REAVES UTILITY INCOME FUND
Form 497
June 29, 2004

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PROSPECTUS

$240,000,000

Reaves Utility Income Fund

Auction Market Preferred Shares ("AMPS")
3,200 Shares, Series M7
3,200 Shares, Series F7
3,200 Shares, Series W28
Liquidation Preference, $25,000 per share

Investment Objective. Reaves Utility Income Fund (the "Fund") is a closed-end, non-diversified management investment company that began operations on February 27, 2004. The Fund's investment objective is to provide a high level of after-tax income and total return consisting primarily of tax- advantaged dividend income and capital appreciation. The Fund intends to pursue this objective by investing at least 80% of its total assets in the securities of domestic and foreign companies involved to a significant extent in providing products, services or equipment for (i) the generation or distribution of electricity, gas or water, (ii) telecommunications activities or (iii) infrastructure operations, such as airports, toll roads and municipal services ("Utilities" or the "Utility Industry"). A company will be deemed to be involved in the Utility Industry to a significant extent if at least 50% of its assets, gross income or profits are committed to or derived from activities in the areas described above.

(continued on following page)

An investment in the AMPS involves certain risks. See "Risk Factors" beginning on page 33 of this prospectus. The minimum purchase amount of the AMPS is $25,000.

	Per Share	Total
Public offering price(1)	$25,000	$240,000,000
Sales load	$250	$2,400,000
Estimated offering expenses	$47	$450,000
Proceeds, after expenses, to the Fund	$24,703	$237,150,000

(1) Plus accumulated dividends, if any, from the date the AMPS are issued, but before offering expenses payable by the Fund, estimated to be $450,000. The Fund, the Administrator and the Adviser have agreed to indemnify the underwriters against certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."

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.

The underwriters are offering the AMPS subject to various conditions. The underwriters expect to deliver the AMPS to purchasers, in book-entry form only, through the facilities of The Depository Trust Company, on or about June 30, 2004.

Merrill Lynch & Co.

A.G. Edwards

BNY Capital Markets, Inc.

The date of this prospectus is June 28, 2004.

(continued from previous page)

Capitalized terms used but not defined in this prospectus shall have the meanings ascribed to them in the Statement of Preferences of Auction Market Preferred Shares (the "Statement") attached to the Statement of Additional Information as Appendix A.

Portfolio Contents. The Fund invests primarily in common and preferred stocks of Utilities that pay dividends qualifying for federal income taxation at rates applicable to long-term capital gains ("tax-advantaged dividends"). Under normal market conditions, at least 80% of the Fund's total assets will be invested in the Utility Industry. It is anticipated that the Fund will invest approximately 80% of its total assets in common stocks and the remaining 20% in preferred stocks and debt securities. The investment adviser retains broad discretion to allocate investments among common stocks, preferred stocks and debt securities in the manner it believes will best achieve the Fund's investment objective.

Investment Adviser. W.H. Reaves & Co., Inc. ("Reaves") is the Fund's investment adviser. See "Management of the Fund." As of March 31, 2004, Reaves had approximately $1.4 billion of assets under management, including approximately $520 million relating to the Fund. Reaves' address is 10 Exchange Place, Jersey City, New Jersey 07302.

The Fund is offering 3,200 shares of Series M7 AMPS, 3,200 shares of Series F7 AMPS and 3,200 shares of Series W28 AMPS. The AMPS have a liquidation preference of $25,000 per share, plus any accumulated unpaid dividends. The AMPS have priority over the Fund's common shares as to distribution of assets, as described in this prospectus. It is a condition of the closing of this offering that the AMPS be assigned a rating of "AAA" by Standard and Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), and "AAA" by Fitch Ratings, Inc. ("Fitch").

The dividend rate for the initial dividend rate period will be 1.55% for the Series M7 AMPS, 1.55% for the Series F7 AMPS and 1.55% for the Series W28 AMPS. The initial rate period is from the date of issuance through July 12, 2004 for the Series M7 AMPS, July 18, 2004 for the Series F7 AMPS and July 28, 2004 for the Series W28 AMPS. For subsequent rate periods, the AMPS pay dividends based on a rate set at auction, usually held every seven days in the case of the Series M7 AMPS and the Series F7 AMPS and every 28 days in the case of the Series W28 AMPS. Prospective purchasers should carefully review the auction procedures described in this prospectus and should note: (1) a buy order (called a "bid order") or sell order is a commitment to buy or sell AMPS based on the results of an auction; and (2) purchases and sales will be settled on the next business day after the auction.

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the AMPS and retain it for future reference. A Statement of Additional Information, dated June 28, 2004 (the "Statement of Additional Information"), containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus, which means that it is part of this prospectus for legal purposes. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 64 of this prospectus, by calling (800) 644-5571 (toll-free) or by writing to ALPS Mutual Funds Services, Inc., 1625 Broadway, Suite 2200, Denver, Colorado 80202, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (*http://www.sec.gov*).

The AMPS 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.

The AMPS will not be listed on an exchange. AMPS may only be bought or sold through an order at an auction (an "Auction") with or through a broker-dealer that has entered into an agreement with the auction agent of the Fund, or in a secondary market that may be maintained by certain broker-dealers. These broker-dealers are not required to maintain this market and it may not provide you with liquidity.

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You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different information or inconsistent information, you should not rely on it. The Fund is not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or the representations made herein are accurate only as of the date on the cover page of this prospectus. The Fund's business, financial condition and prospects may have changed since that date.

PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's AMPS. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information, especially the information set forth under the heading "Risk Factors," and in the Fund's Statement of Preferences of Auction Market Preferred Shares (the "Statement").

