardized. If intermediate to longer-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 the APS.

AUCTION RISK

The dividend rate for the APS normally is set through an Auction process. In the Auction, Existing Holders of APS may indicate the dividend rate at which the Existing Holders would be willing to hold or sell their APS or purchase additional APS. The Auction also provides liquidity for the sale of APS. An Auction fails if there are more APS offered for sale than there are buyers. You may not be able to sell your APS at an Auction if the Auction fails. Also, if you place Hold Orders (orders to retain shares) at an Auction only at a specified dividend rate and that rate exceeds the rate set at the Auction, you will not retain your APS. Additionally, if you buy APS or elect to retain APS without specifying a dividend rate below which you would not wish to buy or continue to hold those APS, you could receive a lower rate of return on your shares than the market rate. Finally, the Dividend Period for the APS may be changed by the Fund, subject to certain conditions with notice to the holders of APS, which could also affect the liquidity of your investment.

SECONDARY MARKET RISK

If you try to sell your APS between Auctions, you may not be able to sell any or all of your APS, 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, changes in interest rates could affect the price you would receive if you sold your APS in the secondary market.

You may transfer APS outside of Auctions only to or through a Broker-Dealer that has entered into an agreement with the Auction Agent or other person as the Fund permits.

RATINGS AND ASSET COVERAGE RISK

While it is expected that Moody's will assign a rating of "Aaa" to the APS, such rating does not eliminate or necessarily mitigate the risks of investing in APS.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS

Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's Common Shares and the APS, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to satisfy minimum distribution requirements that it must satisfy to maintain its qualification as a regulated investment company for federal income tax purposes.

General risks of investing in the Fund include:

INTEREST RATE RISK

Interest rate risk is the risk that fixed income securities such as debt securities and preferred securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. The Fund's investments in debt securities and preferred securities means that the Fund's net asset value will tend to decline if market interest rates rise.

During periods of declining interest rates, an issuer may exercise its option to prepay principal of debt securities or to redeem preferred securities earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. This is known as extension risk.

CREDIT RISK

Credit risk is the risk that debt securities or preferred securities in the Fund's portfolio will decline in price or fail to make interest or dividend payments when due because the issuer of the security experiences a decline in its financial status. At least 75% of the Fund's total assets will be represented by debt securities which are rated, at the time of acquisition, investment grade or in unrated securities determined by the Adviser to be of comparable credit quality. Although the Fund will primarily invest in investment grade securities, the Fund is authorized to invest up to 25% of its total assets in debt securities rated below investment grade at the time of acquisition.

Securities rated "Baa" by Moody's are considered by Moody's as medium to lower medium grade securities; they are neither highly protected nor poorly secured; interest or dividend payments and capital or principal security, as the case may be, appear to Moody's to be adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over time; and, in the opinion of Moody's, securities in this rating category lack outstanding investment characteristics and in fact have speculative characteristics as well. Securities rated "BBB" by S&P are regarded by S&P as having an adequate capacity to pay interest or dividends and repay capital or principal, as the case may be; whereas such securities normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely, in the opinion of S&P, to lead to a weakened capacity to pay interest or dividends and to repay capital or principal for securities in this category than in higher rating categories. A rating of "Ca" by Moody's means the securities are speculative in a high degree and may be in default. A rating of "CC" by S&P means there is a currently identifiable vulnerability to default. Below investment grade securities and comparable unrated securities involve substantial risk of loss, are considered highly speculative with respect to the issuer's ability to pay interest and any required redemption or principal payments and are susceptible to default or decline in market value due to adverse economic and business developments. The ratings of Moody's and S&P represent their opinions as to the quality of those securities that they rate; ratings are relative and subjective and are not absolute standards of quality.

MORTGAGE-BACKED SECURITIES

Mortgage-backed securities represent participation interests in pools of adjustable and fixed rate mortgage loans which are guaranteed by agencies or instrumentalities of the U.S. government. Unlike conventional debt obligations, mortgage-backed securities provide monthly payments derived from the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. The mortgage loans underlying mortgage-backed securities are generally subject to a greater rate of principal prepayments in a declining interest rate environment and to a lesser rate of principal prepayments in an increasing interest rate environment. Under certain interest and prepayment scenarios, the Fund may fail to recover the full amount of its investment in mortgage-backed securities notwithstanding any direct or indirect governmental or agency guarantee. Since faster than expected prepayments must usually be invested in lower yielding securities, mortgage-backed securities are less effective than conventional bonds in "locking in" a specified interest rate. In a rising interest rate environment, a declining prepayment rate may extend the average life of many mortgage-backed securities. Extending the average life of a mortgage-backed security increases the risk of depreciation due to future increases in market interest rates.

PREFERRED SECURITIES

Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for federal income tax purposes although it has not yet received such income in cash. An issuer of preferred securities may also redeem the securities prior to a specified date. A special redemption by the issuer may negatively impact the return of the security held by the Fund. Generally, holders of preferred securities (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board.

FOREIGN SECURITIES

Although the Fund will only invest in securities of non-U.S. issuers that are traded or denominated in U.S. dollars, the Fund's investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers. These risks may include:

- less information about non-U.S. issuers or markets may be available due to less rigorous disclosure, accounting standards or regulatory practices

- many non-U.S. markets are smaller, less liquid and more volatile; therefore, in a changing market, the Adviser may not be able to sell the Fund's portfolio securities at times, in amounts and at prices it considers reasonable

- currency exchange rates or controls may adversely affect the value of the Fund's investments

- the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession

- economic, political and social developments may adversely affect the securities markets

- withholding and other non-U.S. taxes may decrease the Fund's return

DERIVATIVES

The Fund's hedging and interest rate transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets of the Fund, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to use hedging and interest rate transactions successfully depends on the Adviser's ability to predict pertinent market movements, which cannot be assured. Thus, the use of derivatives for hedging and interest rate management purposes may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that it might otherwise sell. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to hedging and interest rate transactions are not otherwise available to the Fund for investment purposes.

SHORT-TERM TRADING AND PORTFOLIO TURNOVER

The Fund may engage in short-term trading in response to stock market conditions, changes in interest rates or other economic trends and developments, or to take advantage of yield disparities between various fixed income securities in order to improve income. Short term trading may have the effect of increasing portfolio turnover rate. A high rate of portfolio turnover (100% or greater) involves correspondingly greater brokerage expenses. For the fiscal year ended December 31, 2002, the Fund's portfolio turnover rate was 371%. The success of short-term trading will depend upon the ability of the Adviser to evaluate particular securities, to anticipate relevant market factors, including trends of interest rates and earnings and variations from such trends, to obtain relevant information, to evaluate it promptly, and to take advantage of its evaluations by completing transactions on a favorable basis. There can be no assurance that the Adviser will be successful in that evaluation.

FEDERAL INCOME TAXATION

The Fund intends to take the position that under present law the APS will constitute stock of the Fund. Distributions with respect to the APS (other than distributions in redemption of the APS that are treated as exchanges of stock under Section 302(b) of the Code) will constitute dividends to the extent of the Fund's current or accumulated earnings and profits as calculated for U.S. federal income tax purposes. Most of such dividends will be taxable as ordinary income to shareholders that, in the case of corporate shareholders, will not qualify for the dividends received deduction and, in the case of individual shareholders, will not be treated as "qualified dividend income". Distributions of net capital gain that are designated by the Fund as capital gain dividends (if any) will be treated as long-term capital gains without regard to the length of time the shareholder has held shares of the Fund.

TRADING MARKET

The APS will not be listed on an exchange. Instead, you may buy or sell APS at an Auction that normally is held every seven days by submitting orders to a Broker-Dealer that has entered into an agreement with the Auction Agent, 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 APS outside of Auctions, but may discontinue this activity at any time. There is no assurance that a secondary market will provide shareholders with liquidity. You may transfer APS outside of Auctions only to or through a Broker-Dealer or a broker-dealer that has entered into a separate agreement with a Broker-Dealer.

