NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2
Form N-2
June 05, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 5, 2003

1933 ACT FILE NO. 333-

1940 ACT FILE NO. 811-21293

U.S. 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. 1
[ ] POST-EFFECTIVE AMENDMENT NO. ____
AND
[X] REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
[X] AMENDMENT NO. 3

NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND 2
Exact Name of Registrant as Specified in Declaration of Trust

333 WEST WACKER DRIVE, CHICAGO, ILLINOIS 60606
Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(800) 257-8787
Registrant's Telephone Number, including Area Code

JESSICA R. DROEGER
VICE PRESIDENT AND SECRETARY
333 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60606
Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

COPIES OF COMMUNICATIONS TO:

DAVID A. STURMS VEDDER, PRICE, KAUFMAN & KAMMHOLZ 222 N. LASALLE STREET CHICAGO, IL 60601	ERIC F. FESS CHAPMAN AND CUTLER 111 W. MONROE CHICAGO, IL 60603	SARAH E. COGAN SIMPSON THACHER & BARTLETT LLP 425 LEXINGTON AVE. NEW YORK, NY 10017

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after the effective date of this Registration Statement

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If any of the securities being registered on this form are 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. [ ]

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	REGI
FundPreferred Shares, $0.01 par value..................	40 Shares	$25,000.00	$1,000,000	

(1) Transmitted prior to filing.

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 THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES 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 IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION DATED , 2003

PROSPECTUS

(NUVEEN INVESTMENTS LOGO) $

NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND 2
FUNDPREFERRED(TM) SHARES
SHARES, SERIES
SHARES, SERIES
SHARES, SERIES
SHARES, SERIES
SHARES, SERIES
LIQUIDATION PREFERENCE $25,000 PER SHARE

Nuveen Preferred and Convertible Income Fund 2 (the "Fund") is a recently organized, diversified, closed-end management investment company. The Fund's primary investment objective is high current income. The Fund's secondary objective is total return. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets (as defined on page 1 of this Prospectus) in preferred securities, convertible securities and related instruments; and may invest up to 20% of its Managed Assets in other securities, including debt instruments and common stocks acquired upon conversion of a convertible security (such common stocks not normally to exceed 5% of the Fund's Managed Assets).

Initially, Nuveen Institutional Advisory Corp. will allocate approximately 60%, 30% and 10% of the Fund's Managed Assets to preferred securities, convertible securities and other debt instruments, respectively. Thereafter, the portion of the Fund's Managed Assets invested in preferred securities, convertible securities and other debt instruments will vary from time to time consistent with the Fund's investment objectives, although the Fund will normally invest at least 50% of its Managed Assets in preferred securities and at least 20% of its Managed Assets in convertible securities (so long as the combined total equals at least 80% of the Fund's Managed Assets). In making allocation decisions, Nuveen Institutional Advisory Corp. will consider factors such as interest rate levels, conditions and developing trends in the bond and equity markets, analysis of relative valuations for preferred, convertible and other debt instruments, and other economic and market factors, including the overall outlook for the economy and inflation.

Under normal circumstances, the Fund will invest at least 65% of its Managed Assets in securities that, at the time of investment, are investment grade quality, which includes securities that are unrated but judged to be of comparable quality. Split-rated securities (as defined on page   of this Prospectus) are considered to be investment grade quality securities, except that to the extent the Fund owns split-rated securities that exceed 10% of its Managed Assets, the excess over 10% will not be considered to be investment grade quality. The Fund may invest up to 35% of its Managed Assets in securities that, at the time of investment, are not investment grade quality. The Fund will only invest in securities that, at the time of investment, are rated B or higher by at least one nationally recognized statistical rating organization or that are unrated but judged to be of comparable quality, except, however, the Fund may invest up to 5% of its Managed Assets in securities with a highest rating of CCC or that are unrated but judged to be of comparable quality. There can be no assurance that the Fund will achieve its investment objectives.

The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (312) 917-7700. Investors are advised to read this Prospectus, which sets forth concisely the information about the Fund that a prospective investor ought to know before investing, and retain it for future reference. A Statement of Additional Information dated , 2003 and as it may be supplemented, containing additional information regarding the Fund has been filed with the Securities and Exchange Commission and is hereby incorporated by reference in its entirety into this Prospectus. A copy of the Statement of Additional Information, the table of contents of which appears on page   of this Prospectus, may be obtained without charge by calling the Fund at (800) 257-8787. In addition, the SEC maintains a web site (http://www.sec.gov) that contains the Statement of Additional Information, material incorporated by reference, and other information filed electronically with the SEC by the Fund.

INVESTING IN FUNDPREFERRED SHARES ("FUNDPREFERRED SHARES") INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" 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.

	PER SHARE	TOTAL
Public Offering Price	$25,000	$
Sales Load(1)	$	$
Proceeds to the Fund(2) (before expenses)	$	$

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(1) One half of the sales load from this offering will be paid to certain underwriters based on their participation in the Funds' offering of common shares.

(2) Not including offering expenses payable by the Fund estimated to be $.

The underwriters are offering the FundPreferred shares subject to various conditions. The underwriters expect to deliver FundPreferred shares in book-entry form, through the facilities of the Depository Trust Company to purchasers on or about , 2003.

CITIGROUP NUVEEN INVESTMENTS, LLC

, 2003

The Fund is offering , , , and shares of Series , Series , Series , Series and Series FundPreferred shares, respectively. The shares are referred to in this Prospectus as "FundPreferred shares." The FundPreferred shares have a liquidation preference of $25,000 per share, plus any accumulated, unpaid dividends. The FundPreferred shares also have priority over the Fund's Common Shares as to distribution of assets as described in this Prospectus. The dividend rate for the initial dividend rate period will be %, %, %, % and % for FundPreferred shares Series , Series , Series , Series and Series , respectively. The initial dividend period is from the date of issuance through , 2003 for FundPreferred shares Series , , 2003 for FundPreferred shares Series , , 2003 for FundPreferred shares Series , , 2003 for FundPreferred shares Series and , 2003 for FundPreferred shares Series . For subsequent dividend periods, FundPreferred shares pay dividends based on a rate set at auction, usually held every seven (7) days. Prospective purchasers should carefully review the auction procedures described in the Prospectus and should note: (1) a buy order (called a "bid order") or sell order is a commitment to buy or sell FundPreferred shares based on the results of an auction; (2) auctions will be conducted by telephone; and (3) purchases and sales will be settled on the next business day after the auction. FundPreferred shares are not listed on an exchange. You may only buy or sell FundPreferred shares through an order placed at an auction with or through a broker-dealer that has entered into an agreement with the auction agent and the Fund, or in a secondary market maintained by certain broker-dealers. These broker-dealers are not required to maintain this market, and it may not provide you with liquidity.

The FundPreferred shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance

Corporation, the Federal Reserve Board or any other government agency.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. THE FUND HAS NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. THE FUND IS 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.

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PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this Prospectus, Statement of Additional Information and the Fund's Statement Establishing and Fixing the Rights and Preferences of FundPreferred shares (the "Statement") attached as Appendix A to the Statement of Additional Information. Capitalized terms used but not defined in this Prospectus shall have the meanings given to such terms in the Statement.

The Fund.................. Nuveen Preferred and Convertible Income Fund 2 (the "Fund") is a recently organized, diversified, closed-end management investment company. See "The Fund." The Fund's common shares, $.01 par value ("Common Shares"), are traded on the New York Stock

Exchange (the "Exchange") under the symbol "JQC." See "Description of Common Shares." As of , 2003 the Fund had Common Shares outstanding and net assets applicable to Common Shares of $.

Investment Objectives and Policies................. The Fund's primary investment objective is high current income. The Fund's secondary investment objective is total return. The Fund's investment objectives and certain investment policies are considered fundamental and may not be changed without shareholder approval. The Fund cannot assure you that it will attain its investment objectives. See "The Fund's Investments" and "Risk Factors."

Under normal circumstances the Fund:

- will invest at least 80% of its Managed Assets in preferred securities, convertible securities and related instruments. The Fund intends that most or all of the preferred securities in which it invests will be fully taxable and will not be eligible for the dividends received deduction; and

- may invest up to 20% of its Managed Assets in other securities, including debt instruments and common stocks acquired upon conversion of a convertible security (such common stocks not normally to exceed 5% of the Fund's Managed Assets).

