BLACKROCK FLOATING RATE INCOME STRATEGIES FUND INC
Form N-14 8C/A
July 25, 2012

As filed with the Securities and Exchange Commission on July 25, 2012

Securities Act File No. 333-182112

Investment Company Act File No. 811-21413

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-14

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
Pre-Effective Amendment No. 1 x
Post-Effective Amendment No. ¨
(Check appropriate box or boxes)

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND, INC.

(Exact Name of Registrant as Specified in Charter)

100 BELLEVUE PARKWAY WILMINGTON, DELAWARE 19809

(Address of Principal Executive Offices: Number, Street, City, State, Zip Code)

(800) 882-0052

(Area Code and Telephone Number)

John M. Perlowski

President and Chief Executive Officer

BlackRock Floating Rate Income Strategies Fund, Inc.

55 East 52nd Street

New York, New York 10055

(Name and Address of Agent for Service)

With copies to:

Thomas A. DeCapo, Esq.

Skadden, Arps, Slate, Meagher & Flom LLP

One Beacon Street

Boston, Massachusetts 02108

Janey Ahn, Esq.

BlackRock Advisors, LLC

55 East 52nd Street

New York, New York 10055

AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT

(Approximate Date of Proposed Public Offering)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(3)
Shares of Common Stock $0.10 par value	22,410,593	$14.80	$331,676,776.40	$38,010.16

(1) Estimated solely for the purpose of calculating the filing registration fee, pursuant to Rule 457(o) under the Securities Act of 1933.
(2) Net asset value per Share of Common Stock on July 20, 2012.
(3) $114.60 previously paid in connection with the registration of $1,000,000 worth of Shares of Common Stock on June 14, 2012. The amount stated represents the $114.60 previously paid with respect to the registration of $1,000,000 worth of Shares of Common Stock on June 14, 2012, plus $114.60 per million with respect to the $330,676,776.40 worth of Shares of Common Stock registered hereby.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

This Registration Statement is organized as follows:

a. Letter to Stockholders of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB), BlackRock Diversified Income Strategies Fund, Inc. (DVF) and BlackRock Floating Rate Income Strategies Fund, Inc. (FRA), each a registered investment company and corporation organized under the laws of the State of Maryland.

b. Questions and Answers to Stockholders of FRB, DVF and FRA.

c. Notice of Joint Special Meeting of Stockholders of FRB, DVF and FRA.

d. Joint Proxy Statement/Prospectus for FRB, DVF and FRA.

e. Statement of Additional Information regarding the proposed Reorganizations of FRB and DVF into FRA.

f. Part C: Other Information.

g. Exhibits.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND II, INC.

BLACKROCK DIVERSIFIED INCOME STRATEGIES FUND, INC.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

July 25, 2012

Dear Stockholder:

You are cordially invited to attend a joint special stockholder meeting (the Special Meeting) of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB), BlackRock Diversified Income Strategies Fund, Inc. (DVF) and BlackRock Floating Rate Income Strategies Fund, Inc. (FRA and together with FRB and DVF, each a Fund, and collectively, the Funds), each a Maryland corporation, to be held at the offices of BlackRock, Advisors, LLC, 1 University Square Drive, Princeton, NJ 08540-6455, on Thursday, September 13, 2012 at 9:00 a.m. (Eastern time). Before the Special Meeting, I would like to provide you with additional background information and ask for your vote on important proposals affecting FRB, DVF and FRA, which are described in the enclosed Joint Proxy Statement/Prospectus.

Stockholders of FRB and DVF are being asked to consider the reorganization of their Fund with and into FRA (the Reorganizations), a fund with the same or substantially similar (but not identical) investment objective and investment policies. Stockholders of FRA are being asked to consider the issuance of additional shares of common stock of FRA (the Issuances) in connection with the Reorganizations.

The Board of Directors of each Fund believes the proposal applicable to its respective Fund is in the best interests of that Fund and its stockholders and unanimously recommends that you vote **FOR** such proposal.

The enclosed materials explain these proposals in more detail, and I encourage you to review them carefully. As a stockholder, your vote is important, and we hope that you will respond today to ensure that your shares will be represented at the Special Meeting. You may vote using one of the methods below by following the instructions on your proxy card:

- by touch-tone telephone;
- by internet;
- by returning the enclosed proxy card in the postage-paid envelope; or
- in person at the Special Meeting.

If you do not vote using one of these methods described above, you may be contacted by Georgeson Inc., our proxy solicitor, to vote your shares over the telephone.

As always, we appreciate your support.

Sincerely,

JOHN M. PERLOWSKI

President and Chief Executive Officer

BlackRock Floating Rate Income Strategies Fund II, Inc.

BlackRock Diversified Income Strategies Fund, Inc.

BlackRock Floating Rate Income Strategies Fund, Inc.

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares of common stock to be voted, your shares will be voted FOR each Proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares of common stock at the Special Meeting.

July 25, 2012

IMPORTANT NOTICE

TO STOCKHOLDERS OF

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND II, INC.

BLACKROCK DIVERSIFIED INCOME STRATEGIES FUND, INC.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND, INC.

QUESTIONS & ANSWERS

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

Q: Why is a stockholder meeting being held?

A: *Stockholders of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB) and BlackRock Diversified Income Strategies Fund, Inc. (DVF):* You are being asked to vote on the reorganization (each, a Reorganization and, collectively, the Reorganizations) of FRB and DVF (each such fund being referred to herein as a Target Fund and together, the Target Funds), as applicable, into BlackRock Floating Rate Income Strategies Fund, Inc. (FRA or the Acquiring Fund and, together with the Target Funds, each, a Fund and collectively, the Funds), closed-end fund that pursues an investment objective and has investment policies that are either the same or substantially similar (but not identical) to those of each of the Target Funds and has the same investment adviser, BlackRock Advisors, LLC (the Investment Advisor), as the Target Funds. The term Combined Fund will refer to FRA as the surviving Fund after the Reorganizations.