DIVIDENDS AND DIVIDEND PERIODS

The APS will entitle their holders to receive cash dividends at a rate per annum that may vary for the successive Dividend Periods for such shares. In general, except as described below, each Dividend Period for each series of APS subsequent to the Initial Dividend

Period will be seven days in length. The Applicable Rate for a particular Dividend Period will be determined by an Auction conducted on the Business Day immediately preceding the start of such Dividend Period.

The table below shows the initial dividend rate, the Dividend Payment Date and the number of days for the Initial Dividend Period on each series of the APS offered in this Prospectus. For subsequent Dividend Periods, the APS will pay dividends based on a rate set at Auctions, normally held every seven days. In most instances, dividends are payable on the first Business Day following the end of the Dividend Period. The rate set at Auction will not exceed the Maximum Applicable Rate. See "Description of Preferred Shares--DIVIDENDS AND DIVIDEND PERIODS." Dividends on the APS will be cumulative from the date the APS are first issued and will be paid out of legally available funds.

	INITIAL DIVIDEND RATE	ENDING DATE OF INITIAL DIVIDEND PERIOD	INITIAL DIVIDEND PAYMENT DATE	SUBSEQUENT DIVI PAYMENT DAT
Series M.....	%	, 2003	, 2003	Normally every 7 d
Series T.....	%	, 2003	, 2003	Normally every 7 d
Series W.....	%	, 2004	, 2003 (1)	Month for Initial Period; normally e days thereafter (1
Series TH....	%	, 2003	, 2003	Normally every 7 d
Series F.....	%	, 2003	, 2003	Normally every 7 d

(1) During the Initial Dividend Period of Series W APS, dividends will be

payable monthly on the first Business Day of each month, commencing on , 2003, and the final dividend payment with respect to the Initial Dividend Period will be made on , 2004. After the Initial Dividend Period, dividends on Series W APS will be paid weekly except during a Special Dividend Period.

After the Initial Dividend Period, each subsequent Dividend Period will generally consist of seven days; provided, however, that prior to any Auction, the Fund may elect, subject to certain limitations described herein, after giving notice to the holders of one or more series of APS, to declare a Special Dividend Period with respect to such series. A "Special Dividend Period" is a Dividend Period consisting of a specified number of days, evenly divisible by seven and not fewer than 14 nor more than 364 (a "Short-Term Dividend Period") or a Dividend Period of one year or more but not greater than five years (a "Long-Term Dividend Period"). A requested Special Dividend Period will not be effective unless Sufficient Clearing Bids were made in the Auction immediately preceding the Special Dividend Period. In addition, full cumulative dividends, any amounts due with respect to mandatory redemptions and any additional dividends payable prior to such date must be paid in full. See "Description of Preferred Shares--DIVIDENDS AND DIVIDEND PERIODS--Designation of Special Dividend Periods" and "The Auction."

Dividends for the APS will be paid through the Securities Depository on each Dividend Payment Date. The Securities Depository's normal procedures provide for it to distribute dividends in same-day funds to Agent Members, who are in turn expected to distribute such dividends to the person for whom they are acting as agent in accordance with the instructions of such person. See "Description of Preferred Shares--DIVIDENDS AND DIVIDEND PERIODS."

MAXIMUM APPLICABLE RATE

Except during a Non-Payment Period, the Applicable Rate for any Dividend Period for APS will not be more than the Maximum Applicable Rate applicable to such shares. The Maximum Applicable Rate for each series of APS will depend on the credit rating assigned to such series and on the duration of the Dividend Period. The Maximum Applicable Rate will be the Applicable Percentage of the Reference Rate. The Reference Rate is (i) with respect to any seven day Dividend Period or any Short-Term Dividend Period having 182 or fewer days, the applicable "AA" Financial Composite Commercial Paper Rate, (ii) with respect to any Short-Term Dividend Period having 183 or more but fewer than 364 days, the applicable U.S. Treasury Bill Rate and (iii) with respect to any Long-Term Dividend Period, the applicable U.S. Treasury Note Rate. The Applicable Percentage will be determined based on the credit rating assigned on such date to the APS by Moody's (or, if Moody's shall not make such rating available, the equivalent of such rating by a Substitute Rating Agency).

APPLICABLE PERCENTAGE PAYMENT TABLE

MOODY'S CREDIT RATINGS	APPLICABLE PERCENTAGE
Aa3 or higher....................................	150%
A3 to A1...	200%
Baa3 to Baa1.....................................	225%
Below Baa3.......................................	275%

RATINGS

The APS are expected to receive a rating of "Aaa" from Moody's. This rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings are not a recommendation to purchase, hold or sell APS inasmuch as the rating does not comment as to market price or suitability for a particular investor. The rating also does not address the likelihood that an owner of APS will be able to sell such APS in an Auction or otherwise. The rating is based on information obtained from the Fund and other sources. The rating may be changed, suspended or withdrawn in Moody's discretion as a result of changes in, or the unavailability of, such information. See "Description of Preferred Shares--RATING AGENCY GUIDELINES AND ASSET COVERAGE."

REDEMPTION

The Fund is required to redeem APS if the Fund does not meet an asset coverage ratio required by the 1940 Act or the rating agency guideline in a timely manner. The Fund may voluntarily redeem APS, in whole or in part, under certain conditions. Unless otherwise established in connection with a Special Dividend Period, the redemption price per Preferred Share will be $25,000 plus accumulated and unpaid dividends through the date of redemption. See "Description of Preferred Shares--REDEMPTION" and "Description of Preferred Shares--RATING AGENCY GUIDELINES AND ASSET COVERAGE."

ASSET MAINTENANCE

Under the By-laws which establish and fix the rights and preferences of the APS, the Fund must maintain:

- asset coverage of the APS as required by the rating agency or agencies rating the APS

- asset coverage of at least 200% with respect to senior securities of the Fund that are stock, including the APS

In the event that the Fund does not maintain or cure these coverage tests, some or all of the APS will be subject to mandatory redemption. See "Description of Preferred Shares--REDEMPTION." Based on the composition of the Fund's portfolio as of _____________, 2003, the asset coverage of the APS as measured pursuant to the 1940 Act would be approximately _____% if the Fund were to issue the APS offered hereby.

LIQUIDATION PREFERENCE

The liquidation preference for shares of each series of APS will be $25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declared. See "Description of Preferred Shares--LIQUIDATION."

VOTING RIGHTS

The holders of preferred shares, including the APS, voting as a separate class, have the right to elect at least two Trustees of the Fund at all times. Such holders also have the right to elect a majority of the Trustees in the event that two years' dividends on the preferred shares are unpaid. In each case, the remaining Trustees will be elected by holders of Common Shares. The holders of preferred shares, including the APS, will vote as a separate class or classes on certain other matters required under the Declaration of the Trust, the By-laws, the 1940 Act and Massachusetts law. See "Description of Preferred Shares--VOTING RIGHTS," and "Certain provisions of the Declaration of Trust and By-laws."

AUCTION PROCEDURES

Unless otherwise permitted by the Fund, Beneficial Owners and Potential Beneficial Owners of APS may only participate in Auctions through their Broker-Dealers. Broker-Dealers will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves as Existing Holders in respect of APS subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of APS subject to Orders submitted to them by Potential Beneficial Owners. On or prior to each Auction Date for the APS of a series (the Business Day immediately preceding the first day of each Dividend Period), each Beneficial Owner may submit Orders to its Broker-Dealer as follows:

- Hold Order--indicating its desire to hold the APS of such series without regard to the Applicable Rate for the next Dividend Period for such APS.

- Bid--indicating its desire to hold the APS of such series, provided that the Applicable Rate for the next Dividend Period for such APS is not less than the rate per annum specified in such Bid.

- Sell Order--indicating its desire to sell the APS of such series without regard to the Applicable Rate for the next Dividend Period for such APS.