The Fund's average daily net assets (including assets attributable to any FundPreferred shares that may be outstanding and the principal amount of any Borrowings (as defined below)) is called "Managed Assets."

The Fund's assets allocated to preferred securities will be managed by Spectrum Asset Management, Inc. ("Spectrum"). The Fund's assets allocated to convertible securities will be managed by Froley, Revy Investment Co., Inc. ("Froley, Revy"). The Fund's assets allocated to other debt instruments will be managed by Nuveen Institutional Advisory Corp. ("NIAC").

NIAC will be responsible for determining the Fund's overall investment strategy, including allocating the portion of the Fund's assets to be invested in preferred securities, convertible securities and other debt instruments. Initially, NIAC will allocate approximately 60%, 30% and 10% of the Fund's Managed Assets to preferred securities, convertible securities, and other debt instruments, respectively. Thereafter, the portion of the Fund's Managed Assets invested in preferred securities, convertible securities and other debt instruments will vary from time to time consistent with the Fund's investment objectives, although the Fund will normally invest at least 50% of its Managed Assets in preferred securities and at least 20% of its Managed Assets in convertible securities (so long as the combined total equals at least 80% of the Fund's Managed Assets). See "The Fund's Investments" and "Management of the Fund."

- The Fund will invest at least 65% of its Managed Assets in securities that, at the time of investment, are investment grade quality. Initially, the Fund intends to invest approximately 75% of its Managed Assets in investment grade quality securities. Investment grade quality securities are those securities that, at the time of investment, are (i) rated by at least one nationally recognized statistical rating organization ("NRSRO") within the four highest grades (Baa or BBB or better by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation, a division of The McGraw-Hill Companies ("S&P"), or Fitch Ratings ("Fitch")), or (ii) unrated but judged to be of comparable quality.

  Securities that, at the time of investment, are rated below investment grade by Moody's, S&P or Fitch, so long as at least one NRSRO rates such securities within the four highest grades (such securities are called "split-rated securities"), are considered to be investment grade quality securities, except that to the extent the Fund owns split-rated securities that exceed 10% of its Managed Assets, the excess over 10% will not be considered to be investment grade quality.

- The Fund may invest up to 35% of its Managed Assets in securities that, at the time of investment, are not investment grade quality. The Fund will only invest in securities that, at the time of investment, are rated B or higher by at least one NRSRO or that are unrated but judged to be of comparable quality, except, however, the Fund may invest up to 5% of its Managed Assets in securities with a highest rating of CCC or that are unrated but judged to be of comparable quality.

Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. See "The Fund's Investments -- Investment Objectives and Policies" and "Risk Factors -- General Risks of Investing in the Fund -- High Yield Risk."

In addition, under normal circumstances:

- The Fund intends to invest at least 25% of its Managed Assets in the securities of companies principally engaged in financial services. See "The Fund's Investments -- Portfolio Composition -- Financial Services Company Securities."

- The Fund may invest up to 10% of its Managed Assets in securities that, at the time of investment, are illiquid (i.e., securities that are not readily marketable). All securities and other instruments in which the Fund invests will be subject to this 10% limitation to the

extent they are deemed to be illiquid. Initially, the Fund does not intend to invest more than 5% of its Managed Assets in illiquid securities.

- The Fund may invest up to 35% of its Managed Assets in securities of non-U.S. issuers. Subject to this 35% limitation, up to 10% of the Fund's Managed Assets may be invested in securities that are denominated in Japanese yen, Canadian dollars, British pounds or Euros and which may be offered, traded or listed in markets other than U.S. markets. The remainder of the Fund's Managed Assets that may be invested in securities of non-U.S. issuers will be invested in U.S. dollar denominated securities offered, traded or listed in U.S. markets. Initially, the Fund does not intend to invest more than 20% of its Managed Assets in securities of non-U.S. issuers, and does not currently intend to invest in the non-U.S. dollar denominated securities described above.

For a more complete discussion of the Fund's initial portfolio composition, see "The Fund's Investments -- Initial Portfolio Composition."

The taxable preferred securities in which the Fund intends to invest generally do not pay dividends that qualify for reduced rates of federal income taxation available to noncorporate investors on "qualified dividend income" or the dividends received deduction (the "Dividends Received Deduction") under Section 243 of the Internal Revenue Code of 1986, as amended (the "Code"). The Dividends Received Deduction generally allows corporations to deduct from their income 70% of qualifying dividends received. Accordingly, any shareholder who otherwise may be entitled to reduced tax rates on "qualified dividend income" or to the Dividends Received Deduction should not assume that the distributions it receives from the Fund will qualify for such reduced tax rates or the Dividends Received Deduction.

Investment Adviser and Subadvisers............. NIAC will be the Fund's investment adviser, responsible for determining the Fund's overall investment strategy, including allocating the portion of the Fund's assets to be invested in preferred securities, convertible securities and other debt instruments, and also for managing a portion of the Fund's assets. In making allocation decisions, NIAC will consider factors such as interest rate levels, conditions and developing trends in the bond and equity markets, analysis of relative valuations for preferred, convertible and other debt instruments, and other economic and market factors, including the overall outlook for the economy and inflation.

The Fund's assets allocated to preferred securities will be managed by Spectrum. The Fund's assets allocated to convertible securities will be managed by Froley, Revy. The Fund's assets allocated to other debt instruments will be managed by NIAC. Spectrum and Froley, Revy will sometimes individually be referred to as a "Subadviser" and collectively be referred to as the "Subadvisers." NIAC, Spectrum and Froley, Revy will sometimes individually be referred to as an "Adviser" and collectively be referred to as the "Advisers."

NIAC, a registered investment adviser, is a wholly owned subsidiary of Nuveen Investments, Inc. Founded in 1898, Nuveen Investments, Inc. and its affiliates had approximately $83 billion of assets under management as of April 30, 2003. According to Thomson Wealth Management, Nuveen is the leading sponsor of closed-end exchange-traded funds as measured by the number of funds (103) and the amount of fund assets under management (approximately $42 billion) as of April 30, 2003.

Spectrum, a registered investment adviser, is an independently managed wholly owned subsidiary of Principal Global Investors, LLC. Founded in 1987, Spectrum had approximately $8 billion in assets under management as of April 30, 2003. Spectrum specializes in the management of diversified preferred security portfolios primarily for institutional clients. Collectively, subsidiaries and affiliates of Principal Global Investors, LLC managed over $98 billion in combined assets worldwide as of April 30, 2003.

Froley, Revy, a registered investment adviser, is an independently managed wholly owned subsidiary of First Republic Bank. Founded in 1975, Froley, Revy had approximately $2.5 billion in assets under management as of April 30, 2003. Froley, Revy specializes in the management of convertible securities. Collectively, subsidiaries and affiliates of First Republic Bank, including Froley, Revy, managed approximately $7 billion in combined assets as of April 30, 2003.

Use of Leverage........... The Fund intends to use financial leverage, including issuing FundPreferred shares, for investment purposes. The Fund currently anticipates its use of leverage to represent approximately 33 1/3% of its total assets, including the proceeds of such leverage. In addition to the issuance of FundPreferred shares, the Fund may make further use of financial leverage through borrowing, including the issuance of commercial paper or notes. Throughout this Prospectus, commercial paper, notes or other borrowings sometimes may be collectively referred to as "Borrowings." Any Borrowings will have seniority over the FundPreferred shares. Payments to holders of FundPreferred shares in liquidation or otherwise will be subject to the prior payment of all outstanding indebtedness, including Borrowings.

Use of Hedging Transactions.............. The Fund may use derivatives or other transactions for purposes of hedging the portfolio's exposure to the risk of increases in interest rates, common stock risk, high yield credit risk and foreign currency exchange rate risk. The specific derivative instruments to be used, or other transactions to be entered into, each for hedging purposes may include (i) options and futures contracts, including options on common stock, stock indexes, bonds and bond indexes, stock index futures, bond index futures and related instruments, (ii) short sales of securities that the Fund owns or has the right to acquire through the conversion of securities, (iii) structured notes and similar instruments, (iv) credit derivative instruments and (v) currency exchange transactions. Some, but not all, of the derivative instruments may be traded and listed on an exchange. The positions in derivatives will be marked-to-market daily at the closing price established on the relevant exchange or at a fair value. See "The Fund's Investments -- Portfolio Composition -- Hedging Transactions," "Risk Factors -- Hedging

Risk" and "Risk Factors -- Counterparty Risk." Except for investing in synthetic convertible securities, the Fund will use derivatives or other transactions described above solely for purposes of hedging the Fund's portfolio risks.