The Fund	Reaves Utility Income Fund (the "Fund") is a non-diversified, closed-end management investment company that began operations on February 27, 2004. The Fund was organized as a Delaware statutory trust on September 15, 2003. The Fund has registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's principal office is located at 1625 Broadway, Suite 2200, Denver, Colorado 80202, and its telephone number is (800) 644-5571 (toll-free). The Fund commenced operations on February 27, 2004 upon the closing of an initial public offering of its common shares of beneficial interest ("Common Shares"). The Common Shares of the Fund are traded on the American Stock Exchange ("ASE") under the symbol "UTG." See "The Fund."
The offering	The Fund is offering 3,200 shares of Series M7 AMPS, 3,200 shares of Series F7 AMPS and 3,200 shares of Series W28 AMPS, each at a purchase price of $25,000 per share plus accumulated dividends, if any, from the date the shares are first issued. The AMPS are being offered through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated.
	The shares of each series of AMPS will be preferred shares of beneficial interest of the Fund that entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods for each series. In general, except as described below, each dividend period for each series of AMPS following the initial dividend period will be seven days in the case of Series M7 AMPS and the Series F7 AMPS and 28 days in the case of Series W28 AMPS. The applicable dividend for a particular dividend period will be determined by an auction conducted on the business day immediately prior to the start of that dividend period.
	The AMPS will not be listed on an exchange. Investors and potential investors may purchase AMPS of any series in an auction 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.

Generally, AMPS investors will not receive certificates representing ownership of their shares. Ownership of AMPS will be maintained in book-entry form by the securities depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's agent member (generally the investor's broker-dealer). The investor's agent member, in turn, will maintain records of such investor's beneficial ownership of AMPS.

Investment objective and policies

The Fund's investment objective is to provide a high level of after-tax income and total return consisting primarily of tax-advantaged dividend income and capital appreciation. The Fund intends to pursue this objective by investing at least 80% of its total assets in the securities of domestic and foreign companies involved to a significant extent in providing products, services or equipment for (i) the generation or distribution of electricity, gas or water, (ii) telecommunications activities or (iii) infrastructure operations, such as airports, toll roads and municipal services ("Utilities" or the "Utility Industry"). A company will be deemed to be involved in the Utility Industry to a significant extent if at least 50% of its assets, gross income or profits are committed to or derived from activities in the areas described above. The remaining 20% of the Fund's assets may be invested in other securities including stocks, debt obligations and money market instruments, as well as certain derivative instruments in the Utility Industry or other industries. As used in the prospectus and the Statement of Additional Information, the terms "debt securities" and "debt obligations" refer to bonds, debentures and similar long and intermediate term debt investments and do not include short-term fixed income securities such as money market instruments in which the Fund may invest temporarily during periods of abnormal market conditions. The Fund may invest in preferred stocks and bonds of below investment grade quality.

Under normal market conditions, the Fund will invest at least 80% of its total assets in dividend-paying common and preferred stocks of companies in the Utility Industry. In pursuing its objective, the Fund intends to invest primarily in common and preferred stocks that pay dividends that qualify for federal income taxation at rates applicable to long-term capital gains ("tax-advantaged dividends"). The Fund generally can pass the tax treatment of tax-advantaged dividends it receives through to holders of the fund's shares of beneficial interest. See "Taxes."

	It is anticipated that the Fund will invest approximately 80% of its total assets in common stocks and the remaining 20% in preferred stocks and debt securities. However, the Fund's investment adviser, W.H. Reaves & Co., Inc., retains broad discretion to alter the allocation of the Fund's investments among common stocks, preferred stocks and debt securities in a manner that it believes will best effectuate the Fund's investment objective. The Fund may invest in the securities of both domestic and foreign issuers. The Fund generally will not invest in issuers located in emerging market countries. As an alternative to holding foreign-traded securities, the Fund may invest in dollar-denominated securities of foreign companies that trade on U.S. exchanges or in the U.S. over-the-counter market (including depositary receipts, which evidence ownership in underlying foreign securities).
Investment Adviser	W.H. Reaves & Co., Inc. ("Reaves"), the investment adviser of the Fund, is registered with the Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940, as amended. As of March 31, 2004, Reaves had approximately $1.4 billion of assets under management, including approximately $520 million relating to the Fund.
	Reaves is entitled to receive a monthly fee at the annual rate of .575% of the Fund's average daily total assets.
Administrator	ALPS Mutual Funds Services, Inc. ("ALPS"), located at 1625 Broadway, Suite 2200, Denver, Colorado 80202, serves as administrator to the Fund. Under an Administration, Bookkeeping and Pricing Services Agreement, ALPS is responsible for calculating the net asset value of the Common Shares, and generally managing the business affairs of the Fund. The Administration, Bookkeeping and Pricing Services Agreement between the Fund and ALPS provides that ALPS will pay all expenses incurred by the Fund, with the exception of advisory fees, trustees' fees, portfolio transactions expenses, litigation expenses, taxes, costs of preferred shares, expenses of conducting repurchase offers for the purpose of repurchasing Fund shares and extraordinary expenses. ALPS is entitled to receive a monthly fee at the annual rate of .265% of the Fund's average daily total assets.

Risk Factors

Investing in the Fund involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, you should carefully consider the following risks before investing in the Fund:

Risks of Investing in AMPS

Leverage Risk. The Fund may, but is not required to, use financial leverage for investment purposes. In addition to issuing AMPS, the Fund may borrow money or issue debt securities such as commercial paper or notes. Throughout the prospectus, borrowing money and issuing debt securities sometimes may be collectively referred to as "Borrowings." Any Borrowings will have seniority over AMPS and payments to holders of AMPS in liquidation or otherwise will be subject to the prior payment of any Borrowings. Because the fees of Reaves and ALPS are based upon a percentage of the Fund's total assets, which include assets attributable to any outstanding leverage, such fees will be higher if the Fund is leveraged. Reaves intends only to leverage the Fund when doing so will help to achieve the Fund's investment objectives.