A Beneficial Owner may submit different types of Orders to its Broker-Dealer with respect to the APS of a series then held by such Beneficial Owner, provided that the total number of APS covered by such Orders does not exceed the number of APS of such series held by such Beneficial Owner. If, however, a Beneficial Owner offers through its Broker-Dealer to purchase additional APS of a series in such Auction, such Beneficial Owner, for purposes of such offer to purchase additional shares, will be treated as a Potential Beneficial Owner as described below. Bids by Beneficial Owners through their Broker-Dealers with rates per annum higher than the Maximum Applicable Rate will be treated as Sell Orders. A Hold Order (in the case of an Auction relating to a Dividend Period of 91 days or less) or a Sell Order (in the case of an Auction relating to a Special Dividend Period of longer than 91 days) shall be deemed to have been submitted on behalf of a Beneficial Owner if an Order with respect to the APS then held by such Beneficial Owner is not submitted on behalf of such Beneficial Owner for any reason, including the failure of a Broker-Dealer to submit such Beneficial Owner's Order to the Auction Agent.

Potential Beneficial Owners of APS may submit Bids through their Broker-Dealers in which they offer to purchase APS, provided that the Applicable Rate for the next Dividend Period for such APS is not less than the rate per annum specified in such Bid. A Bid by a Potential Beneficial Owner with a rate per annum higher than the Maximum Applicable Rate will not be considered.

Neither the Fund nor the Auction Agent will be responsible for a Broker-Dealer's failure to act in accordance with the instructions of Beneficial Owners or Potential Beneficial Owners or failure to comply with any of the foregoing.

If Sufficient Clearing Bids exist in an Auction for the APS of a series (that is, in general, the number of APS subject to Bids by Potential Holders with rates equal to or lower than the Maximum Applicable Rate is at least equal to the number of APS subject to Sell Orders by Existing Holders), the Applicable Rate will be the lowest rate per annum specified in the Submitted Bids which, taking into account such rate per annum and all lower rates per annum bid by

Existing Holders and Potential Holders, would result in Existing Holders and Potential Holders owning all of the APS available for purchase in the Auction. If Sufficient Clearing Bids do not exist, the Applicable Rate will be the Maximum Applicable Rate, and in such event, Existing Holders who have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, APS subject to such Sell Orders. Thus, in certain circumstances, Existing Holders and the Beneficial Owners they represent may not have liquidity of investment. If all of the applicable outstanding APS are subject to submitted Hold Orders (or Hold Orders deemed to have been submitted), then the Dividend Period will be a seven day Dividend Period and the Applicable Rate for the next Dividend Period will be the "AA" Financial Composite Commercial Paper Rate for a seven day Dividend Period.

A Sell Order by an Existing Holder will constitute an irrevocable offer to sell the APS subject thereto, and a Bid placed by an Existing Holder also will constitute an irrevocable offer to sell the APS subject thereto, if the rate per annum specified in the Bid is higher than the Applicable Rate determined in the Auction, in each case at a price per Preferred Share equal to $25,000. A Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the APS subject thereto at a price per share equal to $25,000 if the rate per annum specified in such Bid is less than or equal to the Applicable Rate determined in the Auction. 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 by book-entry to their 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 in same-day funds. See "The Auction."

Financial highlights (unaudited) [To be completed]

Information contained in the table below shows the audited operating performance of the Fund for the last ten fiscal years. The information was audited by ___________, independent auditors, whose reports, along with the Fund's financial statements, are included in the Fund's annual reports. The information for the semi-annual period ended June 31, 2003 is unaudited.

	SEMI-ANNUAL PERIOD ENDED JUNE 30		FISCA
	2003	2002	2001
PER COMMON SHARE OPERATING PERFORMANCE:			
Net asset value, beginning of period..............................			
Increase/(decrease) from investment operations:			
Net investment income...			
Net realized and unrealized gain/(loss) on investments..........			
Total from investment operations..................................			
Dividends (from net investment income) to preferred shareholders......................................			
Dividends (from net investment income) to common shareholders...			
Distributions (from capital gains) to preferred shareholders....			

Distributions (from net investment income) to
common shareholders..
Returns of capital to common shareholders......................
Returns of capital to preferred shareholders...................
Total distributions...
Net increase/(decrease) from investment operations................
Offering costs charged to capital................................
Net assets value, end of period..................................
Per share market value, end of period............................
TOTAL INVESTMENT RETURN..

RATIOS TO AVERAGE NET ASSETS APPLICABLE TO
COMMON SHAREHOLDERS:
Net assets, end of period..
Ratio of expenses to average net assets...........................
Ratio of adjusted expenses to average net assets..................
Ratio of net investment income to average net assets applicable
to common shareholders..

SUPPLEMENTAL DATA:
Average net assets of common shareholders (000)...................
Portfolio turnover...
Average commission rate paid.....................................
Net assets applicable to common shareholders, end of period (000)..
Preferred shares outstanding (000)...............................

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Financial highlights (cont.)

	FISCAL YEARS ENDED DECEM			
	1997	1996	1995	199
PER COMMON SHARE OPERATING PERFORMANCE:				
Net asset value, beginning of period.............................				
Increase/(decrease) from investment operations:				
Net investment income..				
Net realized and unrealized gain/(loss) on investments...........				
Total from investment operations				
Dividends (from net investment income) to preferred shareholders..				
Dividends (from net investment income) to common shareholders...				
Distributions (from capital gains) to preferred shareholders.....				
Distributions (from net investment income) to common shareholders..				
Returns of capital to common shareholders.......................				
Returns of capital to preferred shareholders....................				
Total distributions...				
Net increase/(decrease) from investment operations................				
Offering costs charged to capital................................				
Net assets value, end of period..................................				
Per share market value, end of period............................				
TOTAL INVESTMENT RETURN..				

RATIOS TO AVERAGE NET ASSETS APPLICABLE TO

COMMON SHAREHOLDERS:
Net assets, end of period..
Ratio of expenses to average net assets...........................
Ratio of adjusted expenses to average net assets..................
Ratio of net investment income to average net assets applicable to common shareholders..

SUPPLEMENTAL DATA:
Average net assets of common shareholders (000)...................
Portfolio turnover..
Average commission rate paid......................................
Net assets applicable to common shareholders, end of period (000)..
Preferred shares outstanding (000)................................

The Fund

John Hancock Income Securities Trust (the "Fund") is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a corporation under the laws of the State of Maryland on October 20, 1972 and converted to a Massachusetts business trust under the laws of the Commonwealth of Massachusetts on October 5, 1984. The Fund commenced operations on February 22, 1973. The Fund's principal office is located at 101 Huntington Avenue, Boston, Massachusetts 02199, and its telephone number is (800) 255-6020. The Fund's Common Shares are traded on the NYSE under the symbol "JHS."

The following provides information about the Fund's outstanding shares as of ________________, 2003.

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUN BY THE FOR ITS
Common Shares..............	Unlimited	0
Auction Preferred Shares....	Unlimited for each series	0
Series M		
Series T		
Series W		
Series TH		
Series F		

USE OF PROCEEDS

The net proceeds of this offering of APS will be approximately $___________ after payment of offering costs (including sales load) estimated to be approximately $_________. The Fund will invest the net proceeds of the offering in accordance with its investment objective and policies as stated below under "Investment objective and principal investment strategies." The Fund expects that there will be an initial investment period of up to three months following the completion of this offering before all of the proceeds from the sale of the APS are invested in accordance with its investment objective and policies. Pending such investment, the Fund anticipates that all or a portion of the proceeds will be invested in U.S. government securities or high-grade, short-term money market instruments. See "Investment objective and principal investment strategies."

Capitalization (unaudited)

The following table sets forth the capitalization of the Fund as of ___________, 2003, and as adjusted to give effect to (i) the issuance of the APS offered hereby (including estimated offering expenses and a sales load of $250 per APS) and (ii) the outstanding Common Shares.

	ACT
Auction Preferred Shares, no par value per share (no shares issued; ___________ shares issued, as adjusted at $25,000 per share liquidation preference)...	$--
	===
SHAREHOLDER'S EQUITY:	
Common Shares, no par value per share (____________ shares outstanding; [ ] shares outstanding as adjusted)(1).......................	---
PAID-IN SURPLUS	
Balance of undistributed net investment income......................................	---
Accumulated net realized gain/(loss) from investment transactions..................	---
Net unrealized appreciation/(depreciation) of investments..........................	---
Net assets attributable to Common Shares...	---

(1) None of these outstanding shares are held by or for the account of the Fund.