Interest Rate Transactions.............. In connection with the Fund's use of leverage through the sale of FundPreferred shares or Borrowings, the Fund, if market conditions are deemed favorable, likely will enter into interest rate swap or cap transactions to attempt to protect itself from increasing dividend or interest expenses on its FundPreferred shares or Borrowings.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions.

In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a payment at a variable rate that is expected to approximate the rate on the Fund's variable rate payment obligation on FundPreferred shares or any variable rate Borrowings. The payment obligations would be based on the notional amount of the swap.

In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. If the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that it had intended to avoid. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, this default could negatively impact the Fund's ability to make dividend payments on the FundPreferred shares or interest payments on Borrowings.

In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on the FundPreferred shares or interest payments on Borrowings. If the Fund fails to meet an asset coverage ratio required by law or if the Fund does not meet a rating agency guideline in a timely manner or if the Fund fails to maintain other covenants with respect to the FundPreferred shares, the Fund may be required to redeem some or all of the FundPreferred shares. See "-- Redemption" below. Similarly, the Fund could be required to prepay the principal amount of any Borrowings. Such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. The Fund intends to maintain in a segregated account with its custodian, cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily. The Fund will not enter into interest rate

swap or cap transactions having a notional amount that exceeds the outstanding amount of the Fund's leverage.

See "Use of Leverage" and "Hedging Transactions" for additional information.

The Offering.............. The Fund is offering shares of each of Series , Series , Series , Series and Series , each at a purchase price of $25,000 per share. FundPreferred shares are being offered by the underwriters listed under "Underwriting."

Risk Factors Summary....... Risk is inherent in all investing. Therefore, before investing you should consider certain risks carefully when you invest in the Fund. The primary risks of investing in FundPreferred shares are:

- if an auction fails you may not be able to sell some or all of your shares;

- because of the nature of the market for FundPreferred shares, 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 FundPreferred shares, which could affect liquidity;

- the Fund may be forced to redeem your shares to meet regulatory or rating agency requirements or may voluntarily redeem your shares in certain circumstances;

- in extraordinary circumstances, the Fund may not earn sufficient income from its investments to pay dividends;

- the FundPreferred shares will be junior to any Borrowings;

- any Borrowings may constitute a substantial lien and burden on the FundPreferred shares by reason of its prior claim against the income of the Fund and against the net assets of the Fund in liquidation; and

- if the Fund leverages through Borrowings, the Fund may not be permitted to declare dividends or other distributions with respect to the FundPreferred shares or purchase FundPreferred shares unless at the time thereof the Fund meets certain asset coverage requirements and the payments of principal and of interest on any such Borrowings are not in default.

For additional general risks of investing in the

Fund, see "Risk Factors -- General Risks of Investing in the Fund."

Trading Market............. FundPreferred shares are not listed on an exchange. Instead, you may buy or sell FundPreferred shares at an auction that is normally held weekly by submitting orders to a broker-dealer that has entered into an agreement with the auction agent and the Fund (a "Broker-Dealer"), 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 FundPreferred shares outside of auctions, but may discontinue this activity at any time. There is no assurance that a secondary

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market will be created or, if created, that it will provide shareholders with liquidity or that the trading price in any secondary market would be $25,000. You may transfer shares 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.

The table below shows the first auction date for each Series of FundPreferred shares and the day on which each subsequent auction will normally be held for each Series of FundPreferred shares. The first auction date for each Series of FundPreferred shares will be the business day before the dividend payment date for the initial dividend period for each Series of FundPreferred shares.

The start date for subsequent dividend periods normally will be the business day following the auction date 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.

SERIES	FIRST AUCTION DATE*	SUBSEQUENT AUCTION

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* All dates are 2003.

Dividends and Dividend Periods................. The table below shows the dividend rate for the initial dividend period of the FundPreferred shares offered in this Prospectus. For subsequent dividend periods, FundPreferred shares will pay dividends based on a rate set at auctions, normally held every seven (7) days. In most instances dividends are also paid every seven (7) days, on the day following the end of the rate period. The Applicable Rate that results from an Auction will not be lower than 70% of the applicable AA Composite Commercial Paper Rate (the "Minimum Rate") or greater than 150% (the "Maximum Rate") of the applicable AA Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate (for a Dividend Period of 184 days or more) at the close of business on the Business Day next preceding such Auction Date. See "Description of FundPreferred Shares -- Dividends and Dividend Periods -- Determination of Dividend Rate" and "The Auction."

The table below also shows the date from which dividends on the FundPreferred shares will accumulate at the initial rate, the dividend payment date for the initial dividend period and the day on which dividends will normally be paid. If dividends are payable on Monday or Tuesday and that day is not a business day, then your dividends will normally be paid on the first business day that falls after that day. If dividends are payable on a Wednesday, Thursday or Friday and that

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day is not a business day, then your dividends will normally be paid on the first business day prior to that day.

Finally, the table below shows the number of days of the initial dividend period for the FundPreferred shares. Subsequent dividend periods generally will be seven (7) days. The dividend payment date for special dividend periods of other than seven (7) days will be set out in the notice designating a special dividend period. See "Description of FundPreferred Shares -- Dividends and Dividend Periods -- Notification of Dividend Period."

SERIES	INITIAL DIVIDEND RATE	DATE OF ACCUMULATION AT INITIAL RATE*	PAYMENT DATE FOR INITIAL DIVIDEND PERIOD*	SUBSEQUE DIVIDEN PAYMENT

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* All dates are 2003.

Ratings.................... It is a condition of the underwriters' obligation to purchase the FundPreferred shares that the FundPreferred shares receive a rating of "AAA" from Fitch and "Aaa" from Moody's.

Restrictions on Dividend Redemption and Other Payments................. If the Fund issues any Borrowings that constitute senior securities representing indebtedness (as defined in the 1940 Act), under the 1940 Act, the Fund would not be permitted to declare any dividend on FundPreferred shares unless, after giving effect to such dividend, asset coverage with respect to such Borrowings that constitute senior securities representing indebtedness, if any, is at least 200%. In addition, the Fund would not be permitted to declare any distribution on or purchase or redeem FundPreferred shares unless, after giving effect to such distribution, purchase or redemption, asset coverage with respect to such Borrowings that constitute senior securities representing indebtedness, if any, is at least 300%. Dividends or other distributions on or redemptions or purchases of FundPreferred shares would also be prohibited at any time that an event of default under any Borrowings has occurred and is continuing. See "Description of FundPreferred Shares -- Restrictions on Dividend, Redemption and Other Payments."

Asset Maintenance.......... The Fund must maintain Eligible Assets having an aggregated Discounted Value at least equal to the FundPreferred Shares Basic Maintenance Amount as of each Valuation Date. The Fund also must maintain asset coverage for the FundPreferred shares on a non-discounted basis of at least 200% as of the last business day of each month. See "Description of FundPreferred Shares -- Asset Maintenance."

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The Discount Factors and guidelines for calculating the Discounted Value of the Fund's portfolio for purposes of determining whether the FundPreferred Shares Basic Maintenance Amount has been satisfied have been established by Fitch and Moody's in connection with the Fund's receipt from Fitch and Moody's of the "AAA" and "Aaa", respectively, Credit Rating with respect to the FundPreferred shares on their Date of Original Issue.