Interest Rate Risk. The AMPS pay dividends based on short-term interest rates. The Fund will use the proceeds of the AMPS, in part, to buy obligations that pay interest based on longer-term yields. If short-term interest rates rise, AMPS dividend rates may rise such that the amount of dividends paid to AMPS holders exceeds the income from the portfolio securities purchased with the proceeds from the sale of the AMPS. Because income from the Fund's entire investment portfolio (not just the portion purchased with the proceeds from the sale of the AMPS) is available to pay AMPS dividends, however, AMPS dividend rates would need to greatly exceed the Fund's net portfolio income before the Fund's ability to pay AMPS dividends would be jeopardized.

Auction Risk. Investors may not be able to sell AMPS at an Auction if the auction fails; that is, if there are more AMPS offered for sale than there are buyers for those AMPS. Also, if a hold order is placed at an auction (an order to retain AMPS) only at a specified rate, and that bid rate exceeds the rate set at the Auction, the AMPS will not be retained. If you elect to buy or retain AMPS without specifying a rate below which you would not wish to continue to hold those AMPS, and the auction sets a below market rate, you may receive a lower rate of return on your AMPS than the market rate. Finally, the dividend periods for the AMPS may be changed by the Fund, subject to certain conditions and with notice to the holders of the AMPS, that could also affect the liquidity of an investment in the AMPS. See "Description of Auction Market Preferred Shares" and "The Auction Auction Procedures."

Secondary Market Risk. It may not be possible to sell AMPS between auctions or it may only be possible to sell them for a price of $25,000 per share plus any accumulated dividends. If the Fund has designated a special dividend period (a dividend period of more than seven days in the case of the Series M7 AMPS and the Series F7 AMPS and 28 days in the case of the Series W28 AMPS), changes in interest rates could affect the price of AMPS sold in the secondary market. The AMPS will not be registered on any stock exchange or on any automated quotation system.

Ratings Downgrade Risk. A rating agency could downgrade the rating of the AMPS, which may make AMPS less liquid at an Auction or in the secondary market.

General Risks of Investing in the Fund

Non-diversified Status. As a non-diversified investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a more limited number of issuers than a diversified fund. An investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company because changes in the financial condition or market assessment of a single issuer may cause greater fluctuations in the value of the Fund's Common Shares. The Fund intends to comply with the diversification requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to regulated investment companies. See "Taxes" in the Statement of Additional Information.

Limited Operating History. The Fund is a recently organized, non-diversified, closed-end management investment company with a limited operating history.

Issuer Risk. The value of common and preferred stocks may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Income Risk. The income shareholders receive from the Fund is based primarily on the dividends and interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, distribution rates of the Fund's holdings of preferred stock and bonds could drop as well, which could reduce the amount of income available to pay dividends with respect to the AMPS.

Tax Risk. The Fund's investment program and the tax treatment of Fund distributions may be affected by Internal Revenue Service ("IRS") interpretations of the Code and future changes in tax laws and regulations, including changes as a result of the "sunset" provisions that currently apply to the favorable tax treatment of tax-advantaged dividends. There can be no assurance that any portion of the Fund's income distributions will not be fully taxable as ordinary income. In order to avoid corporate income tax at the level of the Fund, it must qualify each year as a regulated investment company under the Code.

Sector/Industry Risk. The Fund will invest a significant portion of its assets in the securities of issuers in the Utility Industry. This may make the Fund more susceptible to adverse economic, political, or regulatory occurrences affecting this sector. As concentration in a sector increases, so does the potential for fluctuation in the net asset value of the Fund.

The Utility Industry generally includes companies involved in providing products, services or equipment for (i) the generation or distribution of electricity, gas or water, (ii) telecommunications services or (iii) infrastructure operations, such as airports, toll roads and municipal services. Certain segments of the Utility Industry and individual companies within such segments may not perform as well as the Utility Industry as a whole. Many utility companies historically have been subject to risks of increases in fuel, purchased power and other operating costs, high interest costs on borrowings needed for capital improvement programs and costs associated with compliance with and changes in environmental and other governmental regulations.

Non-Investment Grade Securities Risk. The Fund's investments in preferred stocks and bonds of below investment grade quality, if any, are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, preferred stocks and bonds of below investment grade quality entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of below investment grade quality preferred stocks and bonds are more likely to default on their payments of dividends/interest and liquidation value/principal owed to the Fund, and such defaults will reduce the Fund's net asset value and income distributions.

Interest Rate Risk. Interest rate risk is the risk that preferred stocks paying fixed dividend rates, fixed-rate debt securities and, to a lesser extent, certain utility company common stocks will decline in value because of changes in market interest rates. When interest rates rise the market value of such securities generally will fall. The Fund's investment in preferred stocks and fixed-rate debt securities means that the net asset value per share may decline if market interest rates rise.

Hedging Strategy Risk. Certain of the investment techniques that the Fund may employ for hedging or, under certain circumstances, to increase income or total return, will expose the Fund to risks. 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.

Credit Risk. Credit risk is the risk that an issuer of a preferred or debt security will become unable to meet its obligation to make dividend, interest and principal payments. If rating agencies lower their ratings of preferred or debt securities in the Fund's portfolio, the value of those obligations could decline, which could jeopardize the rating agencies' ratings of the AMPS. In addition, the underlying revenue source for a preferred or debt security may be insufficient to pay dividends, interest or principal in a timely manner.