Stockholders of BlackRock Floating Rate Income Strategies Fund, Inc. (FRA): You are being asked to vote on the issuance of additional shares of common stock of the Acquiring Fund in connection with the Reorganizations.

Q: Why are the Reorganizations being recommended?

A: The Board of Directors of each Fund (collectively, the Boards) anticipates that the Reorganizations will benefit the stockholders of each of the Target Funds and the Acquiring Fund by providing certain of the following benefits as applicable to each Fund: the potential for a lower operating expense ratio than each of the Funds had prior to the Reorganization, portfolio management and administrative efficiencies, enhanced market liquidity, marketing benefits and higher earnings which may support a higher distribution yield than each of the Funds prior to the Reorganization (assuming all other conditions remain the same). Because each Fund will vote separately on its respective Reorganization, there are multiple potential combinations of Reorganizations. The Boards of the Funds and the Investment Advisor believe that the most likely result of the potential combinations of Reorganizations is the combination of all the Funds. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Under current market conditions and all other things being equal, the earnings rate of the Combined Fund is expected to be higher than the current earnings rate of each of the Funds prior to the Reorganization, which in turn is projected to support a higher distribution level based on net asset value (NAV) than each Fund prior to the Reorganization. Of course, no assurance can be given that the shares of common stock of the Combined Fund will trade at or about the current market price of FRA after the Reorganization. If the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How will the Reorganizations affect the fees and expenses of the Funds?

A: The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio (as defined below) for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012. For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively. For the fiscal year ended February 29, 2012, FRB s Total Expense Ratio was 1.68% and for the 12-month period ended February 29, 2012, FRA s and DVF s Total Expense Ratios were 1.67% and 1.74%, respectively. When we use the term Total Expenses, we mean a Fund s total annual operating expenses. When we use the term Total Expense Ratio, we mean a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its shares of common stock.

The Boards believe that the completion of the Reorganization would result in a reduced Total Expense Ratio for each Fund because certain fixed administrative costs would be spread across the Combined Fund s larger asset base. If only one of the Reorganizations is approved, the Boards anticipate a smaller reduction in the Total Expense Ratio of the Funds. See Reasons for the Reorganizations in the attached Joint Proxy Statement/Prospectus.

Each of the Funds currently pays the Investment Adviser a contractual management fee at an annual rate of 0.75% based on an aggregate of (i) the Combined Fund s average daily net assets (including proceeds from the issuance of any preferred stock) and (ii) the proceeds of any outstanding borrowings used for leverage (average daily managed assets). The contractual management fees will not increase following the Reorganizations as the Combined Fund will pay the Investment Adviser the same contractual management fee that each of the Funds currently pays the Investment Adviser. However, the effective management fee as a percentage of average net assets attributable to shares of common stock for the Combined Fund will increase by 0.01% for FRA and FRB because the Combined Fund utilizes a larger amount of leverage than FRA and FRB currently utilize.

Q: What happens if stockholders of one Target Fund do not approve its Reorganization but stockholders of the other Target Fund approve their Reorganization?

A: An unfavorable vote on a proposed Reorganization by the stockholders of one Target Fund will not affect the implementation of the Reorganization of the other Target Fund, if the other Reorganization is approved by the stockholders of the other Target Fund and the issuance of additional shares of common stock of the Acquiring Fund is approved by the stockholders of the Acquiring Fund with respect to the other Target Fund. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: What happens if stockholders of the Acquiring Fund do not approve the issuance of additional shares of common stock in connection with the Reorganization of one Target Fund but approve the issuance of additional shares of common stock in connection with the Reorganization of the other Target Fund?

A: An unfavorable vote by stockholders of the Acquiring Fund on the issuance of additional shares of common stock in connection with the Reorganization of one Target Fund will not affect the implementation of the Reorganization by the other Target Fund, if the issuance of additional shares of common stock in connection with the other Reorganization is approved by the stockholders of the Acquiring Fund and the other Reorganization is approved by the stockholders of the other Target Fund. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How similar are the Funds?

A: Each Fund is a Maryland corporation and a diversified management investment company registered under the Investment Company Act of 1940 (the 1940 Act). The Board of each Fund consists of the same directors. Each Fund s common stock is listed on the New York Stock Exchange. The Funds have the same investment adviser and have the same portfolio managers except that DVF has one additional portfolio manager.

Each of the investment objectives and the investment strategies and restrictions of the Funds are the same or substantially similar (but not identical). Each of the Funds has the investment objective to provide high current income; however, the Acquiring Fund and FRB also seek to provide such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments. Each Fund s investment objective(s) is a fundamental policy and may not be changed without stockholder approval. Each Fund, under normal market conditions, invests at least 80% of its net assets in floating rate debt securities.

As used throughout this notice, the Joint Proxy Statement/Prospectus and the Statement of Additional Information, total assets of a Fund means the Fund s net assets plus the amount of any borrowings for investment purposes. Please see the Joint Proxy Statement/Prospectus for additional comparison information.

Q: How will the Reorganizations be effected?

A: Assuming Target Fund stockholders approve the Reorganizations of the Target Funds and Acquiring Fund stockholders approve the issuance of additional shares of common stock of the Acquiring Fund, each Target Fund will merge with and into a new direct, wholly-owned subsidiary of FRA (the Merger Subsidiary). Following the Reorganizations, the Merger Subsidiary will dissolve under Maryland law and be liquidated into FRA, and each Target Fund will terminate its registration under the 1940 Act.