The Fund estimates that on the Date of Original Issue, the 1940 Act FundPreferred Shares Asset Coverage, based on the composition of its portfolio as of   , 2003, including the issuance of the Common Shares on   , 2003, less the offering costs related thereto, and after giving effect to the issuance of the FundPreferred shares offered hereby ($) and the deduction of sales loads and estimated offering expenses for such

	FundPreferred shares ($), will be %.
	In addition, there may be additional asset coverage requirements imposed in connection with any Borrowings.
Redemption.................	Although the Fund will not ordinarily redeem FundPreferred shares, it may be required to redeem shares if, for example, the Fund does not meet an asset coverage ratio required by law, correct a failure to meet a rating agency guideline in a timely manner or maintain other covenants with respect to the FundPreferred shares. The Fund voluntarily may redeem FundPreferred shares in certain circumstances. See "Description of FundPreferred Shares -- Redemption."
Liquidation Preference.....	The liquidation preference of the shares of each series of FundPreferred shares will be $25,000 per share plus accumulated but unpaid dividends, if any, thereon. See "Description of FundPreferred Shares -- Liquidation Rights."
Voting Rights..............	Except as otherwise indicated, holders of FundPreferred shares have one vote per share and vote together with holders of Common Shares as a single class.
	In connection with the election of the Board of Trustees, the holders of outstanding preferred shares of beneficial interest ("Preferred Shares"), including FundPreferred shares, as a class, shall be entitled to elect two trustees of the Fund. The holders of outstanding shares of Common Shares and Preferred Shares, including FundPreferred shares, voting together, shall elect the remainder. However, upon the Fund's failure to pay dividends on the Preferred Shares in an amount equal to two full years of dividends, the holders of Preferred Shares have the right to elect, as a class, the smallest number of additional Trustees as shall be necessary to assure that a majority of the Trustees has been elected by the holders of Preferred Shares. The terms of the additional Trustees shall end when the Fund pays or provides for all accumulated and unpaid dividends. See "Description of FundPreferred Shares -- Voting Rights."
Federal Income Taxes.......	Distributions with respect to the FundPreferred shares will generally be subject to U.S. federal income taxation. Because the Fund's portfolio income will consist principally of (i) income from taxable preferred and similar securities, (ii) capital gain, and (iii) interest income, corporate investors in the FundPreferred shares are not

	expected to receive dividends that are eligible for the Dividends Received Deduction and noncorporate investors in the FundPreferred shares are not

expected to receive "qualified dividend income" that is generally subject to reduced rates of federal income taxation. The Internal Revenue Service ("IRS") currently requires that a regulated investment company, which has two or more classes of stock, allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gain) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the Fund intends each year to allocate ordinary income dividends and capital gain dividends between its Common Shares and FundPreferred shares in proportion to the total dividends paid to each class during or with respect to such year. See "Federal Income Tax Matters."

FINANCIAL HIGHLIGHTS

Information contained in the table below under the headings "Per Share Operating Performance" and "Ratios/Supplemental Data" shows the unaudited operating performance of the Fund from the commencement of the Fund's investment operations on , 2003 until , 2003. Since the Fund was recently organized and commenced operations on , 2003, the table covers less than four weeks of operations, during which a substantial portion of the Fund's portfolio was held in temporary investments pending investment in long-term securities that meet the Fund's investment objectives and policies. Accordingly, the information presented may not provide a meaningful picture of the Fund's operating performance.

	UNAUDITED (, 2003 - , 2003) (UNAUDITED)
PER SHARE OPERATING PERFORMANCE:	
Common Share Net Asset Value, Beginning of Period.........	
Net Investment Income.................................	
Net Realized/Unrealized Gain from Investments..........	
Total From Investment Operations....................	
Offering Costs...	
Common Share Net Asset Value, End of Period..............	
Per Share Market Value, End of Period....................	
Total Return on Common Share Net Asset Value(a)...........	
Total Investment Return on Market Value(a)...............	
RATIOS/SUPPLEMENTAL DATA:	
Net Assets Applicable to Common Shares, End of Period (In Thousands)......................................	
Ratio of Expenses to Average Net Assets Applicable to Common Shares Before Reimbursement....................	
Ratio of Net Investment Income to Average Net Assets	

Applicable to Common Shares Before Reimbursement.......
Ratio of Expenses to Average Net Assets Applicable to Common Shares After Reimbursement.....................
Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares After Reimbursement........
Portfolio Turnover Rate..................................

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* Annualized.

(a) Total Investment Return on Market Value is the combination of reinvested dividend income, reinvested capital gains distributions, if any, and changes in stock price per share. Total Return on Common Share Net Asset Value is the combination of reinvested dividend income, reinvested capital gains distributions, if any, and changes in Common Share net asset value per share. Total returns are not annualized.

THE FUND

The Fund is a recently organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on March 17, 2003, pursuant to a Declaration of Trust (the "Declaration of Trust") governed by the laws of The Commonwealth of Massachusetts. On , 2003, the Fund issued an aggregate of Common Shares pursuant to the initial public offering thereof. On , 2003 and , 2003, the Fund issued an additional and Common Shares, respectively, in connection with partial exercises by the underwriters of the over-allotment option. The Common Shares are traded on the Exchange under the symbol "JQC." The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

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

TITLE OF CLASS	AMOUNT AUTHORIZED	AMOUNT HELD BY THE FUND OR FOR ITS ACCOUNT	AM OUTS
Common Shares.......................................	Unlimited		
FundPreferred shares................................	Unlimited		

USE OF PROCEEDS

The net proceeds of the offering will be approximately $ after payment of the sales load and estimated offering costs. The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objectives and policies as described under "The Fund's Investments," as soon as practicable. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in preferred, convertible and other debt instruments that meet those investment objectives and policies within approximately 1 to 1 1/2 months after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in short-term or long-term securities issued by the U.S. Government or its agencies or instrumentalities or in high quality, short-term money market instruments.

CAPITALIZATION

The following table sets forth the capitalization of the Fund as of , 2003, and as adjusted, to give effect to the issuance of Common Shares on , 2003, as well as all the FundPreferred shares offered hereby.

	ACTUAL , 2003 (UNAUDITED)	AS ADJUSTED , 2003 (UNAUDITED)
FundPreferred shares, $25,000 stated value per share, at liquidation value; unlimited shares authorized (no shares issued and 28,320 shares issued, as adjusted, respectively)*...		
COMMON SHAREHOLDERS' EQUITY:		
Common Shares, $.01 par value per share; unlimited shares authorized (shares outstanding and shares outstanding, as adjusted, respectively)*...............		
Paid-in surplus**.......................................		
Undistributed net investment income......................		
Accumulated net realized gain (loss) from investments.....		
Net unrealized appreciation of investments...............		
Net assets applicable to Common Shares...................		

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* None of these outstanding shares are held by or for the account of the Fund.

** As adjusted paid-in surplus reflects the proceeds of the issuance of the Common Shares ($) less $.01 par value per Common Share ($), and the offering costs of $ per Common Share ($), as well as a reduction for the sales load and estimated offering costs of the FundPreferred shares issuance ($).

PORTFOLIO COMPOSITION

As of , 2003, % of the market value of the Fund's portfolio was invested in long-term investments and % of the market value of the Fund's portfolio was invested in short-term investments.

THE FUND'S INVESTMENTS

INVESTMENT OBJECTIVES AND POLICIES

The Fund's primary investment objective is high current income. The Fund's secondary objective is total return. There can be no assurance that the Fund's investment objectives will be achieved.

Under normal circumstances, the Fund:

- will invest at least 80% of its Managed Assets in preferred securities, convertible securities and related instruments; and

- may invest up to 20% of its Managed Assets in other securities, including debt instruments and common stocks acquired upon conversion of a convertible security (such common stocks not normally to exceed 5% of the Fund's Managed Assets).

NIAC will be responsible for determining the Fund's overall investment strategy, including allocating the portion of the Fund's assets to be invested in preferred securities, convertible securities and other debt instruments. See "Management of the Fund."

The Fund's assets allocated to preferred securities will be managed by Spectrum. The Fund's assets allocated to convertible securities will be managed by Froley, Revy. The Fund's assets allocated to other debt instruments will be managed by NIAC.

Under normal circumstances, portfolio allocations will conform to the following guidelines:

TYPE OF INVESTMENT	MINIMUM % OF MANAGED ASSETS	MAXIMUM % OF MANAGED ASSETS
Preferred Securities......................................	50	80
Convertible Securities....................................	20	50
Other Debt Instruments....................................	0	20

Initially, NIAC will allocate approximately 60%, 30% and 10% of the Fund's Managed Assets to preferred securities, convertible securities and other debt instruments, respectively. Thereafter, the portion of the Fund's Managed Assets invested in preferred securities, convertible securities and other debt instruments will vary from time to time consistent with the Fund's investment objectives, although the Fund will normally invest at least 50% of its Managed Assets in preferred securities and at least 20% of its Managed Assets in convertible securities (so long as the combined total equals at least 80% of the Fund's Managed Assets). Convertible preferred securities will be regarded as convertible securities for purposes of these limits. In making allocation decisions, NIAC will consider factors such as interest rate levels, conditions and developing trends in the bond and equity markets, analysis of relative valuations for preferred, convertible and other debt instruments and other economic and market factors, including the overall outlook for the economy and inflation.