Derivatives Risk. Derivatives transactions (such as futures contracts and options thereon, options, swaps and short sales) subject the Fund to increased risk of principal loss due to imperfect correlation or unexpected price or interest rate movements. The Fund also will be subject to credit risk with respect to the counterparties to the derivatives contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivatives contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivatives contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. As a general matter, dividends received on hedged stock positions are characterized as ordinary income and are not eligible for favorable tax treatment. In addition, use of derivatives may give rise to short-term capital gains and other income that would not qualify for payments by the Fund of tax-advantaged dividends.

Preferred Securities Risk. In addition to credit risk, the Fund's investments in preferred securities carry certain additional risks including (i) that the issuer of the preferred securities may defer distributions on such securities, (ii) that the preferred securities may be redeemed by the issuer, (iii) that the preferred securities may have limited voting rights, (iv) that the preferred securities' rights to corporate income and liquidation payments will be subordinate to holders of an issuer's debt and (v) that preferred securities may be substantially less liquid than many other securities.

Debt Securities Risk. In addition to credit risk, the Fund's investments in debt securities carry certain additional risks including (i) that debt securities may be redeemed by the issuer, (ii) that debt securities generally do not have voting rights and (iii) that debt securities may be substantially less liquid than many other securities.

Inflation Risk. Inflation risk is the risk that the purchasing power of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the AMPS and dividends thereon can decline.

Foreign Securities Risk. The Fund may invest in foreign securities. If the Fund invests in securities of foreign issuers, it may be subject to risks not usually associated with owning securities of U.S. issuers, including fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation or nationalization of assets, and foreign taxation issues.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. Reaves and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. Additionally, Reaves does not have experience selecting and managing debt obligations.

Market Disruption Risk. The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets. The Fund cannot predict the effects of similar events in the future on the U.S. economy and securities markets. These terrorist attacks and related events, including the war in Iraq, have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the AMPS.

	Anti-Takeover Provisions. The Fund's Agreement and Declaration of Trust includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or the Board of Trustees. In certain circumstances, these provisions might also inhibit the ability of shareholders to sell their shares at a premium over prevailing market prices.
	Portfolio Turnover Risk. The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. The Fund cannot accurately predict its securities portfolio turnover rate, but anticipates that its annual portfolio turnover rate will not exceed 100% under normal market conditions, although it could be materially higher under certain conditions. Higher portfolio turnover rates could result in corresponding increases in brokerage commissions.
	For additional information about the risks associated with investing in AMPS and the Fund, see "Risk Factors."
Custodian and Transfer Agent	The Bank of New York serves as the Fund's custodian and transfer agent. See "Custodian and Transfer Agent."
Trading Market	The AMPS are not listed on an exchange. Instead, you may buy or sell AMPS at an auction that normally is held every seven days in the case of the Series M7 AMPS and the Series F7 AMPS and every 28 days in the case of the Series W28 AMPS 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 AMPS outside of auctions, but may discontinue this activity at any time. A secondary market may not develop, or if it does develop, it may not provide shareholders with liquidity. You may transfer AMPS 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 AMPS of the Fund and the day on which each subsequent auction will normally be held for each such series. The first auction date for each series of AMPS of the Fund will be the business day before the dividend payment date for the initial dividend period for each such series. 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 Day
M7	July 12	Monday
F7	July 16	Friday
W28	July 28	Every fourth Wednesday

* All dates are 2004.

Dividends and Dividend Rate Periods

The table below shows the dividend rate for the initial dividend period of the AMPS offered in this prospectus. For subsequent dividend periods, AMPS will pay dividends based on a rate set at auctions, normally held every seven days in the case of the Series M7 AMPS and the Series F7 AMPS and every 28 days in the case of the Series W28 AMPS. In most instances dividends are paid on the day following the end of the dividend period. The rate set at auction will not exceed the maximum applicable rate. See "The Auction Auction Procedures."

Finally, the table below shows the number of days of the initial dividend period for the AMPS. Subsequent dividend periods generally will be every seven days in the case of the Series M7 AMPS and the Series F7 AMPS and every 28 days in the case of the Series W28 AMPS. The dividend payment date for special dividend periods of more than seven days in the case of the Series M7 AMPS, and the Series F7 AMPS and 28 days in case of the Series W28 AMPS will be set out in the notice designating a special dividend period. See "Description of Auction Market Preferred Shares Dividends and Dividend Rate Periods."

Series	Initial Dividend Rate	Dividend Payment Date for Initial Dividend Period*	Subsequent Dividend Payment Day	Number of Days in Initial Dividend Period
M7	1.55%	July 13	Every 7 days	13
F7	1.55%	July 19	Every 7 days	19
W28	1.55%	July 29	Every 28 days	29

* All dates are 2004.

Taxation	Dividends paid with respect to AMPS should constitute dividends for federal income tax purposes to the extent attributable to the Fund's current or accumulated earnings and profits. For a further discussion of the tax treatment of dividends paid by the Fund see "Taxes General." Distributions of net capital gain, to the extent so designated, will be treated as long-term capital gains.
Redemption	Although the Fund will not ordinarily redeem AMPS, it may be required to redeem AMPS if, for example, the Fund does not meet an asset coverage ratio required by law or in order to correct a failure to meet a rating agency guideline in a timely manner. See "Description of Auction Market Preferred Shares Redemption Mandatory Redemption." The Fund voluntarily may redeem AMPS in certain circumstances. See "Description of Auction Market Preferred Shares Redemption Optional Redemption."
Liquidation Preference	The liquidation preference of the AMPS of each series is $25,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared). See "Description of Auction Market Preferred Shares Liquidation Rights."
Rating	The AMPS will be issued with a credit quality rating of "AAA" by Standard and Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), and "AAA" by Fitch Ratings, Inc. ("Fitch"). The Fund may at some future time look to have its AMPS rated by additional or substitute rating agencies. Because the Fund is required to maintain at least two ratings, it must own portfolio securities of sufficient value with adequate credit quality to meet the rating agency's guidelines. See "Description of Auction Market Preferred Shares Rating Agency Guidelines and Asset Coverage."
Voting Rights	The 1940 Act requires that the holders of AMPS and any other preferred shares of the Fund ("Other Preferred Shares"), voting as a separate class, have the right to elect at least two Trustees of the Fund at all times and to elect a majority of the Trustees at any time when two years' dividends on the AMPS or any Other Preferred Shares are unpaid. The holders of AMPS and any Other Preferred Shares of the Fund will vote as a separate class on certain other matters as required under the Fund's Agreement and Declaration of Trust dated September 15, 2003 (the "Agreement and Declaration of Trust") and the 1940 Act. See "Description of Auction Market Preferred Shares Voting Rights" and "Certain Provisions of the Agreement and Declaration of Trust."