PORTFOLIO COMPOSITION

As of ___________, 2003, approximately ____ % of the market value of the Fund's portfolio was invested in debt securities, approximately _____% in preferred securities and common stocks and approximately _____% of the market value of the Fund's portfolio was invested in other securities and short-term instruments. The following table sets forth certain information with respect to the composition of the Fund's investment portfolio as of __________, 2003, based on the highest rating assigned each investment.

CREDIT RATING (MOODY'S/S&P)	NUMBER OF ISSUES	VALUE (000)	PERCENT
Aaa/AAA....................	------	$--------	--- %
Aa/AA......................	------	---------	---
A/A........................	------	---------	---
Baa/BBB....................	------	---------	---
Ba/BB......................	------	---------	---
B/B........................	------	---------	---
Caa/CCC....................	------	---------	---
Ca/CC......................	------	---------	---
Total.................	------	---------	--- %

INVESTMENT OBJECTIVE AND PRINCIPAL INVESTMENT STRATEGIES

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate a high level of current income consistent with prudent investment risk. The Fund's investment objective is not a fundamental policy and may be changed without the approval of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund. The Fund makes no assurance that it will realize its objectives.

PRINCIPAL INVESTMENT FOCUS AND PHILOSOPHY

The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of freely marketable debt securities issued by U.S. and foreign corporations and governments. Under normal circumstances the Fund will invest at least 80% of its assets (net assets plus borrowing for investment purposes) in income securities, consisting of: (i) marketable corporate debt securities, (ii) governmental obligations and (iii) cash and commercial paper. This is a non-fundamental policy and may be changed by the Board of Trustees of the Fund as long as shareholders are provided with at least 60 days prior written notice of any change as required by the rules under the 1940 Act. The Fund may also invest up to 20% of its total assets in income-producing preferred and common stocks. While the Fund focuses on intermediate and longer-term debt securities, the Fund may acquire securities of any maturity and is not subject to any limits as to the average maturity of its overall portfolio.

At least 75% of the Fund's total assets will be represented by debt securities which are rated, at the time of acquisition, investment grade (i.e., at least "Baa" by Moody's Investors Service, Inc. ("Moody's") or "BBB" by Standard & Poor's Rating Group ("S&P")) or in unrated securities determined by the Fund's investment adviser to be of comparable credit quality. The Fund may invest up to 25% of its total assets in debt securities rated below investment grade or in unrated debt securities determined by the investment adviser to be of comparable quality.

Securities rated "BBB" by S&P are regarded by S&P as having an adequate capacity to pay interest or dividends and repay capital or principal, as the case may be; whereas such securities normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely, in the opinion of S&P, to lead to a weakened capacity to pay interest or dividends and repay capital or principal for securities in this category than in higher rating categories. Securities rated "Baa" by Moody's are considered by Moody's as medium to lower medium grade securities; they are neither highly protected nor poorly secured; interest or dividend payments and capital or principal security, as the case may be, appear to Moody's to be adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over time; and, in the opinion of Moody's, securities in this rating category lack outstanding investment characteristics and in fact have speculative characteristics as well. A rating of "Ca" by Moody's means the securities are speculative in a high degree and may be in default. A rating of "CC" by S&P means there is a currently identifiable vulnerability to default. Below investment grade securities and comparable unrated securities involve substantial risk of loss, are considered highly speculative with respect to the issuer's ability to pay interest and any required redemption or principal payments and are susceptible to default or decline in market value due to adverse economic and business developments. The descriptions of the investment grade rating categories by Moody's and S&P, including a description of their speculative characteristics, are set forth in the Statement of Additional Information. All references to securities ratings by Moody's and S&P in this Prospectus shall, unless otherwise indicated, include all securities within each such rating category (e.g., "Baa1", "Baa2" and "Baa3" in the case of Moody's and "BBB+", "BBB" and "BBB--" in the case of S&P). All percentage and ratings limitations on securities in which the Fund may invest apply at the time of making an investment and shall not be considered violated if an investment rating is subsequently downgraded to a rating that would have precluded the Fund's initial investment in such security. In the event of such security downgrade, the Fund will sell the portfolio security as soon as the Adviser believes it to be prudent to do so in order to again cause the Fund to be within the percentage and ratings limitations set forth in this Prospectus. In the event that the Fund disposes of a portfolio security subsequent to its being downgraded, the Fund may experience a greater risk of loss than if such security had been sold prior to such downgrading.

In managing the Fund's portfolio, the Adviser concentrates first on sector selection by deciding which types of bonds and industries to emphasize at a given time, and then which individual bonds to buy. When making sector and industry allocations, the Adviser tries to anticipate shifts in the business cycle, using top-down analysis to determine which sectors and industries may benefit over the next 12 months. In choosing individual securities, the Adviser uses bottom-up research to find securities that appear comparatively undervalued. The Adviser looks at bonds of all quality levels and maturities from many different issuers, potentially including U.S. dollar-denominated securities of foreign corporations and governments. The Adviser may use short-term trading as a means of

managing the Fund's portfolio to achieve its investment objective. There can be no assurance that the Fund will achieve its investment objective.

PORTFOLIO CONTENTS AND PRINCIPAL INVESTMENT STRATEGIES

CORPORATE DEBT SECURITIES

Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations and may also be subject to price volatility due to such factors as market interest rates, market perception of the creditworthiness of the issuer and general market liquidity.

U.S. GOVERNMENT SECURITIES

U.S. government securities in which the Fund invests include debt obligations of varying maturities issued by the U.S. Treasury or issued or guaranteed by an agency or instrumentality of the U.S. government, including the Federal Housing Administration, Federal Financing Bank, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association (GNMA), General Services Administration, Central Bank for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Maritime Administration, Tennessee Valley Authority, District of Columbia Armory Board, Student Loan Marketing Association, Resolution Trust Corporation and various institutions that previously were or currently are part of the Farm Credit System (which has been undergoing reorganization since 1987). Some U.S. government securities, such as U.S. Treasury bills, Treasury notes and Treasury bonds, which differ only in their interest rates, maturities and times of issuance, are supported by the full faith and credit of the United States government. Others are supported by:

(i) the right of the issuer to borrow from the U.S. Treasury, such as securities of the Federal Home Loan Banks; (ii) the discretionary authority of the U.S. government to purchase the agency's obligations, such as securities of the FNMA; or (iii) only the credit of the issuer. No assurance can be given that the U.S. government will provide financial support in the future to U.S. government agencies, authorities or instrumentalities that are not supported by the full faith and credit of the United States. Securities guaranteed as to principal and interest by the U.S. government, its agencies, authorities or instrumentalities include: (i) securities for which the payment of principal and interest is backed by an irrevocable letter of credit issued by the U.S. government or any of its agencies, authorities or instrumentalities; and (ii) participations in loans made to non-U.S. governments or other entities that are so guaranteed. The secondary market for certain of these participations is limited and therefore may be regarded as illiquid.

MORTGAGE-BACKED SECURITIES

The Fund may invest in mortgage-backed securities which represent participation interests in pools of adjustable and fixed rate mortgage loans which are guaranteed by agencies or instrumentalities of the U.S. government. Unlike conventional debt obligations, mortgage-backed securities provide monthly payments derived from the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. The mortgage loans underlying mortgage-backed securities are generally subject to a greater rate of principal prepayments in a declining interest rate environment and to a lesser rate of principal prepayments in an increasing interest rate environment. Under certain interest and prepayment scenarios, the Fund may fail to recover the full amount of its investment in mortgage-backed securities notwithstanding any direct or indirect governmental or agency guarantee. Since faster than expected prepayments must usually be invested in lower yielding securities, mortgage-backed securities are less effective than conventional bonds in "locking in" a specified interest rate. In a rising interest rate environment, a declining prepayment rate may extend the average life of many mortgage-backed securities. Extending the average life of a mortgage-backed security increases the risk of depreciation due to future increases in market interest rates.