The Fund will invest at least 65% of its Managed Assets in securities that, at the time of investment, are investment grade quality. Investment grade quality securities are those securities that, at the time of investment, are (i) rated by at least one of the NRSROs within the four highest grades (Baa or BBB or better by Moody's, S&P or Fitch) or (ii) unrated but judged to be of comparable quality by the Adviser responsible for the investment. Split-rated securities are considered to be investment grade quality securities, except that to the extent the Fund owns split-rated securities that exceed 10% of its Managed Assets, the excess over 10% will not be considered to be investment grade quality. Initially, the Fund intends to invest approximately 75% of its Managed Assets in investment grade quality securities. The Fund may invest up to 35% of its Managed Assets in securities that, at the time of investment, are not investment grade quality. The Fund will only invest in securities that, at the time of investment, are rated B or higher by at least one NRSRO or that are unrated but judged to be of comparable quality by the Adviser responsible for the investment, except, however, the Fund may invest up to 5% of its Managed Assets in securities with a highest rating of CCC or that are unrated but judged to be of comparable quality by the Adviser responsible for the investment. Securities of below investment grade quality are

commonly referred to as junk bonds and are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal. See "Risk Factors -- General Risks of Investing in the Fund -- High Yield Risk." See Appendix B in the Statement of Additional Information for a description of security ratings.

The Fund may invest up to 10% of its Managed Assets in securities that, at the time of investment, are illiquid (i.e., securities that are not readily marketable). Initially, the Fund does not intend to invest more than 5% of its Managed Assets in illiquid securities. In addition, the Fund may invest up to 35% of its Managed Assets in securities of non-U.S. issuers. Subject to this 35% limitation, up to 10% of the Fund's Managed Assets may be invested in securities that are denominated in Japanese yen, Canadian dollars, British pounds or Euros and which may be offered, traded or listed in markets other than U.S. markets. The remainder of the Fund's Managed Assets that may be invested in securities of non-U.S. issuers will be invested in U.S. dollar denominated securities offered, traded or listed in U.S. markets. Initially, the Fund does not intend to invest more than 20% of its Managed Assets in securities of non-U.S. issuers and does not currently intend to invest in the non-U.S. dollar denominated securities described above.

For a more complete discussion of the Fund's initial portfolio composition, see "-- Initial Portfolio Composition."

The Fund cannot change its investment objectives without the approval of the holders of a "majority of the outstanding" Common Shares and FundPreferred shares voting together as a single class, and of the holders of a "majority of the outstanding" FundPreferred shares voting as a separate class. When used with respect to particular shares of the Fund, a "majority of the outstanding" shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less. See "Description of FundPreferred Shares -- Voting Rights" for additional information with respect to the voting rights of holders of FundPreferred shares.

INVESTMENT PHILOSOPHY AND PROCESS

NUVEEN INSTITUTIONAL ADVISORY CORP. (NIAC)

Asset Allocation Philosophy. NIAC is responsible for the overall strategy and asset allocation decisions among the three primary asset classes in which the Fund invests -- preferred securities, convertible securities and other debt instruments. The goal of the allocation decision is to effectively capture the diversification benefits provided by the low return-correlation across these asset classes and provide the potential for high income generation, an opportunity to participate in rising equity markets and some protection against risks associated with rising interest rates. NIAC believes that the opportunity will exist from time to time to potentially enhance the Fund's total return by over-weighting or under-weighting these asset classes as the relative attractiveness of the asset classes changes.

Asset Allocation Process. In determining the Fund's asset allocation, NIAC will periodically consult with the Fund's Subadvisers and other investment manager affiliates of NIAC. NIAC will consider factors such as interest rate levels, market conditions and developing trends in the bond and equity markets, analysis of relative valuations for preferred securities, convertible securities and other debt instruments, and other economic and market factors, including the overall outlook for the economy and inflation.

Investment Philosophy. NIAC is responsible for managing the other debt instruments in which the Fund may invest. NIAC believes that managing risk, particularly in a volatile asset class such as high yield debt, is of paramount importance. NIAC believes that a combination of fundamental credit analysis and valuation information that is available from the equity markets provide a means of identifying what it believes to be superior investment candidates. Additionally, NIAC focuses primarily on liquid securities to help ensure that exit strategies remain available under different market conditions.

Investment Process. NIAC begins with a quantitative screening of other debt instruments to identify investment candidates with favorable capital structures, and then factors in valuation and other equity

market indicators. NIAC screens this universe of securities for liquidity constraints and relative value opportunities to determine investment candidates. Subsequently, the investment team performs rigorous fundamental analysis to identify investments with sound industry fundamentals, cash flow sufficiency and asset quality. The final portfolio is constructed using proprietary risk factors and monitoring systems to ensure proper diversification.

SPECTRUM ASSET MANAGEMENT, INC. (SPECTRUM)

Investment Philosophy. Spectrum's investment philosophy with respect to preferred securities is centered on several underlying themes:

- High levels of current income are the primary return contributor to the total return potential of preferred securities.

- Investing in the subordinated preferred securities of stronger, solidly-rated issuers is potentially more advantageous than owning the senior debt of weaker, potentially deteriorating issuers.

- Investment grade quality preferred securities, over time, present an attractive risk/return opportunity.

- Diversifying across a large number of different industries and issuers helps insulate an overall portfolio of preferred securities from events that affect any particular company or sector.

- Inefficiencies in the preferred securities market, particularly in the pricing and trading of securities, can create opportunities to enhance portfolio value.

Investment Process. Spectrum's investment process begins with macroeconomic and fundamental credit analysis to identify sectors, industries and companies that are potential investments. In its fundamental analysis, Spectrum employs a value-oriented style that considers the relative attractiveness of the security to other preferred securities and to the same issuer's senior debt. In addition, Spectrum evaluates the structural features of each security as well as its liquidity. In its investment decisions, Spectrum also considers the contribution of sectors and individual securities to the overall goal of achieving a well-diversified portfolio.

FROLEY, REVY INVESTMENT CO., INC. (FROLEY, REVY)

Investment Philosophy. Froley, Revy's investment philosophy with respect to convertible securities is centered on the belief that convertible securities are a total return vehicle that afford the opportunity to earn common stock-like returns with substantially reduced risk relative to equities, while providing some current income. The firm believes that focusing on the mid-market sector of the convertible securities market (i.e., securities that have both common stock-like and bond-like investment qualities) while investing opportunistically in the bond-like and equity-like areas of the convertible securities market may enhance total return potential. In addition, the firm believes that because of the hybrid nature of convertible securities, research that emphasizes both fundamental credit analysis and equity valuation analysis can help identify investment opportunities with the greatest potential for enhancing a portfolio's overall total return.

Investment Process. Froley, Revy's investment process begins with screening convertible securities on certain valuation and structural parameters, including price, yield, premium, calls, equity sensitivity and other factors. On this pool of potential investments, Froley, Revy then conducts credit (bond) analysis and valuation (equity) analysis to identify the most attractive candidates within the universe. Additional inputs into the sector and security selection decisions are top down, macroeconomic analysis of economic, interest rate and other trends and the analysis of the structural characteristics of the individual securities.

Froley, Revy monitors all securities and sectors on an on-going basis to identify those that fall outside the intended investment range. Positions in securities that have increased in value and common stock-like qualities may be reduced to normal position weights or sold entirely based on the fundamental outlook for

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the underlying equity. In addition, Froley, Revy considers significant declines from the purchase prices of securities in determining whether to purchase or sell a particular security.

PORTFOLIO COMPOSITION

The Fund's portfolio will be composed principally of the following investments. A more detailed description of the Fund's investment policies and restrictions and more detailed information about the Fund's portfolio investments are contained in the Statement of Additional Information.

Preferred Securities. Preferred securities generally pay fixed or adjustable rate dividends to investors, and have a "preference" over common stock in the payment of dividends and the liquidation of a company's assets. This means that a company must pay dividends on preferred stock before paying any dividends on its common stock. Preferred stockholders usually have no right to vote for corporate directors or on other matters. The Fund intends that all of the preferred securities in which it will invest will be investment grade quality at the time of investment. The average call protection of the Fund's portfolio allocated to preferred securities is expected to be approximately three to four years.

The Fund intends to invest at least 25% of its Managed Assets in the securities of companies principally engaged in financial services, which are prominent issuers of preferred securities, and is subject to the risks of such concentration. See "-- Financial Services Company Securities."