FINANCIAL HIGHLIGHTS

For the Period February 24, 2004* to April 30, 2004 (unaudited)

Per Common Share Operating Performance		
Net asset value beginning of period	$	19.10
Income from investment operations:		
Net investment income (loss)		0.23
Net realized and unrealized gain (loss) on investments		(1.23)
Total from investment operations		(1.00)
Distributions to Common Shareholders From:		
Net investment income		(0.10)
Total distributions		(0.10)
Capital Share Transactions:		
Common share offering costs charged to paid in capital		(0.04)
Total capital share transactions		(0.04)
Net asset value end of period	$	17.96
Market price end of period	$	17.65
Total Return(1)		(11.75)%
Ratios and Supplemental Data		
Net assets, end of period (000)	$	406,911
Ratio of expenses to average net assets		1.18%(2)
Ratio of net investment income to average net assets		7.29%(2)
Portfolio turnover rate		29.19%

* Commencement of investment operations.

(1) Total investment return is calculated assuming a purchase of a common share at the current market price on the first day and a sale at the current market price on April 30, 2004. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions. Total investment returns for less than a full year are not annualized. Past performance is not a guarantee of future results.

(2) Annualized.

THE FUND

The Fund is a closed-end, non-diversified management investment company registered under the 1940 Act that began operations on February 27, 2004. The Fund was organized as a Delaware statutory trust on September 15, 2003 pursuant to an Agreement and Declaration of Trust governed by the laws of the state of Delaware. The Fund commenced operations on February 27, 2004 upon the closing of an initial public offering of Common Shares. The Common Shares are traded on the American Stock Exchange ("ASE") under the symbol "UTG". The proceeds of such offering were $381,200,000 after the payment of offering expenses. In connection with the initial public offering of the Fund's Common Shares, the underwriters were granted an option to purchase, at a price of $20.00 per Common Share, 3,000,000 additional Common Shares to cover over-allotment. To date, the underwriters have exercised this option to purchase 2,650,000 Common Shares. The Fund's principal office is located at 1625 Broadway, Suite 2200, Denver, Colorado 80202 and its telephone number is (800) 644-5571 (toll-free).

The following provides information about the Fund's authorized and outstanding shares as of June 21, 2004.

Title of Class	Amount Authorized	Amount Held by the Fund for Its Account	Amount Outstanding
Common Shares	Unlimited	0	22,677,001
Preferred Shares	Unlimited	0	0
Series M7 AMPS	Unlimited	0	0
Series F7 AMPS	Unlimited	0	0
Series W28 AMPS	Unlimited	0	0

USE OF PROCEEDS

The net proceeds of this offering will be approximately $237,150,000 after payment of the sales load and expected offering costs. The Fund will use approximately $158 million of the net proceeds of this offering to fully repay outstanding borrowings under its credit facility. The remaining net proceeds will be invested in accordance with the Fund's investment objective and policies (as stated below). It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in obligations that meet those investment objectives and policies during a period estimated not to exceed three months from completion of the offering of the AMPS, depending on market conditions and the availability of appropriate securities. Pending investment of the net proceeds in accordance with the Fund's investment objective and policies, the Fund will invest in money market securities or money market mutual funds.

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of April 30, 2004 and as adjusted to give effect to the issuance of the AMPS offered hereby.

	Actual (Unaudited)	As Adjusted (Unaudited)
Shareholders' Equity:		
AMPS, no par value per share (no shares issued actual; 9,600 shares issued as adjusted, at $25,000 per share liquidation preference)	$	$ 240,000,000
Common Shares, no par value, (22,655,236 shares issued and outstanding)	$ 431,809,000	$ 428,959,000
Net undistributed investment income	3,132,067	3,132,067
Net accumulated realized gain (loss)	84,043	84,043
Net unrealized appreciation on investments	(28,113,702)	(28,113,702)
Net assets attributable to Common Shares	406,911,408	404,061,408
Net assets, plus liquidation preference of AMPS	$ 406,911,408	$ 644,061,408

PORTFOLIO COMPOSITION

As of April 30, 2004, approximately 89% of the market value of the Fund's portfolio was invested in common stocks and approximately 11% was invested in long-term obligations and preferred stock. At that date, the Fund did not have any investments in short-term obligations. As of April 30, 2004, the following table indicates the approximate percentage of the Fund's portfolio invested in preferred stocks and long-term obligations for each of the ratings categories listed below for each of S&P, Fitch and Moody's Investors Service, Inc. ("Moody's").

S&P(1)	Moody's(1)	Fitch(1)	Value	Percent
AAA	Aaa	AAA		
AA	Aa	AA		
A	A	A	$ 15,066,888	2.6%
BBB	Baa	BBB	20,534,493	3.6
BB	Ba	BB	5,871,250	1.0
B	B	B	17,550,000	3.1
CCC	Caa	CCC	3,877,312	0.7

(1) Ratings: using the higher of S&P's, Moody's or Fitch's ratings on the Fund's investments. S&P and Fitch rating categories may be modified further by a plus (+) or minus (-) in AA, A, BBB, BB, B, and CCC ratings. Moody's rating categories may be modified further by a 1, 2 or 3 in Aa, A, Baa, Ba, B, and Caa ratings.