The Fund's investments in mortgage-backed securities may include conventional mortgage pass through securities and certain classes of multiple class collateralized mortgage obligations ("CMOs"). In order to reduce the risk of prepayment for investors, CMOs are issued in multiple classes, each having different maturities, interest rates, payment schedules and allocations of principal and interest on the underlying mortgages. Senior CMO classes will typically have priority over residual CMO classes as to the receipt of principal and/or interest payments on the underlying mortgages. The CMO classes in which the Fund may invest include but are not limited to sequential and parallel pay CMOs, including planned amortization class ("PAC") and target amortization class ("TAC") securities.

Different types of mortgage-backed securities are subject to different combinations of prepayment, extension, interest rate and/or other market risks. Conventional mortgage pass through securities and sequential pay CMOs are subject to all of these risks, but are typically not leveraged. PACs, TACs and other senior classes of sequential and parallel pay CMOs involve less exposure to prepayment, extension and interest rate risk than other mortgage-backed securities, provided that prepayment rates remain within expected prepayment ranges or "collars."

FOREIGN SECURITIES

While the Fund primarily invests in the securities of U.S. issuers, the Fund may invest in securities of corporate and governmental issuers located outside the United States. The Fund only invests in securities of foreign issuers that are payable in U.S. dollars.

PREFERRED AND COMMON STOCKS

The Fund may invest up to 20% of its assets in income producing preferred securities and common stocks. The Fund normally will invest in such securities when the Adviser believes that they will provide a sufficiently high yield to attain the Fund's investment objective. The Fund may also purchase income producing securities which are convertible into or come with rights to purchase preferred and common stocks.

Common stocks are shares of a corporation or other entity that entitle the holder to a pro rata share of the profits, if any, of the corporation without preference over any other shareholder or class of shareholders, including holders of such entity's preferred stock and other senior equity securities. Common stock usually carries with it the right to vote and frequently an exclusive right to do so. In selecting common stocks for investment, the Fund expects generally to focus more on the security's dividend paying capacity than on its potential for capital appreciation.

Fixed rate preferred stocks have fixed dividend rates. They can be perpetual, with no mandatory redemption date, or issued with a fixed mandatory redemption date. Certain issues of preferred stock are convertible into other equity securities. Perpetual preferred stocks provide a fixed dividend throughout the life of the issue, with no mandatory retirement provisions, but may be callable. Sinking fund preferred stocks provide for the redemption of a portion of the issue on a regularly scheduled basis with, in most cases, the entire issue being retired as a future date. The value of fixed rate preferred stocks can be expected to vary inversely with interest rates.

Adjustable rate preferred stocks have a variable dividend rate which is determined periodically, typically quarterly, according to a formula based on a specified premium or discount to the yield on particular U.S. Treasury securities, typically the highest base-rate yield of one of three U.S. Treasury securities: the 90-day Treasury bill; the 10-year Treasury note; and either the 20-year or 30-year Treasury bond or other index. The premium or discount to be added to or subtracted from this base-rate yield is fixed at the time of issuance and cannot be changed without the approval of the holders of the adjustable rate preferred stock. Some adjustable rate preferred stocks have a maximum and a minimum rate and in some cases are convertible into common stock.

Auction rate preferred stocks pay dividends that adjust based upon periodic auctions. Such preferred stocks are similar to short-term corporate money market instruments in that an auction rate preferred stockholder has the opportunity to sell the preferred stock at par in an auction, normally conducted at least every 49 days, through which buyers set the dividend rate in a bidding process for the next period. The dividend rate set in the auction depends upon market conditions and the credit quality of the particular issuer. Typically, the auction rate preferred stock's dividend rate is limited to a specified maximum percentage of an external commercial paper index as of the auction date. Further, the terms of auction rate preferred stocks generally provide that they are redeemable by the issuer at certain times or under certain conditions.

MONEY MARKET INSTRUMENTS

Money market instruments include short-term U.S. government securities, U.S. dollar denominated, high quality commercial paper (unsecured promissory notes issued by corporations to finance their short-term credit needs), certificates of deposit, bankers' acceptances and repurchase agreements relating to any of the foregoing. U.S. government securities include Treasury notes, bonds and bills, which are direct obligations of the U.S. government backed by the full faith and credit of the United States, and securities issued by agencies and instrumentalities of the U.S. government, which may be guaranteed by the U.S. Treasury, may be supported by the issuer's right to borrow from the U.S. Treasury or may be backed only by the credit of the federal agency or instrumentality itself.

SHORT-TERM TRADING

The Fund may engage in short-term trading in response to stock market conditions, changes in interest rates or other economic trends and developments, or to take advantage of yield disparities between various fixed income securities in order to realize capital gains or improve income. Short term trading may have the effect of increasing portfolio turnover rate. A high rate of portfolio turnover (100% or greater) involves correspondingly greater brokerage expenses. For the fiscal year ended December 31, 2002, the Fund's portfolio turnover rate was 371%. The success of short-term trading will depend upon the ability of the Adviser to evaluate particular securities, to anticipate relevant market factors, including trends of interest rates and earnings and variations from such trends, to obtain relevant information, to evaluate it promptly, and to take advantage of its evaluations by completing transactions on a favorable basis. There can be no assurance that the Adviser will be successful in that evaluation.

HEDGING AND INTEREST RATE TRANSACTIONS

The Fund may, but is not required to, use various hedging and interest rate transactions described below to mitigate risks or facilitate portfolio management. Such transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds and other institutional investors. Although the Adviser seeks to use these practices to further the Fund's investment objective, no assurance can be given that these practices will achieve this result.

The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, and enter into various interest rate transactions such as swaps, caps, floors or collars or credit transactions and credit default swaps. The Fund also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Fund generally seeks to use Strategic Transactions as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Fund's portfolio, protect the value of the Fund's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, including the effective yield paid on any preferred shares issued by the Fund, manage the effective maturity or duration of the Fund's portfolio or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The Fund does not engage in these transactions for speculative purposes.

Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to use successfully Strategic Transactions depends on the Adviser's ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that it might otherwise sell. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Fund for investment purposes.

A more complete discussion of Strategic Transactions and their risks is contained in the Statement of Additional Information.

TEMPORARY DEFENSIVE STRATEGIES

There may be times when, in the Adviser's judgment, conditions in the securities market would make pursuit of the Fund's investment strategy inconsistent with achievement of the Fund's investment objective. At such times, the Adviser may employ alternative strategies primarily to seek to reduce fluctuations in the value of the Fund's assets. In implementing these temporary defensive strategies, depending on the circumstances, the Fund may invest an unlimited portion of its portfolio in U.S. dollar denominated corporate debt securities, short-term money market instruments, U.S. government securities and cash. It is impossible to predict when, or for how long, the Fund may use these alternative strategies.

OTHER INVESTMENT POLICIES

STRUCTURED SECURITIES

The Fund may invest in structured securities including notes, bonds or debentures, the value of the principal of and/or interest on which is to be determined by reference to changes in the value of specific currencies, interest rates, commodities, indices or other financial indicators (the "Reference") or the relative change in two or more References. The interest rate or the principal amount payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. The terms of the structured securities may provide that in certain circumstances no principal is due at maturity and, therefore, may result in the loss of the Fund's investment. Structured securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, the change in interest rate or the value of the security at maturity may be a multiple of the change in the value of the Reference. Consequently, structured securities entail a greater degree of market risk than other types of debt obligations. Structured securities may also be more volatile, less liquid and more difficult to accurately price than less complex fixed income investments.

FORWARD COMMITMENT AND WHEN-ISSUED SECURITIES

The Fund may purchase securities on a when-issued or forward commitment basis. For when-issued transactions, no payment is made until delivery is due, often a month or more after the purchase. In a forward commitment transaction, the Fund contracts to purchase securities for a fixed price at a future date beyond customary settlement time. When the Fund engages in forward commitment and when-issued transactions, it relies on the seller to consummate the transaction. The failure of the issuer or seller to consummate the transaction may result in the Fund's losing the opportunity to obtain a price and yield considered to be advantageous. The purchase of securities on a when-issued or forward commitment basis also involves a risk of loss if the value of the security to be purchased declines prior to the settlement date. On the date the Fund enters into an agreement to purchase securities on a when-issued or forward commitment basis, the Fund will segregate in a separate account cash or liquid securities, of any type or maturity, equal in value to the Fund's commitment. Alternatively, the Fund may enter into offsetting contracts for the forward sale of other securities that it owns.