Stockholders of the Target Funds: You will become stockholders of the Acquiring Fund. You will receive newly issued shares of common stock of the Acquiring Fund, par value $0.10 per share, the aggregate net asset value (not the market value) of which will equal the aggregate net asset value (not the market value) of the shares of common stock of the particular Target Fund you held immediately prior to such Reorganization, less the costs of the Reorganization (though you may receive cash for fractional shares).

Stockholders of FRA: You will remain stockholders of FRA, which will have additional shares of common stock outstanding after the Reorganization.

Q: Have shares of common stock of the Target Funds and the Acquiring Fund historically traded at a premium or discount?

A: The common shares of each Fund have historically fluctuated between a discount and a premium. As of May 4, 2012, FRA, FRB and DVF each trade at a discount to their respective NAV. To the extent FRB and DVF are trading at a wider discount (or a narrower premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent FRB and DVF are trading at a narrower discount (or wider premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders may be negatively impacted if the Reorganizations are consummated. FRA shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganizations, shares of common stock of the Combined Fund will trade at, above or below net asset value. In the Reorganizations, stockholders of each Target Fund will receive shares of common stock of the Acquiring Fund based on the relative net asset values (not the market values) of each respective Fund s shares of common stock. The market value of the shares of common stock of the Combined Fund may be less than the market value of the shares of common stock of your Fund prior to the Reorganizations.

Q: Will I have to pay any sales load, commission or other similar fees in connection with the Reorganizations?

A: You will pay no sales loads or commissions in connection with the Reorganizations. However, regardless of whether the Reorganizations are completed, the costs associated with the proposed Reorganizations, including the costs associated with the stockholder meeting, will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate except that, since the cost savings of FRA are expected to be less than those of the Target Funds, the Investment Advisor has decided to cover $100,000 of FRA s costs of the Reorganizations. Therefore, only a portion of FRA s costs associated with the Reorganizations will be borne directly by FRA. Because of the expected benefits for each Fund, the Investment Advisor recommended, and the Boards have approved, that DVF and FRB be responsible for their own Reorganization expenses and that FRA be responsible for its Reorganization expenses in excess of $100,000. See Reasons for the Reorganizations in the attached Joint Proxy Statement/Prospectus. Such costs are estimated to be $930,000 in the aggregate, of which $300,000 is estimated to be attributable to FRB, $300,000 is estimated to be attributable to DVF and $330,000 is estimated to be attributable to FRA, of which the Investment Advisor has agreed to pay $100,000. Neither the Funds nor the Investment Advisor will pay any expenses of stockholders arising out of or in connection with the Reorganizations. The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.

Q: Will I have to pay any U.S. federal taxes as a result of the Reorganizations?

A: Each of the Reorganizations is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). If a Reorganization so qualifies, in general, stockholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund shares of common stock for Acquiring Fund shares of common stock pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Fund will recognize no gain or loss for U.S. Federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its stockholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to either Reorganization.

On or prior to the closing date of the Reorganization (the Closing Date), each of the Target Funds will declare a distribution to its stockholders that, together with all previous distributions, will have the effect of distributing to each respective Target Fund s stockholders all of its investment company taxable income (computed without regard to the deduction for dividends paid), if any, through the Closing Date, all of its net capital gains, if any, through the Closing Date, and all of its net tax-exempt interest income, if any, through the Closing Date. Such a distribution will be taxable to each Target Fund s stockholders for U.S. federal income tax purposes.

The Funds stockholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganizations, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

Q: Why is the vote of stockholders of the Acquiring Fund being solicited in connection with the Reorganizations?

A: Although the Acquiring Fund will continue its legal existence and operations after the Reorganizations, the rules of the New York Stock Exchange (on which the Acquiring Fund s shares of common stock are listed) require the Acquiring Fund s stockholders to approve the issuance of additional shares of common stock in connection with the Reorganizations. If the issuance of additional shares of common stock of the Acquiring Fund is not approved, none of the Reorganizations will occur.

Q: How does the Board of my Fund suggest that I vote?

A: After careful consideration, the Board of your Fund unanimously recommends that you vote **FOR** each of the items proposed for your Fund.

Q: How do I vote my proxy?

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

Q: Whom do I contact for further information?

A: You may contact your financial advisor for further information. You may also call Georgeson Inc., the Funds proxy solicitor, at 1-866-856-2826.

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares of common stock to be voted, your shares will be voted FOR each Proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares of common stock at the Special Meeting.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND II, INC.

BLACKROCK DIVERSIFIED INCOME STRATEGIES FUND, INC.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

NOTICE OF JOINT SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON THURSDAY, SEPTEMBER 13, 2012

Notice is hereby given that a joint special meeting of stockholders (the Special Meeting) of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB), BlackRock Diversified Income Strategies Fund, Inc. (DVF) and BlackRock Floating Rate Income Strategies Fund, Inc. (FRA) will be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, NJ 08540-6455, on Thursday, September 13, 2012 at 9:00 a.m. (Eastern time) for the following purposes:

1. The Reorganizations of the Target Funds

Stockholders of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB):

Proposal 1(A): The stockholders of FRB are being asked to approve an Agreement and Plan of Reorganization among FRB, FRA and FRA Merger Subsidiary (the FRB Reorganization Agreement) and the termination of FRB s registration under the Investment Company Act of 1940 (the 1940 Act).

Stockholders of BlackRock Diversified Income Strategies Fund, Inc. (DVF):

Proposal 1(B): The stockholders of DVF are being asked to approve an Agreement and Plan of Reorganization among DVF, FRA and FRA Merger Subsidiary (the DVF Reorganization Agreement) and the termination of DVF s registration under the 1940 Act.