Taxable Preferred Securities. The Fund intends that most or all of the preferred securities in which it invests will generate dividends that are fully taxable and that do not qualify for the Dividends Received Deduction or treatment as "qualified dividend income". Pursuant to the Dividends Received Deduction, corporations may generally deduct 70% of the qualifying dividend income they receive. Corporate shareholders of a regulated investment company like the Fund generally are permitted to claim a deduction with respect to that portion of their distributions attributable to amounts received by the regulated investment company that qualify for the Dividends Received Deduction. "Qualified dividend income" is generally subject to reduced rates of federal income taxation when received by noncorporate shareholders. Noncorporate shareholders of a regulated investment company generally are subject to reduced rates of federal income taxation with respect to that portion of their distributions attributable to "qualified dividend income" received by the regulated investment company. Taxable preferred securities that are not eligible for the Dividends Received Deduction or treatment as "qualified dividend income" (often referred to as "hybrid" preferred securities) typically offer additional yield spread versus other types of preferred securities due to this lack of special tax treatment.

Taxable preferred securities are a comparatively new asset class. Taxable preferred securities are typically issued by corporations, generally in the form of interest-bearing notes or preferred securities, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The taxable preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates. The taxable preferred securities market is divided into the "$25 par" and the "institutional" segments. The $25 par segment is typified by securities that are listed on the Exchange, which trade and are quoted "flat", i.e., without accrued dividend income, and which are typically callable at the issuer's option at par value five years after their original issuance date. The institutional segment is typified by $1,000 par value securities that are not exchange-listed, which trade and are quoted on an "accrued income" basis, and which typically have a minimum of 10 years of call protection (at premium prices) from the date of their original issuance.

Taxable preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, taxable preferred securities typically permit an issuer to defer the payment of interest for eighteen months or more without triggering an event of default. Generally, the deferral period is five years or more. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without adverse consequence to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when cumulative payments on the taxable preferred securities have not been made), these taxable preferred securities are often treated

as close substitutes for traditional preferred securities, both by issuers and investors. Taxable preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Taxable preferred securities include, but are not limited to:((1))

- trust originated preferred securities ("TOPRS(R)");
- monthly income preferred securities ("MIPS(R)");
- quarterly income bond securities ("QUIBS(R)");
- quarterly income debt securities ("QUIDS(R)");
- quarterly income preferred securities ("QUIPS(SM)");
- corporate trust securities ("CORTS(R)");
- public income notes ("PINES(R)"); and
- other trust preferred securities.

Taxable preferred securities are typically issued with a final maturity date, although some are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without any adverse consequence to the issuer. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends payable. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer default on its obligations under such a security, the amount of dividends the Fund pays may be adversely affected.

Many taxable preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. At the time a trust or special purpose entity sells its preferred securities to investors, the trust or special purpose entity purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for income tax purposes the interest paid on the debt held by the trust or special purpose entity. The trust or special purpose entity is generally required to be treated as transparent for federal income tax purposes such that the holders of the taxable preferred securities are treated as owning beneficial interests in the underlying debt of the operating company. Accordingly, payments on the taxable preferred securities are treated as interest rather than dividends for federal income tax purposes and, as such, are not eligible for the Dividends Received Deduction or treatment as "qualified dividend income". The trust or special purpose entity in turn would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common shareholders, but would typically be subordinated to other classes of the operating company's debt. Typically a taxable preferred share has a rating that is slightly below that of its corresponding operating company's senior debt securities.

Convertible Securities. Convertible securities are bonds, debentures, notes, preferred securities or other securities that may be converted or exchanged (by the holder or the issuer) into shares of the underlying common stock (or cash or securities of equivalent value) at a stated exchange ratio or predetermined price (the "conversion price"). Convertible securities have general characteristics similar to both debt securities and common stocks. The interest paid on convertible securities may be fixed or floating rate. Floating rate convertible securities may specify an interest rate or rates that are conditioned

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(1) TOPRS is a registered service mark owned by Merrill Lynch & Co., Inc. MIPS and QUIDS are registered service marks and QUIPS is a service mark owned by Goldman, Sachs & Co. QUIBS is a registered service mark owned by Morgan Stanley Dean Witter & Co. CORTS and PINES are registered service marks owned by Citigroup Global Markets Inc.

upon changes to the market price of the underlying common stock. Convertible securities also may be issued in zero coupon form with an original issue discount. See "Risk Factors -- General Risks of Investing in the Fund -- Convertible Security Risk." Although to a lesser extent than with debt securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stocks and, therefore, will also react to the variations in the general market for common stocks. Depending upon the relationship of the conversion price to the market value of the underlying common stock, a convertible security may trade more like a common stock than a debt instrument.

Mandatory convertible securities are distinguished as a subset of convertible securities because they may be called for conversion by the issuer after a particular date and under certain circumstances (including at a specified price) established upon its issuance. If a mandatory convertible security is called for conversion, the Fund will be required to either convert it into the underlying common stock or sell it to a third party.

Convertible securities are investments that typically provide for a stable stream of income with generally higher yields than common stocks. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. The convertible securities in which the Fund may invest may be below investment grade quality. See "-- High Yield Securities" below.

Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar credit quality because of the potential for capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from any increases in the market price of the underlying common stock.

Synthetic Convertible Securities. Although the Fund does not currently intend to invest in synthetic convertible securities, it may invest up to 10% of its Managed Assets in such securities. Synthetic convertible securities possess the two principal characteristics of a true convertible security, i.e., a fixed-income security ("fixed-income component") and the right to acquire an equity security ("equity component"). If the Fund invests in synthetic convertible securities, it is expected that the Fund will invest in such synthetic convertible securities that are created by third parties, typically investment banks or other financial institutions. Synthetic convertible securities created by other parties typically trade as a single security with a unitary value, similar to a true convertible security. The Fund may also invest in synthetic convertible securities by acquiring separate securities, one possessing a fixed-income component and the other possessing an equity component. The fixed-income component is achieved by investing in non-convertible, fixed-income securities such as bonds, debentures, notes, preferred stocks and money market instruments. The equity component is achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a common stock index. The fixed-income and equity components of such a synthetic convertible security may be issued separately by different issuers and at different times. Unlike a true convertible security or a synthetic convertible security created by third parties, each of which is a single security having a unitary market value, a synthetic convertible security that is comprised of two or more separate securities will have a "market value" that is the sum of the values of its fixed-income component and its equity component. For this reason, the value of such a synthetic convertible security may respond differently to market fluctuations than would a true convertible security or synthetic convertible security created by a third party. The Fund's holdings of synthetic convertible securities, including those created by third parties, are considered convertible securities for purposes of the Fund's policy to invest at least 80% of its Managed Assets in preferred securities and convertible securities and the maximum and minimum allocations to preferred securities and convertible securities set forth in "-- Investment Objectives and Policies" above.

Warrants and Options on Securities and Indexes. In connection with its investments in synthetic convertible securities, the Fund may purchase warrants, call options on common stock and call options on common stock indexes. A warrant is a certificate that gives the holder of the warrant the right to buy, at a

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specified time or specified times, from the issuer of the warrant, the common stock of the issuer at a specified price. A call option is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the common stock underlying the option (or the cash value of the common stock index) at a specified exercise price at any time during the term of the option.

Other Debt Instruments. The Fund may invest in other debt instruments including, but not limited to, corporate bonds, notes and debentures and other similar types of corporate debt instruments, including corporate loans. The form of such other debt instruments may include zero coupon bonds, payment-in-kind securities and structured notes. The debt instruments in which the Fund may invest may be below investment grade quality. See "-- High Yield Securities." The Fund may invest up to 20% of its Managed Assets in these types of other debt securities, as described in more detail below.

Corporate Bonds. Corporate bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity.

Corporate Loans. The Fund may invest (i) in loans made by banks or other financial institutions to corporate issuers or (ii) participation interests in such loans. Corporate loans generally bear interest at rates set at a margin above a generally recognized base lending rate that may fluctuate on a day-to-day basis, in the case of the prime rate of a U.S. bank. Consequently, the value of corporate loans held by the Fund may be expected to fluctuate significantly less than the value of other fixed rate high yield instruments as a result of changes in the interest rate environment. On the other hand, the secondary dealer market for certain corporate loans may not be as well developed as the secondary dealer market for high yield debt and, therefore, presents increased market risk relating to liquidity and pricing concerns. By purchasing a participation interest in a loan, the Fund acquires some or all of the interest of a bank or other financial institution in a loan to a corporate borrower. Purchasing a participation in a corporate loan typically will result in the Fund having a contractual relationship with the lender, not the borrower. In this instance, the Fund would have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the borrower. If the Fund only acquires a participation in a loan made by a third party, the Fund may not be able to control the exercise of any remedies that the lender would have under the corporate loan.