INVESTMENT OBJECTIVE AND POLICIES

General

The Fund's investment objective is to provide a high level of after-tax income and total return consisting primarily of tax-advantaged dividend income and capital appreciation. The Fund intends to pursue this objective by investing at least 80% of its total assets in the securities of domestic and foreign companies involved to a significant extent in providing products, services or equipment for (i) the generation or distribution of electricity, gas or water, (ii) telecommunications activities or (iii) infrastructure operations, such as airport, toll roads and municipal services ("Utilities" or the "Utility Industry"). A company will be deemed to be involved in the Utility Industry to a significant extent if at least 50% of its assets, gross income or profits are committed to or derived from activities in the areas described above. The remaining 20% of the Fund's total assets may be invested in other securities including stocks, debt obligations, money market securities and money market mutual funds, as well as certain derivative instruments in the Utility Industry or other industries. Moreover, should extraordinary conditions affecting the Utility Industry or securities markets as a whole warrant, the Fund may temporarily be primarily invested in money market securities or money market mutual funds. When the Fund is invested in these instruments for temporary or defensive purposes, it may not achieve its investment objective.

It is anticipated that approximately 80% of the Fund's total assets will be invested in common stocks and the remainder in preferred stocks and debt securities. However, Reaves retains broad discretion to allocate investments among common stocks, preferred stocks and debt securities in the manner it believes will best achieve the Fund's investment objective. The Fund may invest in securities of both domestic and foreign issuers.

The Fund seeks dividend income that qualifies for favorable federal income tax treatment. Under federal income tax law enacted on May 28, 2003, tax-advantaged dividends received by individual shareholders are taxed at rates equivalent to long-term capital gain tax rates, which reach a maximum of 15%. Tax-advantaged dividends generally include dividends from domestic corporations and dividends from foreign corporations that meet certain specified criteria. The Fund generally can pass the tax treatment of tax-advantaged dividends it receives through to shareholders. For the Fund to receive tax-advantaged dividend income, the Fund must hold stock paying an otherwise tax-advantaged dividend for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date (or more than 90 days during the associated 181-day period, in the case of certain preferred stocks). Although current law only provides a 120-day and 180-day period for holding such stock, a proposed technical correction to the law would extent such periods to 121 days and 181 days, respectively. The Treasury Department and the Internal Revenue Service (the "IRS") have announced that taxpayers may apply the extended periods as if the legislation were already enacted in filing their federal income tax returns. The "ex-dividend date" is the date which is established by a stock exchange (usually two business days before the record date) whereby the owner of a security at the commencement of such date is entitled to receive the next issued dividend payment for such security, even if the security is sold by such owner on the ex-dividend date or thereafter. In addition, the Fund cannot be obligated to make related payments (pursuant to a short sale or otherwise) with respect to substantially similar or related property. Similar provisions apply to each shareholder's investment in the Fund. In order for otherwise tax-advantaged dividends from the Fund received by an individual shareholder to be taxable at long-term capital gains rates, the shareholder must hold his or her Fund shares for more than 60 days during the 121-day period surrounding the ex-dividend date (or more than 90 days during the associated 181-day period, in the case of dividends attributable to periods in excess of 360 days paid with respect to preferred stock). Consequently, short-term investors in the Fund will not realize the benefits of tax-advantaged dividends. There can be no assurance as to the portion of the Fund's dividends that will be tax-advantaged. The provisions of the Internal Revenue Code of

1986, as amended (the "Code"), applicable to tax-advantaged dividends are effective through 2008. Thereafter, higher tax rates will apply unless further legislative action is taken.

In addition to investing in stocks that pay tax-advantaged dividends, the Fund may also invest a portion of its assets in stocks and other securities that generate fully taxable ordinary income. For any year, so long as the Fund's fully taxable ordinary income and net realized short-term gains are offset by expenses of the Fund, all of the Fund's income distributions would be characterized as tax-advantaged dividends to the extent of the aggregate dividends received by the Fund that are qualified dividend income within the meaning of the Code. There can be no assurance as to what portion of the Fund's income distributions will be tax-advantaged.

The Fund may seek to enhance the level of tax-advantaged dividend income it receives by engaging in dividend capture trading. In a dividend capture trade, the Fund would sell a stock that it held past its ex-dividend date to purchase another stock paying a dividend before the next dividend of the stock being sold. By entering into such trades, the Fund could augment the amount of dividend income it receives over the course of a year. In order for dividends to qualify as tax-advantaged dividends, the Fund must comply with the holding period requirements described herein. The use of dividend capture strategies will expose the Fund to increased trading costs and potential for capital loss.

The investment policy of the Fund of investing at least 80% of the Fund's total assets in common and preferred stocks and debt instruments of companies involved to a substantial extent in the Utility Industry may be changed by the Board of Trustees without shareholder approval. Shareholders will, however, receive at least 60 days prior notice of any change in this policy.

Under normal circumstances the Fund may invest in securities of issuers located in countries other than the United States and may invest in such foreign securities without limitation. Investing in securities of foreign issuers, which generally are denominated in foreign currencies, may involve certain risk and opportunity considerations not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluations of currencies.