2. Issuances of Additional Shares of Acquiring Fund Common Stock

Stockholders of BlackRock Floating Rate Income Strategies Fund, Inc. (FRA):

Proposal 2(A): The stockholders of FRA are being asked to approve the issuance of additional shares of common stock of FRA in connection with the FRB Reorganization Agreement among FRB, FRA and FRA Merger Subsidiary.

Proposal 2(B): The stockholders of FRA are being asked to approve the issuance of additional shares of common stock of FRA in connection with the DVF Reorganization Agreement among DVF, FRA and FRA Merger Subsidiary.

Stockholders of record as of the close of business on July 16, 2012 are entitled to vote at the Special Meeting or any adjournment thereof.

THE BOARD OF DIRECTORS (EACH, A BOARD) OF EACH OF FRB, DVF AND FRA REQUESTS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING SUCH PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES, OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET.

THE BOARDS OF FRB AND DVF UNANIMOUSLY RECOMMEND THAT YOU CAST YOUR VOTE:

- **FOR** THE REORGANIZATION OF YOUR FUND PURSUANT TO THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS AND THE TERMINATION OF YOUR FUND S REGISTRATION UNDER THE 1940 ACT.

THE BOARD OF FRA UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- **FOR** THE ISSUANCE OF ADDITIONAL SHARES OF COMMON STOCK OF YOUR FUND IN CONNECTION WITH EACH REORGANIZATION AGREEMENT.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD OR RECORD YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET PROMPTLY.

For the Board of Directors of

BlackRock Floating Rate Income Strategies Fund II, Inc.

BlackRock Diversified Income Strategies Fund, Inc. and

BlackRock Floating Rate Income Strategies Fund, Inc.

John M. Perlowski

President and Chief Executive Officer

BlackRock Floating Rate Income Strategies Fund II, Inc.

BlackRock Diversified Income Strategies Fund, Inc. and

BlackRock Floating Rate Income Strategies Fund, Inc.

July 25, 2012

YOUR VOTE IS IMPORTANT.

PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE

ENCLOSED PROXY CARD OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET, NO MATTER HOW MANY SHARES YOU OWN.

THE INFORMATION IN THIS JOINT PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 25, 2012

JOINT PROXY STATEMENT/PROSPECTUS

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND II, INC.

BLACKROCK DIVERSIFIED INCOME STRATEGIES FUND, INC.

BLACKROCK FLOATING RATE INCOME STRATEGIES FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

JOINT SPECIAL MEETING OF STOCKHOLDERS

SEPTEMBER 13, 2012

This Joint Proxy Statement/Prospectus is furnished to you as a stockholder of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB), BlackRock Diversified Income Strategies Fund, Inc. (DVF) and/or BlackRock Floating Rate Income Strategies Fund, Inc. (FRA), each a Maryland corporation and a diversified, closed-end management investment company registered under the Investment Company Act of 1940 (the 1940 Act). A joint special meeting (the Special Meeting) of stockholders of FRB, DVF and FRA (each, a Fund and collectively, the Funds) will be held at the offices of BlackRock Advisors, LLC (the Investment Advisor), 1 University Square Drive, Princeton, NJ 08540-6455, on Thursday, September 13, 2012 at 9:00 a.m. (Eastern time) to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment or postponement thereof, the Board of Directors (each, a Board) of each Fund requests that you vote your shares of common stock by completing and returning the enclosed proxy card or by recording your voting instructions by telephone or via the Internet. The approximate mailing date of this Joint Proxy Statement/Prospectus and accompanying form of proxy is July 30, 2012.

The purposes of the Special Meeting are:

1. The Reorganizations of the Target Funds

Stockholders of BlackRock Floating Rate Income Strategies Fund II, Inc. (FRB):

Proposal 1(A): The stockholders of FRB are being asked to approve an Agreement and Plan of Reorganization among FRB, FRA and FRA Merger Subsidiary (the FRB Reorganization Agreement) and the termination of FRB s registration under the 1940 Act.

Stockholders of BlackRock Diversified Income Strategies Fund, Inc. (DVF):

Proposal 1(B): The stockholders of DVF are being asked to approve an Agreement and Plan of Reorganization among DVF, FRA and FRA Merger Subsidiary (the DVF Reorganization Agreement and, together with the FRB Reorganization Agreement, the Reorganization Agreements) and the termination of DVF s registration under the 1940 Act.

2. Issuances of Additional Shares of Acquiring Fund Common Stock

Stockholders of BlackRock Floating Rate Income Strategies Fund, Inc. (FRA):

Proposal 2(A): The stockholders of FRA are being asked to approve the issuance of additional shares of common stock of FRA in connection with the FRB Reorganization Agreement among FRB, FRA and FRA Merger Subsidiary.

Proposal 2(B): The stockholders of FRA are being asked to approve the issuance of additional shares of common stock of FRA in connection with the DVF Reorganization Agreement among DVF, FRA and FRA Merger Subsidiary.

Stockholders of record as of the close of business on July 16, 2012 are entitled to vote at the Special Meeting or any adjournment thereof.

FRB and DVF are sometimes referred to herein as the Target Funds, and FRA is sometimes referred to herein as the Acquiring Fund. The Reorganization Agreements that Target Fund stockholders are being asked to consider involve transactions that will be referred to in this Joint Proxy Statement/Prospectus individually as a Reorganization. The Fund surviving any or all Reorganizations is referred to herein as the Combined Fund.