REPURCHASE AGREEMENTS

In a repurchase agreement the Fund would buys a security for a relatively short period (usually not more than 7 days) subject to the obligation to sell it back to the issuer at a fixed time and price plus accrued interest. The Fund will enter into repurchase agreements only with member banks of the Federal Reserve System and with "primary dealers" in U.S. Government securities. The Adviser will continuously monitor the creditworthiness of the parties with whom the Fund enters into repurchase agreements. In the event of bankruptcy or other default by a seller of a repurchase agreement, the Fund could experience delays in liquidating the underlying securities during the period in which the Fund seeks to enforce its rights thereto, possible subnormal levels of income decline in value of the underlying securities or lack of access to income during this period as well as the expense of enforcing its rights.

REVERSE REPURCHASE AGREEMENTS

The Fund may also enter into reverse purchase agreements but has no current intention to do so. Reverse purchase agreements involve the sale of U.S. Government securities held in its portfolio to a bank with an agreement that the Fund will buy back the securities at a fixed future date at a fixed price plus an agreed amount of "interest" which may be reflected in the repurchase price. Reverse repurchase agreements are considered to be borrowings by the Fund. Reverse repurchase agreements involve the risk that the market value of securities purchased by the Fund with proceeds of the transaction may decline below the repurchase price of the securities sold by the Fund which it is obligated to repurchase. The Fund will also continue to be subject to the risk of a decline in the market value of the securities sold under the agreements because it will reacquire those securities upon effecting their repurchase. To minimize various risks associated with reverse repurchase agreements, the Fund will establish and maintain a separate account consisting of liquid securities, of any type or maturity, in an amount at least equal to the repurchase prices of the securities (plus any accrued interest thereon) under such agreements. In addition, the Fund will not enter into reverse repurchase agreements or borrow money, except from banks as a temporary measure for extraordinary emergency purposes in amounts not to exceed 33 1/3% of the Fund's total assets (including the amount borrowed) taken at market value. The Fund will enter into reverse repurchase agreements only with federally insured banks which are approved in advance as being creditworthy by the Trustees. Under the procedures established by the Trustees, the Adviser will monitor the creditworthiness of the banks involved. The Fund's ability to enter into reverse repurchase agreements may be limited by the issuance of the Preferred Shares, including the guidelines established by Moody's.

MORTGAGE "DOLLAR ROLL" TRANSACTIONS

The Fund may enter into mortgage "dollar roll" transactions with selected banks and broker-dealers pursuant to which the Fund sells mortgage-backed securities and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. The Fund will only enter into covered rolls. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. Covered rolls are not treated as a borrowing or other senior security and will be excluded from the calculation of the Fund's borrowings and other senior securities. For financial reporting and tax purposes, the Fund treats mortgage dollar rolls as two separate transactions; one involving the purchase of a security and a separate transaction involving a sale.

ASSET-BACKED SECURITIES

The Fund may invest in asset-backed securities. Asset-backed securities are often subject to more rapid repayment than their stated maturity date would indicate as a result of the pass-through of prepayments of principal on the underlying loans. During periods of declining interest rates, prepayment of loans underlying asset-backed securities can be expected to accelerate. Accordingly, the Fund's ability to maintain positions in these securities will be affected by reductions in the principal amount of such securities resulting from prepayments, and its ability to reinvest the returns of principal at comparable yields is subject to generally prevailing interest rates at that time.

BRADY BONDS

The Fund may invest in Brady Bonds and other sovereign debt securities of countries that have restructured or are in the process of restructuring sovereign debt pursuant to the Brady Plan. Brady Bonds are debt securities described as part of a restructuring plan created by U.S. Treasury Secretary Nicholas F. Brady in 1989 as a mechanism for debtor nations to restructure their outstanding external indebtedness (generally, commercial bank debt). In restructuring its external debt under the Brady Plan framework, a debtor nation negotiates with its existing bank lenders as well as multilateral institutions such as the World Bank and the International

Monetary Fund (the "IMF"). The Brady Plan facilitates the exchange of commercial bank debt for newly issued bonds (known as Brady Bonds). The World Bank and the IMF provide funds pursuant to loan agreements or other arrangements which enable the debtor nation to collateralize the new Brady Bonds or to repurchase outstanding bank debt at a discount. Under these arrangements the IMF debtor nations are required to implement domestic monetary and fiscal reforms. These reforms have included the liberalization of trade and foreign investment, the privatization of state-owned enterprises and the setting of targets for public spending and borrowing. These policies and programs seek to promote the debtor country's ability to service its external obligations and promote its economic growth and development. The Brady Plan only sets forth general guiding principles for economic reform and debt reduction, emphasizing that solutions must be negotiated on a case-by-case basis between debtor nations and their creditors.

The Adviser believes that economic reforms undertaken by countries in connection with the issuance of Brady Bonds make the debt of countries which have issued or have announced plans to issue Brady Bonds an attractive opportunity for investment.

REITS

The Fund may invest in common and preferred interests in real estate investment trusts ("REITs"). REITs primarily invest in income producing real estate or real estate related loans or interests. REITs are generally classified as equity

REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also 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 income from the collection of interest payments. REITs are not taxed on income distributed to shareholders provided they comply with the applicable requirements of the Code. The Fund will in some cases indirectly bear its proportionate share of any management and other expenses paid by REITs in which it invests in addition to the expenses paid by the Fund. Debt securities issued by REITs are, for the most part, general and unsecured obligations and are subject to risks associated with REITs.

OTHER INVESTMENT COMPANIES

The Fund may invest in the securities of other investment companies to the extent that such investments are consistent with the Fund's investment objective and policies and permissible under the 1940 Act. Under the 1940 Act, the Fund may not acquire the securities of other investment companies if, as a result, (i) more than 10% of the Fund's total assets would be invested in securities of other investment companies, (ii) such purchase would result in more than 3% of the total outstanding voting securities of any one investment company being held by the Fund and its affiliates or (iii) more than 5% of the Fund's total assets would be invested in any one investment company. These limitations do not apply to the purchase of shares of any investment company in connection with a merger, consolidation, reorganization or acquisition of substantially all the assets of another investment company. The Fund, as a holder of the securities of other investment companies, will bear its pro rata portion of the other investment companies' expenses, including advisory fees. These expenses are in addition to the direct expenses of the Fund's own operations.

ILLIQUID SECURITIES

The Fund may purchase securities that are not registered ("restricted securities") under the 1933 Act, including commercial paper issued in reliance on Section 4(2) of the 1933 Act. The Fund will not invest more than 15% limit on illiquid investments. If the Trustees determine, based upon a continuing review of the trading markets for specific Section 4(2) paper or Rule 144A securities, that they are liquid, they will not be subject to the 15% limit in illiquid investments. The Trustees may adopt guidelines and delegate to the Adviser the daily function of determining the monitoring and liquidity of restricted investments. The Trustees, however, will retain sufficient oversight and be ultimately responsible for the determinations.

Illiquid securities may be difficult to dispose of at a fair price at the times when the Adviser believes it is desirable to do so. The market price of illiquid securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Fund pays for or recovers upon the sale of illiquid securities. Illiquid securities are also more difficult to value and the Adviser's judgment may play a greater role in the valuation process. Investment of the Fund's assets in illiquid securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid securities may be particularly acute in situations in which the Fund's operations require cash and could result in the Fund borrowing to meet its short-term needs or incurring losses on the sale of illiquid securities.

LENDING OF SECURITIES

The Fund may lend portfolio securities to brokers, dealers and financial institutions if the loan is collateralized by cash or U.S. Government securities according to applicable regulatory requirements. The Fund may reinvest any cash collateral in short-term securities and money market funds. When the Fund lends portfolio securities, there is a risk that the borrower may fail to return the securities involved in the transaction. As a result, the Fund may incur a loss or, in the event of the borrower's bankruptcy, the Fund

may be delayed in or prevented from liquidating the collateral. The Fund may not lend portfolio securities having a total value exceeding 33 1/3% of its total assets.