Zero Coupon Bonds and Payment-In-Kind Securities. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. Payment-in-kind securities ("PIKs") are debt obligations that pay "interest" or dividends in the form of additional securities of the issuer, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

Structured Notes. The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an "embedded index"), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending on a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments.

The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index(es) or other asset(s). Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss.

No Floating Rate Securities. The Fund will not invest in inverse floating rate securities, which are securities that pay interest at rates that vary inversely with changes in prevailing interest rates and which represent a leveraged investment in an underlying security.

High Yield Securities. The Fund may invest up to 35% of its Managed Assets in securities that, at the time of investment, are not investment grade quality. The Fund will only invest in securities that, at the time of investment, are rated B or higher by at least one NRSRO or that are unrated but judged to be of comparable quality by the Adviser responsible for the investment, except, however, the Fund may invest up to 5% of its Managed Assets in securities with a highest rating of CCC or that are unrated but judged to be of comparable quality by the Adviser responsible for the investment. Below investment grade quality securities are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. The prices of these lower grade securities typically are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than the prices of higher grade securities. The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security. There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and ask price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's net asset value.

Non-U.S. Securities. The Fund may invest up to 35% of its Managed Assets in securities of non-U.S. issuers. Subject to this 35% limitation, up to 10% of the Fund's Managed Assets may be invested in securities that are denominated in Japanese yen, Canadian dollars, British pounds or Euros and which may be offered, traded or listed in markets other than U.S. markets. The remainder of the Fund's Managed Assets that may be invested in securities of non-U.S. issuers will be invested in U.S. dollar denominated securities offered, traded or listed in U.S. markets. Initially, the Fund does not intend to invest more than 20% of its Managed Assets in securities of non-U.S. issuers and does not currently intend to invest in the non-U.S. dollar denominated securities described above. The Fund may invest in any region of the world and invest in companies operating in developed countries such as Canada, Japan, Australia, New Zealand and most Western European countries. The Fund does not intend to invest in companies based in emerging markets such as the Far East, Latin America and Eastern Europe. The World Bank and other international agencies define emerging markets based on such factors as trade initiatives, per capita income and level of industrialization. For purposes of the 35% limitation described above, non-U.S. securities include securities represented by American Depository Receipts.

Financial Services Company Securities. The Fund intends to invest at least 25% of its Managed Assets in securities issued by companies "principally engaged" in financial services. A company is "principally engaged" in financial services if it has financial services-related businesses that generate at least 50% of its revenues. Companies in the financial services sector include commercial banks, industrial banks, savings institutions, finance companies, diversified financial services companies, investment banking firms, securities brokerage houses, investment advisory companies, leasing companies, insurance companies and companies providing similar services.

Common Stocks. The Fund does not intend to purchase common stock as part of its investment strategy. The Fund will have exposure to common stock risks by virtue of the equity component of the convertible securities in which the Fund invests. The Fund may hold common stocks in its portfolio upon conversion of a convertible security, such holdings not normally to exceed 5% of its Managed Assets. In addition, in keeping with the income focus of the Fund, the Fund expects to sell any common stock holdings as soon as practicable after conversion of a convertible security. Common stock generally represents an ownership interest in an issuer. Although common stocks historically have generated higher average returns than fixed-income securities, common stocks also have experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. Also, prices of common stocks are sensitive to general movements in the stock market. A drop in the stock market may depress the prices of common stocks held by the Fund or to which it has exposure.

Hedging Transactions. The Fund may use derivatives or other transactions for the purpose of hedging the portfolio's exposure to the risk of increases in interest rates, common stock risk, high yield credit risk and foreign currency exchange rate risk. The specific derivative instruments to be used, or other transactions to be entered into, each for hedging purposes may include (i) options and futures contracts, including options on common stock, stock indexes, bonds and bond indexes, stock index futures, bond index futures and related instruments, (ii) short sales of securities that the Fund owns or has the right to acquire through the conversion of securities, (iii) structured notes and similar instruments, (iv) credit derivative instruments and (v) currency exchange transactions. Some, but not all, of the derivative instruments may be traded and listed on an exchange. The positions in derivatives will be marked-to-market daily at the closing price established on the exchange or at a fair value. Except for investing in synthetic convertible securities, the Fund will use derivatives or other transactions described in this paragraph solely for purposes of hedging the Fund's portfolio risks. See "Risk Factors -- General Risks of Investing in the Fund -- Hedging Risk," "Risk Factors -- General Risks of Investing in the Fund -- Counterparty Risk," "-- Synthetic Convertible Securities" and "Other Investment Policies and Techniques" in the Fund's Statement of Additional Information for further information on hedging transactions.

Illiquid Securities. The Fund may invest up to 10% of its Managed Assets in securities that, at the time of investment, are illiquid (i.e., securities that are not readily marketable), however, initially, the Fund does not intend to invest more than 5% of its Managed Assets in such securities. All securities and other instruments in which the Fund invests will be subject to the 10% limitation referred to above to the extent they are deemed to be illiquid. For this purpose, illiquid securities may include, but are not limited to, restricted securities (securities the disposition of which is restricted under the federal securities laws), securities that may only be resold pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), that are deemed to be illiquid, and repurchase agreements with maturities in excess of seven days. The Board of Trustees or its delegate has the ultimate authority to determine, to the extent permissible under the federal securities laws, which securities are liquid or illiquid for purposes of this 10% limitation. The Board of Trustees has delegated to the Advisers the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. Although no definitive liquidity criteria are used, the Board of Trustees has directed the Advisers to look for such factors as (i) the nature of the market for a security (including the institutional private resale market; the frequency of trades and quotes for the security; the number of dealers willing to purchase or sell the security; the amount of time normally needed to dispose of the security; and the method of soliciting offers and the mechanics of transfer), (ii) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (e.g., certain repurchase obligations and demand instruments), and (iii) other relevant factors.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act. Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than that which prevailed when it decided to sell. Illiquid securities will be priced at fair value as determined in good faith by the Board of Trustees or its delegate. If, through the appreciation of illiquid securities or the depreciation of liquid securities, the Fund should be in a position where more than 10% of the value of its Managed Assets is invested in illiquid securities, including restricted securities that are not readily marketable, the Fund will take such steps as are deemed advisable, if any, to protect liquidity.

Short-Term/Long-Term Debt Securities; Defensive Position; Invest-Up Period. Upon an Adviser's recommendation and during temporary defensive periods or in order to keep the Fund's cash fully invested, including the period during which the net proceeds of the offering of Common Shares or FundPreferred shares are being invested, the Fund may deviate from its investment objectives and invest all or any portion of its assets in investment grade debt securities. In such a case, the Fund may not pursue or achieve its investment objectives. In addition, during the temporary periods when the net proceeds of the offering of Common Shares or FundPreferred shares are being invested, the Fund may invest all or a portion of its assets in debt securities of long-term maturities issued by the U.S. Government or its agencies or instrumentalities.

When-Issued and Delayed Delivery Transactions. The Fund may buy and sell securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. This type of transaction may involve an element of risk because no interest accrues on the securities prior to settlement and, because securities are subject to market fluctuations, the value of the securities at time of delivery may be less (or more) than cost. A separate account of the Fund will be established with its custodian consisting of cash equivalents or liquid securities having a market value at all times at least equal to the amount of the commitment.