The Reorganizations seek to combine three funds that are substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies for the Funds. In each Reorganization, each Target Fund will merge with and into a new direct, wholly-owned subsidiary of FRA (the Merger Subsidiary). Following the Reorganizations, the Merger Subsidiary will dissolve under Maryland law and be liquidated into FRA. The Target Funds will then terminate their registrations under the 1940 Act. In each Reorganization, the outstanding shares of common stock of each Target Fund will be exchanged for newly-issued shares of common stock of the Acquiring Fund, par value $0.10 per share (Acquiring Fund Shares). In connection with the Reorganization, the Acquiring Fund subsequently will issue to the Target Funds common stockholders book entry interests for the Acquiring Fund Shares registered in the name of such stockholder. Each Target Fund will then terminate its registration under the 1940 Act. The aggregate net asset value of Acquiring Fund Shares received by the stockholders of the Target Fund in each Reorganization will equal the aggregate net asset value (not market value) of Target Fund shares of common stock held by such stockholders immediately prior to such Reorganization, less the direct costs of such Reorganization, as applicable (although stockholders may receive cash for their fractional shares of common stock).

Each Target Fund will terminate its registration under the 1940 Act after the completion of its Reorganization. The Acquiring Fund will continue to operate after the Reorganization as a registered, diversified, closed-end management investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

In connection with each Reorganization, the stockholders of the Acquiring Fund are being asked to approve the issuance of additional shares of common stock of the Acquiring Fund.

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

In the event that stockholders of a Target Fund do not approve its Reorganization, such Target Fund would continue to exist and operate on a stand-alone basis. In the event the Acquiring Fund stockholders do not approve the issuance of Acquiring Fund Shares in connection with a Reorganization, then the affected Target Fund would continue to exist and operate on a stand-alone basis. However, if the Reorganization of a Target Fund is not approved, the Funds investment adviser, BlackRock Advisors, LLC (the Investment Advisor) may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganization by the other Target Fund.

This Joint Proxy Statement/Prospectus sets forth concisely the information that stockholders of each Fund should know before voting on the proposals for their Fund and constitutes an offering of Acquiring Fund Shares. Please read it carefully and retain it for future reference. A Statement of Additional Information, dated July 25, 2012, relating to this Joint Proxy Statement/Prospectus (the Statement of Additional Information) has been filed with the Securities and Exchange Commission (the SEC) and is incorporated herein by reference. Copies of each Fund s most recent annual report and semi-annual report can be obtained on a web site maintained by BlackRock, Inc. (BlackRock) at www.blackrock.com. In addition, each Fund will furnish, without charge, a copy of the Statement of Additional Information, its most recent annual report or semi-annual report to any stockholder upon request. Any such request should be directed to BlackRock by calling (800) 882-0052 or by writing to the respective Fund at Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055. The Statement of Additional Information and the annual and semi-annual reports of each Fund are available on the EDGAR Database on the Securities and Exchange Commission s Internet site at www.sec.gov. The address of the principal executive offices of the Funds is 100 Bellevue Parkway, Wilmington, Delaware 19809, and the telephone number is (800) 882-0052.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports, proxy statements, proxy materials and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or downloaded from the SEC s web site at www.sec.gov. Information on the operation of the SEC s Public Reference Room may be obtained by calling the SEC at (202) 551-8090. You may also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC s e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, DC 20549-0102.

BlackRock updates performance information for the Funds, as well as certain other information for the Funds, on a monthly basis on its website in the Closed-End Funds section of www.blackrock.com. Stockholders are advised to periodically check the website for updated performance information and other information about the Funds.

Please note that only one copy of stockholder documents, including annual or semi-annual reports and proxy materials may be delivered to two or more stockholders of the Funds who share an address, unless the Funds have received instructions to the contrary. This practice is commonly called householding and it is intended to reduce expenses and eliminate duplicate mailings of stockholder documents. Mailings of your stockholder documents may be householded indefinitely unless you instruct us otherwise. To request a separate copy of any stockholder document, or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, stockholders should contact the Fund at the address and phone number set forth above.

The shares of common stock of BlackRock Floating Rate Income Strategies Fund, Inc. are listed on the New York Stock Exchange (NYSE) under the ticker symbol FRA and will continue to be so listed subsequent to the Reorganization. The shares of common stock of BlackRock Floating Rate Income Strategies Fund II, Inc. are listed on the NYSE under the ticker symbol FRB. The shares of common stock of BlackRock Diversified Income Strategies Fund, Inc. are listed on the NYSE under the ticker symbol DVF. Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

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

Photographic identification and proof of ownership will be required for admission to the meeting. For directions to the meeting, please contact Georgeson Inc., the firm assisting us in the solicitation of proxies, at 1-866-856-2826.

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

The date of this Joint Proxy Statement/Prospectus is July 25, 2012.

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SUMMARY

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

PROPOSAL 1: THE REORGANIZATIONS OF THE TARGET FUNDS

The Proposed Reorganization

The Board of each Fund, including the directors (the Directors) who are not interested persons of each Fund (as defined in the 1940 Act) (the Independent Directors), has unanimously approved each Reorganization Agreement. If the stockholders of a Target Fund approve their Reorganization Agreement and the stockholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Shares in connection with the Reorganization, as applicable (see Proposal 2: Issuances of Additional Shares of Acquiring Fund Common Stock), such Target Fund will merge with and into the Merger Subsidiary. Following the Reorganizations, the Merger Subsidiary will dissolve under Maryland law and be liquidated into FRA. In connection with the Reorganization, the Acquiring Fund subsequently will issue to the Target Funds common stockholders book entry interests for the Acquiring Fund Shares registered in the name of such stockholder. Each Target Fund will then terminate its registration under the 1940 Act. The aggregate net asset value of Acquiring Fund Shares received by a Target Fund s stockholders in each Reorganization will equal the aggregate net asset value (not the market value) of that Target Fund s shares of common stock held immediately prior to such Reorganization, less the direct costs of such Reorganization, as applicable (although stockholders may receive cash for their fractional shares of common stock). In the Reorganizations, stockholders of each Target Fund will receive shares of common stock of the Acquiring Fund based on the relative net asset value, not the market value, of each respective Fund s shares of common stock. The market value of the shares of common stock of the Combined Fund may be less than the market value of the shares of common stock of a Target Fund prior to the Reorganization.