RISK FACTORS

Investing in the Fund involves risk, including the risk that you may receive little or no return on your investment or 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 APS.

RISKS OF INVESTMENT IN PREFERRED SHARES

AUCTION RISK

The dividend rate for the APS normally is set through an auction process. In the Auction, holders of APS may indicate the dividend rate at which they would be willing to hold or sell their APS or purchase additional APS. The Auction also provides liquidity for the sale of APS. You may not be able to sell your APS at an Auction if the Auction fails. An Auction fails if there are more APS offered for sale than there are buyers. If Sufficient Clearing Bids do not exist in an Auction, the Applicable Rate will be the Maximum Applicable Rate, and in such event, owners of APS wishing to sell will not be able to sell all, and may not be able to sell any, of such APS in the Auction. As a result, your investment in APS may be illiquid. Neither the Broker-Dealers nor the Fund is obligated to purchase APS in an Auction or otherwise, nor is the Fund required to redeem APS in the event of a failed Auction. Also, if you place Hold Orders (orders to retain APS) at an Auction only at a specified rate and that bid rate exceeds the Applicable Rate set at the Auction, you will not retain your APS. Additionally, if you buy APS or elect to retain APS without specifying a dividend rate below which you would not wish to buy or continue to hold those APS, you could receive a lower rate of return on your APS than the market rate. Finally, the dividend period for the APS may be changed by the Fund, subject to certain conditions with notice to the holders of APS, which could also effect the liquidation of your investment. See "Description of Preferred Shares" and "The Auction--AUCTION PROCEDURES."

RATINGS AND ASSET COVERAGE RISK

While it is expected that Moody's will assign a rating of "Aaa" to the APS, such rating does not eliminate or necessarily mitigate the risks of investing in APS. Moody's could downgrade its rating of the APS or withdraw its rating of the APS at any time, which may make your APS less liquid at an Auction or in the secondary market. If Moody's downgrades the APS, the Fund may alter its portfolio or redeem APS in an effort to improve the rating, although there is no assurance that it will be able to do so to the extent necessary to restore the prior rating. If the Fund fails to satisfy the asset coverage ratios discussed under "Description of Preferred Shares--RATING AGENCY GUIDELINES AND ASSET COVERAGE," the Fund will be required to redeem a sufficient number of APS in order to return to compliance with the asset coverage ratios. The Fund may be required to redeem APS at a time when it is not advantageous for the Fund to make such redemption or to liquidate portfolio securities in order to have available cash for such redemption. The Fund may voluntarily redeem APS under certain circumstances in order to meet asset maintenance tests. While a sale of substantially all the assets of the Fund or the merger of the Fund into another entity would require the approval of the holders of the APS voting as a separate class as discussed under "Description of Preferred Shares--VOTING RIGHTS," a sale of substantially all the assets of the Fund or the merger of the Fund with or into another entity would not be treated as a liquidation of the Fund nor require that the Fund redeem the APS, in whole or in part, provided that the Fund continued to comply with the asset coverage ratios discussed under "Description of Preferred Shares--RATING AGENCY GUIDELINES AND ASSET COVERAGE." See "Description of Preferred Shares--RATING AGENCY GUIDELINES AND ASSET COVERAGE" for a description of the asset maintenance tests the Fund must meet.

SECONDARY MARKET RISK

If you try to sell your APS between Auctions, you may not be able to sell any or all of your APS, 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 rate period of more than seven days for each series), changes in interest rates could affect the price you would receive if you sold your APS in the secondary market. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the APS. You may transfer APS outside of Auctions only to or through a Broker-Dealer that has entered into an agreement with the Fund's Auction Agent, Deutsche Bank Trust Company Americas, and the Fund or other person as the Fund permits. The Fund does not anticipate imposing significant restrictions on transfers to other persons. However, unless any such other person has entered into a relationship with a Broker-Dealer that has entered into a Broker-Dealer agreement with the Auction Agent, that person will not be able to submit Bids at Auctions with respect to the APS. Broker-Dealers that maintain a secondary trading market for APS are not required to maintain this market, and the Fund is not required to redeem APS if an Auction or an attempted secondary market sale fails because

of a lack of buyers. The APS will not be listed on any stock exchange or the Nasdaq National Market. If you sell your APS to a Broker-Dealer between Auctions, you may receive less than the price you paid for them, especially if market interest rates have risen since the last Auction.

INTEREST RATE RISK

The APS pay dividends based on short-term interest rates. The Fund invests the proceeds from the issuance of the APS principally in debt securities and preferred securities, which bear interest or dividends rates reflecting intermediate and long-term interest rates. The interest or dividend rates on debt securities and preferred stocks are typically, although not always, higher than shorter-term interest rates. Both shorter-term and intermediate to longer-term interest rates may fluctuate. If shorter-term interest rates rise, dividend rates on the APS may rise so that the amount of dividends to be paid to holders of APS exceeds the income from the debt securities, preferred stocks and other investments purchased by the Fund with the proceeds from the sale of APS. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the APS offering) is available to pay dividends on the APS, however, dividend rates on the APS would need to exceed the rate of return on the Fund's investment portfolio by a wide margin before the Fund's ability to pay dividends on the APS would be jeopardized. If intermediate to longer-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 the APS.

LEVERAGE RISK

The Fund expects to use financial leverage on an ongoing basis for investment purposes. Leverage risk includes the risk associated with the issuance of APS to leverage the Common Shares. If the dividend rate on the APS exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower net asset value than if the Fund were not leveraged, and the Fund's ability to pay dividends and meet its asset coverage requirements on the APS would be reduced. Similarly, any decline in the net asset value of the Fund's investments could result in the Fund being in danger of failing to meet its asset coverage requirements or of losing its expected "Aaa" rating on the APS or, in an extreme case, the Fund's current investment income might not be sufficient to meet the dividend requirements on the APS. To counteract such an event, the Fund might need to liquidate investments in order to fund a redemption of some or all of the APS.

It is currently anticipated that, taking into account the APS being offered in this Prospectus, the initial amount of leverage will represent approximately 33 1/3% of the Fund's total capital.

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objective and policies. These include the possibility of higher volatility of the net asset value of the Fund and the Preferred Shares' asset coverage.

While the Fund may from time to time consider reducing leverage in response to actual or anticipated changes in interest rates in an effort to mitigate the increased volatility of current income and net asset value associated with leverage, there can be no assurance that the Fund will actually reduce leverage in the future or that any reduction, if undertaken, will be effective. Changes in the future direction of interest rates are very difficult to predict accurately. If the Fund were to reduce leverage based on a prediction about future changes to interest rates and that prediction turned out to be incorrect, the reduction in leverage would likely operate to reduce the Fund's net asset value relative to the circumstance where the Fund had not reduced leverage. The Fund may decide that this risk outweighs the likelihood of achieving the desired reduction to volatility in income and net asset value if the prediction were to turn out to be correct, and determine not to reduce leverage as described above.

Because the fee paid to the Adviser will be calculated on the basis of the Fund's managed assets (which equals the aggregate net asset value of the Common Shares plus the liquidation preference of the APS), the fee will be higher when leverage is utilized, giving the Adviser an incentive to utilize leverage.

RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS

Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's Common Shares and APS, both by the 1940 Act and by requirements imposed by Moody's or a Substitute Rating Agency, might impair the Fund's ability to satisfy minimum distribution requirements that it must satisfy to be treated as a regulated investment company for federal income tax purposes. While the Fund intends to redeem APS to enable the Fund to distribute its income as required to maintain its favorable tax treatment as a regulated investment company under the Code, there can be no assurance that such redemptions can be effected in time to meet the requirements of the Code. See "U.S. federal income tax matters."

GENERAL RISKS OF INVESTING IN THE FUND

GENERAL

The Fund is a diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading tool. An investment in the Fund's APS may be speculative in that it involves risk. The Fund should not constitute a complete investment program and should only be considered as an addition to an investor's existing diversified portfolio of investments. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.