Investment Strategy

The Fund will invest primarily in dividend-paying common and preferred stocks that are producing what Reaves considers to be attractive current levels of tax-advantaged dividend income. Common stock investments will also be made if Reaves believes there is potential for growth of income and capital appreciation over time. Preferred stock investments will also take into consideration Reaves' assessment of the interest rate sensitivity of the investments. The Fund may also invest in debt securities if Reaves determines that such investments are advisable to increase income or total return or to reduce risk. If Reaves determines that a significant increase in investments in debt securities is advisable, it may retain or acquire additional debt securities expertise to supplement its expertise in equity investing.

Reaves' underlying investment belief is that stocks of companies with conservative capital structures, a solid balance sheet, a strong earnings outlook, secure and growing dividends and good relative market valuations will tend to outperform the market over the long term. A team of professionals at Reaves will apply this investment approach in managing the Fund's investment portfolio and allocating its investments among common and preferred stocks and other types of securities. Different groups within the team with specialized expertise in the Utility Industry and other market sectors will be assigned responsibility for day-to-day management of different portions of the portfolio.

In making investment decisions, the portfolio managers will utilize the expertise of and information provided by Reaves' staff of research analysts. The analysts screen the equity universe and apply quantitative and qualitative analysis to identify mid-cap and large-cap companies in the Utility Industry and other market sectors that meet Reaves' general investment standards, provide critical products and services and pay above average dividends. The analysts also look for and evaluate informally on a daily basis and more formally at weekly meetings a variety of factors, including a company's earnings and cash flow capabilities, dividend prospects and tax treatment of dividends, strength of business franchises and estimates of net value. In selecting investments from among companies recommended by the analysts, the portfolio managers also consider positive catalysts that may unlock market value, such as industry consolidation, management and regulatory change and other developments that may result in future broad market recognition. Many of the considerations entering into the analysts' recommendations and the portfolio managers' decisions are subjective.

The Fund's portfolio will be actively managed and securities may be bought or sold on a daily basis. Investments are added to the portfolio if they satisfy value-based criteria or contribute to the portfolio's risk profile. Investments are removed from the portfolio if they exceed full value, add inefficient risk or the initial investment thesis fails. In general, stocks with lower than market volatility, correlation and similar characteristics are preferred in an equity investment process that focuses on bottom-up stock selection.

Securities of the Utility Industry

The Fund intends to invest at least 80% of its total assets in the securities of domestic and foreign companies involved to a significant extent in providing products, services or equipment for (i) the generation or distribution of electricity, gas or water, (ii) telecommunications activities or (iii) infrastructure operations, such as airport, toll roads and municipal services ("Utilities" or the "Utility Industry"). The Utility Industry is among the highest yielding equity sectors and has experienced less volatile historic returns relative to the broader stock market. For the twenty-five year period from December 31, 1978 to December 31, 2003, the average beta of utilities securities in the Dow Jones Utility Average was .37. Beta is a commonly used measurement of volatility relative to the broader stock market, which generally has a beta of 1. Because of their historically low correlation to the broader equity market, bond market and other types of investments, utilities securities can provide effective diversification to an overall investment portfolio.

Demand for electricity and gas energy is forecasted to increase. The Energy Information Administration, a division of the U.S. Department of Energy, estimates that demand for primary energy will increase 43% between 2001 and 2025.

Certain segments of the industry and individual companies within such segments may not perform as well as the industry as a whole. Many utility companies historically have been subject to risks of increases in fuel and other operating costs, high interest costs on borrowings needed for capital improvement programs and costs associated with compliance with and changes in environmental and other governmental regulations. In particular, regulatory changes with respect to nuclear and conventionally fueled power generating and transmission facilities could increase costs or impair the ability of the utility companies to operate and utilize such facilities, thus reducing the utility companies' earnings or resulting in losses. Rates of return on investment of certain utility companies are subject to review by government regulators. There can be no assurance that changes in regulatory policies or accounting standards will not negatively affect utility companies' earnings or dividends. Costs incurred by utilities, such as fuel and purchased power costs, often are subject to immediate market action resulting from such things as political or military forces operating in geographic regions where oil production is concentrated or global or regional weather conditions, such as droughts, while the rates of return of utility companies generally are subject to review and limitation by state public utility commissions, which results ordinarily in a lag or an absence of correlation between costs and return. It is also possible that costs may not be offset by return. Utilities have, in recent years, been affected by increased competition, which could adversely affect the profitability or viability of such utilities. Electric utilities may also be subject to increasing economic pressures due to deregulation of generation, transmission and other aspects of their business.

Portfolio Investments

Common Stocks

Common stock represents an equity ownership interest in an issuer. The Fund will have substantial exposure to common stocks. Although common stocks have historically generated higher average returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. Also, the price of common stocks are sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Fund has exposure. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise and borrowing costs increase.

Preferred Stocks

Preferred stock, like common stock, represents an equity ownership in an issuer. Generally, preferred stock has a priority of claim over common stock in dividend payments and upon liquidation of the issuer. Unlike common stock, preferred stock does not usually have voting rights. Preferred stock in some instances is convertible into common stock.

Although they are equity securities, preferred stocks have certain characteristics of both debt and common stock. They are debt-like in that their promised income is contractually fixed. They are common stock-like in that they do not have rights to precipitate bankruptcy proceedings or collection activities in the event of missed payments. Furthermore, they 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.

In order to be payable, dividends on preferred stock must be declared by the issuer's board of directors or trustees. In addition, distributions on preferred stock may be subject to deferral and thus may not be automatically payable. Income payments on some preferred stocks are cumulative, causing dividends and distributions to accrue even if not declared by the board of directors or trustees or otherwise made payable. Other preferred stocks are non-cumulative, meaning that skipped dividends and distributions do not continue to accrue. There is no assurance that dividends on preferred stocks in which the Fund invests will be declared or otherwise made payable. The Fund may invest in non-cumulative preferred stock, although Reaves would consider, among other factors, their non-cumulative nature in making any decision to purchase or sell such securities.