Background and Reasons for the Proposed Reorganization

The Reorganizations seek to combine three funds that are either the same or substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies. Each Target Fund will merge with and into the Merger Subsidiary, which will dissolve under Maryland law and be liquidated into the Acquiring Fund following the Reorganizations. The Boards of each Target Fund (each, a Target Fund Board), based upon its evaluation of all relevant information, anticipates that the Reorganization would benefit stockholders of its Target Fund. The Board of the Acquiring Fund (the Acquiring Fund Board), based upon its evaluation of all relevant information, anticipates that the Reorganizations would benefit stockholders of the Acquiring Fund. Because stockholders of each Fund will vote separately on their Fund s respective Reorganization, there are multiple potential combinations of Reorganizations.

Each of the Funds has the investment objective to provide high current income; however, the Acquiring Fund and FRB also seek to provide such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments. Each Fund s investment objective(s) is a fundamental policy and may not be changed without stockholder approval. Each Fund, under normal market conditions, invests at least 80% of its net assets in floating rate debt securities. DVF differs from the other Funds in that it may invest across a broader array of security types that are rated below investment grade including fixed rate securities that are purchased with a derivative instrument (a swap, for example) to make the securities floating rate.

The Boards have reviewed data presented by the Investment Advisor and believe that the Reorganizations generally would result in a reduced Total Expense Ratio (as defined below) for each of the Funds as certain fixed administrative costs would be spread across the Combined Fund s larger asset base. If the Reorganizations are approved, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.75% based on an aggregate of (i) the Combined Fund s average daily net assets (including proceeds from the issuance of any preferred stock) and (ii) the proceeds of any outstanding borrowings used for leverage (average daily managed assets). Because each of the Funds borrows for investment purposes and the Combined Fund intends to borrow for investment purposes, managed assets will mean the total assets of the Combined Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage).

When we use the term Total Expenses, we mean a Fund s total annual operating expenses. When we use the term Total Expense Ratio, we mean a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its shares of common stock. For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively. For the fiscal year ended February 29, 2012, FRB s Total Expense Ratio was 1.68% and for the 12-month period ended February 29, 2012, FRA s and DVF s Total Expense Ratios were 1.67% and 1.74%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012.

In approving the proposed Reorganizations, the Board of each Fund, including the Independent Directors, determined that participation in the Reorganizations is in the best interests of each Fund and its stockholders and that the interests of each Fund s stockholders will not be diluted with respect to the net asset value of such Fund as a result of the Reorganization. Before reaching these conclusions, the Board of each Fund, including the Independent Directors, engaged in a thorough review process relating to the proposed Reorganizations. The Boards of the Funds also received a memorandum outlining, among other things, the legal standards and certain other considerations relevant to the Boards deliberations. The Boards of the Funds, including all of the Independent Directors, approved the Reorganization at a meeting held on May 22-23, 2012.

The primary factors considered by the Board of each Fund with regard to the Reorganizations include, but are not limited to, the following:

1. The Combined Fund is expected to have a lower Total Expense Ratio than each of the Funds had prior to the Reorganization. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012.

2. The expectation that, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund.

3. Each Fund s stockholders will remain invested in a diversified, NYSE-listed, closed-end management investment company that will have substantially greater net assets and either the same or substantially similar (but not identical) investment objectives and policies and, as a result, the style and risk/return profile of the Combined Fund will remain comparable to those of each Target Fund stockholders current investments, subject to the differences described in Comparison of the Funds. Each Fund s stockholders would continue to own a closed-end fund that (i) has the same investment adviser and portfolio managers as FRA, (ii) has comparable risk-return attributes as FRA, (iii) similarly focuses its investments in floating rate debt securities and instruments and (iv) trades at market price on the NYSE. See Investment Objectives and Policies for additional information regarding the Funds investment objective(s) and policies.

4. Under current market conditions and all other things being equal, the earnings rate of the Combined Fund is expected to be higher than the current earnings rate of each of the Funds, which is expected to support a higher distribution level based on net asset value for the Combined Fund than each Fund prior to the Reorganization.

5. The common shares of each Fund have historically fluctuated between a discount and a premium. As of May 4, 2012, FRA, FRB and DVF each traded at a discount to their respective NAV. To the extent FRB and DVF are trading at a wider discount (or a narrower premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent FRB and DVF are trading at a narrower discount (or wider premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders may be negatively impacted if the Reorganizations are consummated. FRA shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves.

6. The Combined Fund is expected to achieve certain operating and administrative efficiencies from its larger net asset size. The larger net asset size of the Combined Fund could permit the Combined Fund to achieve certain economies of scale as certain fixed and variable costs can be spread over a larger asset base and the larger Combined Fund may realize greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, more favorable transaction terms, better trade execution, more consistent implementation of investment strategies, additional research coverage and greater liquidity.

7. The Combined Fund may experience potential benefits from having fewer closed-end funds in the market, including potential benefits from a more efficient secondary market and an increased focus by investors on the remaining funds in the market (including the Combined Fund), and fewer similar funds in the same fund complex, including potential benefits from easier product differentiation for stockholders (including stockholders of the Combined Fund).

8. The Combined Fund may provide greater secondary market liquidity for its shares of common stock as it would be larger than any of the Funds.

9. Stockholders will recognize no gain or loss for U.S. federal income tax purposes as a result of the Reorganizations (except with respect to cash received in lieu of fractional shares), as each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the United States Internal Revenue Code of 1986, as amended (the Code).