INTEREST RATE RISK

Debt securities are subject to certain common risks, including:

- If interest rates go up, the value of debt securities in the Fund's portfolio generally will decline

- During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Certain types of fixed income securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer

- During periods of rising interest rates, the average life of certain types of securities may be extended because of the right of the issuer to defer payments or slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk

- The Adviser's judgment about the attractiveness, relative value or potential appreciation of a particular sector, security or investment strategy may prove to be incorrect.

CREDIT RISK

Credit risk is the risk that debt securities or preferred securities in the Fund's portfolio will decline in price or fail to make interest or dividend payments when due because the issuer of the security experiences a decline in its financial status. Although the Fund primarily invests in investment grade securities, the Fund is authorized to invest up to 25% of its total assets in debt securities rated below investment grade at the time of acquisition. Securities rated "Baa" by Moody's are considered by Moody's as medium to lower medium grade securities; they are neither highly protected nor poorly secured; interest or dividend payments and capital or principal security, as the case may be, appear to Moody's to be adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over time; and, in the opinion of Moody's, securities in this rating category lack outstanding investment characteristics and in fact have speculative characteristics as well. Securities rated "BBB" by S&P are regarded by S&P as having an adequate capacity to pay interest or dividends and repay capital or principal, as the case may be; and whereas such securities normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely, in the opinion of S&P, to lead to a weakened capacity to pay interest or dividends and repay capital or principal for securities in this category than in higher rating categories. A rating of "Ca" by Moody's means the securities are speculative in a high degree and may be in default. A rating of "CC" by S&P means there is a currently identifiable vulnerability to default. Below investment grade securities and comparable unrated securities involve substantial risk of loss, are considered highly speculative with respect to the issuer's ability to pay interest or dividends and any required redemption or principal payments and are susceptible to default or decline in market value due to adverse economic and business developments. The ratings of Moody's and S&P represent their opinions as to the quality of those securities that they rate; ratings are relative and subjective and are not absolute standards of quality.

MORTGAGE-BACKED AND ASSET-BACKED SECURITIES

To the extent the Fund invests significantly in mortgage-backed and asset-backed securities, its exposure to prepayment and extension risks may be greater than if it invested in other fixed income securities. Certain debt instruments may only pay principal at maturity or may only represent the right to receive payments of principal or payments of interest on underlying pools of mortgage or government securities, but not both. The value of these types of instruments may change more drastically than debt securities that pay both principal and interest during periods of changing interest rates. Principal only mortgage-backed securities generally increase in value if interest rates decline, but are also subject to the risk of prepayment. Interest only instruments generally increase in value in a rising interest rate environment when fewer of the underlying mortgages are prepaid. The value of interest only instruments may decline significantly or these instruments may become worthless in the event that the underlying mortgage pool experiences substantial and unanticipated payments. The Fund may invest in mortgage derivatives and structured securities. Because these securities have imbedded leverage features, small changes in interest or prepayment rates may cause large and sudden price movements. Mortgage derivatives can also become illiquid and hard to value in declining markets.

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CORPORATE DEBT SECURITIES

Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations and may also be subject to price volatility due to such factors as market interest rates, market perception of the creditworthiness of the issuer and general market liquidity.

PREFERRED SECURITIES

Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for federal income tax purposes although it has not yet received such income in cash. An issuer of preferred securities may also redeem the securities prior to a specified date. As with call provisions, a special redemption by the issuer may negatively impact the return of the security held by the Fund. Generally, holders of preferred securities (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board.

COMMON STOCKS

The common stocks and other non-preferred equity securities in which the Fund invests may experience substantially more volatility in their market value than the Fund's investments in debt securities or preferred securities. Such securities may also be more susceptible to adverse changes in market value due to issuer specific events, such as unfavorable earnings reports. The market values of common stocks are also generally sensitive to general movements in the equities markets.

FOREIGN SECURITIES

Although the Fund only invests in securities of non-U.S. issuers that are traded or denominated in U.S. dollars, the Fund's investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers. These risks may include:

- less information about non-U.S. issuers or markets may be available due to less rigorous disclosure, accounting standards or regulatory practices

- many non-U.S. markets are smaller, less liquid and more volatile; therefore, in a changing market, the Adviser may not be able to sell the Fund's portfolio securities at times, in amounts and at prices it considers reasonable

- currency exchange rates or controls may adversely affect the value of the Fund's investments

- the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession

- economic, political and social developments may adversely affect the securities markets

- withholding and other non-U.S. taxes may decrease the Fund's return

There may be less publicly available information about non-U.S. markets and issuers than is available with respect to U.S. securities and issuers. Non-U.S. companies generally are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. The trading markets for most non-U.S. securities are generally less liquid and subject to greater price volatility than the markets for comparable securities in the U.S. The markets for securities in certain emerging markets are in the earliest stages of their development. Even the markets for relatively widely traded securities in certain non-U.S. markets, including emerging market countries, may not be able to absorb, without price disruptions, a significant increase in trading volume or trades of a size customarily undertaken by institutional investors in the U.S. Additionally, market making and arbitrage activities are generally less extensive in such markets, which may contribute to increased volatility and reduced liquidity.

Economies and social and political climates in individual countries may differ unfavorably from the U.S. Non-U.S. economies may have less favorable rates of growth of gross domestic product, rates of inflation, currency valuation, capital reinvestment, resource self-sufficiency and balance of payments positions. Many countries have experienced substantial, and in some cases extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, very negative effects on the economies and securities markets of certain emerging countries. Unanticipated political or social developments may also affect the values of the Fund's investments and the availability to the Fund of additional investments in such countries.

SOVEREIGN DEBT OBLIGATIONS AND BRADY BONDS

An investment in debt obligations of non-U.S. governments and their political subdivisions (sovereign debt), involves special risks that are not present in corporate debt obligations. The non-U.S. issuer of the sovereign debt or the non-U.S. governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due, and the Fund may have limited recourse in the event of a default. During periods of economic uncertainty, the market prices of sovereign debt may be more volatile than prices of debt obligations of U.S. issuers. In the past, certain non-U.S. countries have encountered difficulties in servicing their debt obligations, withheld payments of principal and interest and declared moratoria on the payment of principal and interest on their sovereign debt. A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign currency reserves, the availability of sufficient foreign exchange, the relative size of the debt service burden, the sovereign debtor's policy toward its principal international lenders and local political constraints. Sovereign debtors may also be dependent on expected disbursements from non-U.S. governments, multilateral agencies and other entities to reduce principal and interest arrearages on their debt. The failure of a sovereign debtor to implement economic reforms, achieve specified levels of economic performance or repay principal or interest when due may result in the cancellation of third-party commitments to lend funds to the sovereign debtor, which may further impair such debtor's ability or willingness to service its debts.

Brady Bonds may involve a high degree of risk, may be in default or present the risk of default. Agreements implemented under the Brady Plan to date are designed to achieve debt and debt-service reduction through specific options negotiated by a debtor nation with its creditors. As a result, the financial packages offered by each country differ. The types of options have included the exchange of outstanding commercial bank debt for bonds issued at 100% of face value of such debt, bonds issued at a discount of face value of such debt, bonds bearing an interest rate which increases over time and bonds issued in exchange for the advancement of new money by existing lenders. Certain Brady Bonds have been collateralized as to principal due at maturity by U.S. Treasury zero coupon bonds with a maturity equal to the final maturity of such Brady Bonds, although the collateral is not available to investors until the final maturity of the Brady Bonds. Collateral purchases are financed by the IMF, the World Bank and the debtor nations' reserves. In addition, the first two or three interest payments on certain types of Brady Bonds may be collateralized by cash or securities agreed upon by creditors. Although Brady Bonds may be collateralized by U.S. Government securities, repayment of principal and interest is not guaranteed by the U.S. Government.

DERIVATIVES

Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on the Adviser's ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that it might otherwise sell. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Fund for investment purposes.

There are several risks associated with the use of futures contracts and futures options. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. While the Fund may enter into futures contracts and options on futures contracts for hedging purposes, the use of futures contracts and options on futures contracts might result in a poorer overall performance for the Fund than if it had not engaged in any such transactions. There may be an imperfect correlation between the Fund's portfolio holdings and futures contracts or options on futures contracts entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The degree of imperfection of correlation depends on circumstances such as variations in market demand for futures, futures options and the related