Shares of preferred stock have a liquidation value that generally equals the original purchase price at the date of issuance. The market values of preferred stock may be affected by favorable and unfavorable changes impacting the issuers' industries or sectors. They may also be affected by actual and anticipated changes or ambiguities in the tax status of the security and by actual and anticipated changes or ambiguities in tax laws, such as changes in corporate and individual income tax rates and in the dividends received deduction or the characterization of dividends as tax-advantaged as described herein.

Because the claim on an issuer's earnings represented by preferred stock may become onerous when interest rates fall below the rate payable on the stock or for other reasons, the issuer may redeem preferred stock, generally after an initial period of call protection in which the stock is not redeemable. Thus, in declining interest rate environments in particular, the Fund's holdings of higher dividend-paying preferred stocks may be reduced and the Fund may be unable to acquire securities paying comparable rates with the redemption proceeds.

Corporate Bonds and Other Debt Securities

If deemed advisable by Reaves to increase income or total return or to reduce risk, the Fund may also invest in corporate bonds, debentures and other debt securities of companies in the Utility Industry or other industries and sectors. Debt securities in which the Fund may invest may pay fixed or variable rates of interest. Bonds and other debt securities generally are issued by corporations 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. Certain debt securities are "perpetual" in that they have no maturity date.

The Fund will not invest more than 15% of its total assets in securities rated below investment grade. The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of securities already owned by the Fund in the event of a change in assessment of credit quality or the removal of a rating.

Warrants

The Fund may invest in equity and index warrants of domestic and international issuers. Equity warrants are securities that give the holder the right, but not the obligation, to subscribe for equity issues of the issuing company or a related company at a fixed price either on a certain date or during a set period. Changes in the value of a warrant do not necessarily correspond to changes in the value of its underlying security. The price of a warrant may be more volatile than the price of its underlying security, and a warrant may offer greater potential for capital appreciation as well as capital loss.

Warrants do not entitle a holder to dividends or voting rights with respect to the underlying security and do not represent any rights in the assets of the issuing company. A warrant ceases to have value if it is not exercised prior to its expiration date. These factors can make warrants more speculative than other types of investments.

Convertible Securities and Bonds with Warrants Attached

The Fund may invest in preferred stocks and fixed-income obligations that are convertible into common stocks of domestic and foreign issuers, and bonds issued as a unit with warrants to purchase equity or fixed income securities. Convertible securities in which the Fund may invest, comprised of both convertible debt and convertible preferred stock, may be converted at either a stated price or at a stated rate into underlying shares of common stock. Because of this feature, convertible securities generally enable an investor to benefit from increases in the market price of the underlying common stock. Convertible securities often provide higher yields than the underlying equity securities, but generally offer lower yields than non-convertible securities of similar quality. The value of convertible securities fluctuates in relation to changes in interest rates like bonds, and, in addition, fluctuates in relation to the underlying common stock.

Bonds with warrants attached to purchase equity securities have many characteristics of convertible bonds and their prices may, to some degree, reflect the performance of the underlying stock. Bonds may also be issued with warrants attached to purchase additional fixed income securities at the same coupon rate. A decline in interest rates would permit the Fund to buy additional bonds at a favorable rate or to sell the warrants at a profit. If interest rates rise, the warrants would generally expire with no value.

Investment Techniques

The Fund may from time to time employ a variety of investment techniques, including those described below, to hedge against fluctuations in the price of portfolio securities, to enhance total return or to provide a substitute for the purchase or sale of securities. Some of these techniques, such as purchases of put and call options, options on stock indices and stock index futures and entry into certain credit derivative transactions and short sales, are hedges against or substitutes for investments in equity investments. Other techniques such as the purchase of interest rate futures and entry into transactions involving interest rate swaps, options on interest rate swaps and certain credit derivatives are hedges against or substitutes for investments in debt securities. The Fund will not utilize the techniques related to investments in debt securities unless and until Reaves determines that such investments are advisable to increase income or total return or to reduce risk, and, if appropriate, retains or acquires expertise in the use of such techniques. The Fund's ability to utilize any of the techniques described below may be limited by restrictions imposed on its operations in connection with obtaining and maintaining its qualification as a regulated investment company under the Code.

Options on Securities

In order to hedge against adverse market shifts, the Fund may utilize up to 5% of its total assets to purchase put and call options on securities. In addition, the Fund may seek to increase its income or may 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 or its equivalent covered by the option or its equivalent from the writer of the option at the stated exercise price. Under interpretations of the Securities and Exchange Commission currently in effect, which may change from time to time, a "covered" call option means that so long as the Fund is obligated as the writer of the option, it will own (1) the underlying instruments subject to the option, (2) instruments convertible or exchangeable into the instruments subject to the option or (3) a call option on the relevant instruments with an exercise price no higher than the exercise price on the call option written.

Similarly, the Securities and Exchange Commission currently requires that, to support its obligation to purchase the underlying instruments if a put option written by the Fund is exercised, the Fund must (1) deposit with its custodian in a segregated account liquid securities having a value at least equal to the exercise price of the underlying securities, (2) continue to own an equivalent number of puts of the same "series" (that is, puts on the same underlying security having the same exercise prices and expiration dates as those written by the Fund), or an equivalent number of puts of the same "class" (that is, puts on the same underlying security) with exercise prices greater than those it has written (or, if the exercise prices of the puts it holds are less than the exercise prices of those it has written, it will deposit the difference with its custodian in a segregated account) or (3) sell short the securities underlying the put option at the same or a higher price than the exercise price on the put option written.

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 leaving its underlying securities unhedged.

The Fund may purchase and write options on securities that are listed on national securities exchanges or are traded over the counter, although it expects, under normal circumstances, to effect such transactions on national securities exchanges.

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 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