10. Stockholders will benefit from the continuing experience and expertise of the portfolio management team designated for the Combined Fund and the team s commitment to the investment style and strategies to be used in managing the assets of the Combined Fund. See Management of the Funds. The portfolio guidelines of the Combined Fund will either be the same or substantially similar (but not identical) to that of each Target Fund, as described in greater detail elsewhere in this Joint Proxy Statement/Prospectus. As a result, it is not anticipated that there will be significant disposition of the holdings in each Target Fund as a result of the Reorganization. In addition, nothing will require the Funds to dispose of holdings in the Target Funds portfolio if, in the reasonable judgment of the Boards or the Investment Advisor, such disposition would adversely affect the tax-free nature of the Reorganizations for U.S. federal income tax purposes.

11. The aggregate net asset value of the shares of the Combined Fund that the Target Fund stockholders will receive in the Reorganization is expected to equal the aggregate net asset value (not the market value) of the Target Fund shares that the Target Fund stockholders owned immediately prior to the Reorganization, and the net asset value of Target Fund shares will not be diluted as a result of the Reorganization.

12. While the capital loss carryforwards of the Combined Fund attributable to each Target Fund that participates in a Reorganization will be subject to tax loss limitation rules by reason of such Target Fund undergoing an ownership change in the Reorganization, the Boards of the Target Funds currently expect that the applicable tax loss limitation rules should not have a material

adverse effect on the Combined Fund s utilization of each Target Fund s capital loss carryforward as compared with what each Target Fund s utilization of its own capital loss carryforward would be without the Reorganization. The actual effect of the loss limitation rules depends on many variables and assumptions, including projected performance, and is, therefore, highly uncertain.

Considering these and other reasons, the Board of each Target Fund unanimously concluded that completion of the Reorganizations is in the best interests of each Target Fund and its stockholders and that the interests of the stockholders of each Target Fund will not be diluted as a result of the Reorganizations. This determination was made on the basis of each Director s business judgment after consideration of all of the factors taken as a whole with respect to each Target Fund and its stockholders, although individual directors may have placed different weight and assigned different degrees of materiality to various factors. See Reasons for the Reorganizations.

If a Reorganization is not approved by a Target Fund s stockholders, such Target Fund will continue to operate for the time being as a standalone Maryland corporation, and will continue to be advised by the Investment Advisor. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganization by the other Funds.

Expenses

The Boards believe that the completion of the Reorganizations would result in a reduced Total Expense Ratio for the Acquiring Fund because certain fixed administrative costs would be spread across the Combined Fund s larger asset base.

For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively. For the fiscal year ended February 29, 2012, FRB s Total Expense Ratio was 1.68% and for the 12-month period ended February 29, 2012, FRA s and DVF s Total Expense Ratios were 1.67% and 1.74%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012. However, if only one of the Reorganizations is approved, the Boards anticipate a smaller reduction in the Total Expense Ratio of the Funds. See Reasons for the Reorganizations.

Appraisal Rights

Stockholders of the Target Funds do not have appraisal rights for their shares of common stock.

Comparison of the Funds

A summary comparison of the significant investment strategies and operating policies used by the Funds as of February 29, 2012 is set forth in the table below. See Proposal 1: The Reorganizations of the Target Funds Comparison of the Funds for a more detailed comparison of the Funds. After the Reorganizations, the investment strategies and significant operating policies of the Combined Fund will be those of FRA.

Acquiring Fund	Target Funds	
FRA	**FRB**	**DVF**
Total Assets Under Management	**Total Assets Under Management**	**Total Assets Under Management**
As of February 29, 2012: $350,651,890	As of February 29, 2012: $184,772,951	As of February 29, 2012: $172,399,987
Investment Objective(s)	**Investment Objective(s)**	**Investment Objective(s)**
The Fund s investment objective is to provide stockholders with high current income and such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments.	Same as Acquiring Fund.	The Fund s investment objective is to provide stockholders with high current income.
Investment Policies	**Investment Policies**	**Investment Policies**
The Fund seeks to achieve its objective by investing primarily in floating rate debt securities and instruments (floating rate debt securities).	Same as Acquiring Fund.	The Fund seeks to achieve its objective by investing primarily in a diversified portfolio of floating rate debt securities and instruments (floating rate debt securities), including floating rate loans, bonds, certain preferred securities (including certain convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer), notes or other debt securities or instruments which pay a floating or variable rate of interest until maturity.

Acquiring Fund FRA	Target Funds FRB	DVF
Floating Rate Debt Securities	**Floating Rate Debt Securities**	**Floating Rate Debt Securities**
Under normal market conditions, the Fund will invest at least 80% of an aggregate of (i) the Fund s net assets (including proceeds from the issuance of any preferred stock) and (ii) the proceeds of any outstanding borrowings for investment purposes, in floating rate debt securities.	Same as Acquiring Fund.	Under normal market conditions, the Fund intends to invest at least 80% of its net assets in floating rate debt securities, including floating rate loans, bonds, certain preferred securities (including certain convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer), notes or other debt securities or instruments which pay a floating rate of interest until maturity.
Fixed Rate Debt Securities	**Fixed Rate Debt Securities**	**Fixed Rate Debt Securities**
The Fund may invest up to 20% of its total assets in securities other than floating rate debt securities, including, but not limited to, fixed rate debt securities such as convertible securities, bonds, notes, fixed rate loans and mortgage related and other asset backed securities issued on a public or private basis, collateralized debt obligations, preferred securities, commercial paper, U.S. government securities, structured notes, credit linked notes, credit linked trust certificates and other hybrid instruments.	Same as Acquiring Fund.	The Fund also may invest up to 20% of its total assets in certain fixed rate debt securities, including fixed rate senior loans, bonds, certain preferred securities (including certain convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer), notes or other debt securities or instruments which pay a fixed rate of interest until maturity. The Fund does not consider such securities to include fixed rate debt securities where the Fund has entered into certain derivative transactions, discussed above, in an attempt to convert the fixed rate payments into floating rate payments.
Senior Loans	**Senior Loans**	**Senior Loans**
Under normal market conditions, the Fund anticipates investing a substantial portion of its floating rate debt assets in senior loans.	Same as Acquiring Fund.	The Fund s investments in floating rate debt securities may include senior loans.