Other Investment Companies. The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies that invest primarily in securities of the types in which the Fund may invest directly, or short-term debt securities. The Fund generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its FundPreferred shares, or during periods when there is a shortage of attractive securities of the types in which the Fund may invest in directly available in the market. As an investor in an investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory and administrative fees with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The Advisers will take expenses into account when evaluating the investment merits of an investment in the investment company relative to available securities of the types in which the Fund may invest directly. In addition, the securities of other investment companies also may be leveraged and therefore will be subject to the same leverage risks described herein. As described in the section entitled "Risk Factors," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

Initial Portfolio Composition. If current market conditions persist, the Fund expects that its initial portfolio of preferred securities, convertible securities and other debt instruments will be comprised of securities with the following ratings, or in unrated securities judged by the Adviser responsible for the investment to be of comparable credit quality: 5% in AA or better, 35% in A, 35% in Baa/BBB, 15% in Ba/BB and 10% in B. Initially, the Fund intends to invest approximately 75% of its Managed Assets in investment grade quality securities. Initially, the Fund does not intend to invest more than 5% of its Managed Assets in illiquid securities or more than 20% of its Managed Assets in securities of non-U.S. issuers. In addition, the Fund does not currently intend to invest in the non-U.S. dollar denominated securities described in this Prospectus. The Fund also intends that all of the preferred securities in which it will invest will be investment grade quality at the time of investment. The Fund's intentions may change over time based on market and other conditions beyond the Fund's control and there can be no assurance that the parameters of the initial portfolio composition as described above will be achieved.

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Lending of Portfolio Securities. The Fund may lend its portfolio securities to broker-dealers and banks. Any such loan must be continuously secured by collateral in cash or cash equivalents maintained on a current basis in an amount at least equal to the market value of the securities loaned by the Fund. The Fund would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned, and would also receive an additional return that may be in the form of a fixed fee or a percentage of the collateral. The Fund may pay reasonable fees to persons unaffiliated with the Fund for services in arranging these loans. The Fund would have the right to call the loan and obtain the securities loaned at any time on notice of not more than five business days. The Fund would not have the right to vote the securities during the existence of the loan but would call the loan to permit voting of the securities, if, in an Adviser's judgment, a material event requiring a shareholder vote would otherwise occur before the loan was repaid. In the event of bankruptcy or other default of the borrower, the Fund could experience both delays in liquidating the loan collateral or recovering the loaned securities and losses, including (a) possible decline in the value of the collateral or in the value of the securities loaned during the period while the Fund seeks to enforce its rights thereto, (b) possible subnormal levels of income and lack of access to income during this period, and (c) expenses of enforcing its rights.

Portfolio Turnover. The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund's investment objectives. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 75% under normal circumstances. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of an Adviser, investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income. See "Federal Income Tax Matters."

USE OF LEVERAGE

The Fund intends to use leverage through the issuance of FundPreferred shares, for investment purposes. The Fund currently anticipates its use of leverage to represent approximately 33 1/3% of its total assets, including the proceeds of such leverage. In addition to issuing FundPreferred shares, the Fund may make further use of financial leverage through borrowing, including the issuance of commercial paper or notes. See "Description of FundPreferred Shares" and "Description of Borrowings" below. The Fund employs financial leverage for the purpose of acquiring additional income-producing investments when the Advisers believe that such use of proceeds will enhance the Fund's net income. The amount of outstanding financial leverage may vary with prevailing market or economic conditions. Leverage entails special risks. See "Risk Factors -- Risks of Investing in FundPreferred Shares -- Leverage Risk." The management fee paid to the Advisers will be calculated on the basis of the Fund's Managed Assets, (which includes proceeds of financial leverage), so the fees will be higher when leverage is used.

HEDGING TRANSACTIONS

The Fund may use derivatives or other transactions for the purpose of hedging a portion of its portfolio holdings or in connection with the Fund's use of leverage through its sale of FundPreferred shares or Borrowings.

Portfolio Hedging Transactions. The Fund may use derivatives or other transactions for purposes of hedging the portfolio's exposure to the risk of increases in interest rates, common stock risk, high yield credit risk and foreign currency exchange rate risk. The specific derivative instruments to be used, or other transactions to be entered into, each for hedging purposes may include (i) options and futures contracts, including options on common stock, stock indexes, bonds and bond indexes, stock index futures, bond index futures and related instruments, (ii) short sales of securities that the Fund owns or has the right to acquire through the conversion of securities, (iii) structured notes and similar instruments, (iv) credit derivative instruments and (v) currency exchange transactions. Some, but not all, of the derivative

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instruments may be traded and listed on an exchange. The positions in derivatives will be marked-to-market daily at the closing price established on the relevant exchange or at a fair value. Except for investing in synthetic convertible securities, the Fund will use derivatives or other transactions described in this paragraph solely for purposes of hedging the Fund's portfolio risks. See "The Fund's Investments -- Portfolio Composition -- Synthetic Convertible Securities."

There may be an imperfect correlation between changes in the value of the Fund's portfolio holdings and hedging positions entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, the Fund's success in using hedging instruments is subject to an Adviser's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors, and there can be no assurance that an Adviser's judgment in this respect will be correct. Consequently, the use of hedging transactions might result in a poorer overall performance for the Fund, whether or not adjusted for risk, than if the Fund had not hedged its portfolio holdings. In addition, there can be no assurance that the Fund will enter into hedging or other transactions at times or under circumstances in which it which it would be advisable to do so. See "Risk Factors -- Hedging Risk."

Options on Securities. In order to hedge against adverse market shifts, the Fund may purchase put and call options on stock, bonds or other securities. In addition, the Fund may seek to hedge a portion of its portfolio investments through writing (i.e., selling) covered put and call options. A put option embodies the right of its purchaser to compel the writer of the option to purchase from the option holder an underlying security or its equivalent at a specified price at any time during the option period. In contrast, a call option gives the purchaser the right to buy the underlying security covered by the option or its equivalent from the writer of the option at the stated exercise price at any time during the option period.

As a holder of a put option, the Fund will have the right to sell the securities underlying the option and as the holder of a call option, the Fund will have the right to purchase the securities underlying the option, in each case at their exercise price at any time prior to the option's expiration date. The Fund may choose to exercise the options it holds, permit them to expire or terminate them prior to their expiration by entering into closing sale or purchase transactions. In entering into a closing sale transaction, the Fund would sell an option of the same series as the one it has purchased. The ability of the Fund to enter into a closing sale transaction with respect to options purchased and to enter into a closing purchase transaction with respect to options sold depends on the existence of a liquid secondary market. There can be no assurance that a closing purchase or sale transaction can be effected when the Fund so desires. The Fund's ability to terminate option positions established in the over-the-counter market may be more limited than in the case of exchange-traded options and may also involve the risk that securities dealers participating in such transactions would fail to meet their obligations to the Fund.

In purchasing a put option, the Fund will seek to benefit from a decline in the market price of the underlying security, while in purchasing a call option, the Fund will seek to benefit from an increase in the market price of the underlying security. If an option purchased is not sold or exercised when it has remaining value, or if the market price of the underlying security remains equal to or greater than the exercise price, in the case of a put, or remains equal to or below the exercise price, in the case of a call, during the life of the option, the option will expire worthless. For the purchase of an option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price, in the case of a put, and must increase sufficiently above the exercise price, in the case of a call, to cover the premium and transaction costs. Because option premiums paid by the Fund are small in relation to the market value of the instruments underlying the options, buying options can result in additional amounts of leverage to the Fund. The leverage caused by trading in options could cause the Fund's net asset value to be subject to more frequent and wider fluctuation than would be the case if the Fund did not invest in options.

The Fund will receive a premium when it writes put and call options, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. By writing a call, the Fund will limit its opportunity to profit from an increase in the market value of the

underlying security above the exercise price of the option for as long as the Fund's obligation as the writer of the option continues. Upon the exercise of a put option written by the Fund, the Fund may suffer an economic loss equal to the difference between the price at which the Fund is required to purchase the underlying security and its market value at the time of the option exercise, less the premium received for writing the option. Upon the exercise of a call option written by the Fund, the Fund may suffer an economic loss equal to an amount not less than the excess of the security's market value at the time of the option exercise over the Fund's acquisition cost of the security, less the sum of the premium received for writing the option and the difference, if any, between the call price paid to the Fund and the Fund's acquisition cost of the security. Thus, in some periods the Fund might receive less total return and in other periods greater total return from its hedged positions than it would have received from its underlying securities unhedged.

Options on Stock and Bond Indexes. The Fund may purchase put and call options on stock and bond indexes to hedge against risks of market-wide price movements affecting its assets. In addition, the Fund may write covered put and call options on stock and bond indexes. A stock or bond index measures the movement of a certain group of stocks or bonds by assigning relative values to the stocks or bonds included in the index. Options on a stock or bond index are similar to options on securities. Because no underlying security can be delivered, however, the option represents the holder's right to obtain from the writer, in cash, a fixed multiple of the amount by which the exe