Acquiring Fund FRA	Target Funds FRB	DVF
High Yield Securities	**High Yield Securities**	**High Yield Securities**
The Fund may invest without limit and generally intends to invest a substantial portion of its assets in high yield securities, including senior loans and other floating or fixed rate debt securities, that are rated below investment grade by the established rating services (Ba or lower by Moody s or BB or lower by S&P) or, if unrated, are considered by the Investment Adviser to be of comparable quality.	Substantially the same as Acquiring Fund.	Substantially the same as Acquiring Fund.
Distressed Securities	**Distressed Securities**	**Distressed Securities**
The Fund may not, however, invest more than 10% of its total assets (at the time of investment) in securities that are rated Caa1 or lower (if rated by Moody s) or CCC+ or lower (if rated by S&P) by each agency rating such security or, if unrated, are considered by the Investment Adviser to be of comparable quality or are otherwise considered to be distressed securities.	Same as Acquiring Fund.	The Fund also may invest without limit in securities that are rated Caa1 or lower (if rated by Moody s) or CCC+ or lower (if rated by S&P) by each agency rating such security or, if unrated, are considered by the Investment Adviser to be of comparable quality or are otherwise considered to be distressed securities.
Foreign Investments	**Foreign Investments**	**Foreign Investments**
The Fund may invest without limitation in debt securities of issuers domiciled outside the United States. The Fund, however, will not, invest more than 10% of its total assets in debt securities of issuers located in emerging market countries. The Fund will invest primarily in U.S. dollar denominated debt securities. The Fund will not invest more than 10% of its total assets in debt securities denominated in currencies other than the U.S. dollar or that do not provide for payment to the Fund in U.S. dollars.	Same as Acquiring Fund.	The Fund may invest without limitation in debt securities of issuers domiciled outside the United States, including emerging market countries. Although the Fund intends to invest primarily in U.S. dollar-denominated debt securities, the Fund also may invest in debt securities denominated in currencies other than the U.S. dollar or that do not provide for payment to the Fund in U.S. dollars.

Acquiring Fund FRA	Target Funds FRB	DVF
Other Investments	**Other Investments**	**Other Investments**
The Fund may invest up to 20% of its total assets in securities other than floating rate debt securities. These securities include, but are not limited to, fixed rate debt securities such as convertible securities, bonds, notes, fixed rate loans and mortgage related and other asset backed securities issued on a public or private basis, collateralized debt obligations, preferred securities, commercial paper, U.S. government securities, structured notes, credit linked notes, credit linked trust certificates and other hybrid instruments.	Same as Acquiring Fund.	The Fund may invest in various other types of floating rate or fixed rate debt securities. These securities include, but are not limited to, convertible securities, mortgage related and other asset backed securities issued on a public or private basis, collateralized debt obligations, commercial paper, U.S. government securities, structured notes, credit linked notes, credit linked trust certificates and other hybrid instruments.
To a limited extent, incidental to and in connection with its investment activities or pursuant to a convertible feature in a security, the Fund may acquire warrants and other debt and equity securities. The Fund may also acquire other debt and equity securities of a borrower or issuer in connection with an amendment, waiver, conversion or exchange of a senior loan or other debt security or in connection with a bankruptcy or workout of the borrower or issuer.	Same as Acquiring Fund.	Same as Acquiring Fund.
Bonds	**Bonds**	**Bonds**
The Fund may invest in bonds of varying maturities issued by U.S. and non-U.S. corporations and other business or governmental entities.	Same as Acquiring Fund.	Same as Acquiring Fund.
Preferred Securities	**Preferred Securities**	**Preferred Securities**
The Fund may invest in preferred securities, including preferred securities that may be converted into common stock or other securities of the same or a different issuer.	Same as Acquiring Fund.	Same as Acquiring Fund.

Acquiring Fund FRA	Target Funds FRB	DVF
Convertible Securities	**Convertible Securities**	**Convertible Securities**
The Fund may invest in convertible securities. A convertible security is a bond, debenture, note or preferred security that may be converted into or exchanged for a prescribed amount of common stock or other securities of the same or a different issuer within a particular period of time at a specified price or formula.	Same as Acquiring Fund.	Same as Acquiring Fund.
Leverage	**Leverage**	**Leverage**
At times, the Fund expects to utilize leverage through borrowings, the issuance of short term debt securities, the issuance of shares of preferred stock or a combination thereof. The Fund has the ability to utilize leverage through borrowings or the issuance of short term debt securities in an amount up to $33^{1/3}$% of the value of its total assets (including the amount obtained from such borrowings or debt issuance). The Fund also has the ability to utilize leverage through the issuance of shares of preferred stock in an amount up to 50% of the value of its total assets (including the amount obtained from such issuance).	Substantially the same as Acquiring Fund.	Substantially the same as Acquiring Fund.
Investment Grade Securities	**Investment Grade Securities**	**Investment Grade Securities**
The Fund may also invest in investment grade securities.	Same as Acquiring Fund.	Same as Acquiring Fund.

Acquiring Fund FRA	Target Funds FRB	DVF
Maturity of Investments	**Maturity of Investments**	**Maturity of Investments**
The Fund may invest in securities of any maturity.	Same as Acquiring Fund.	Substantially the same as Acquiring Fund.
Dividends	**Dividends**	**Dividends**
The Fund intends to distribute dividends from its net investment income monthly to holders of common stock.	Same as Acquiring Fund.	Same as Acquiring Fund.
Investment Advisor and Sub-Advisor	**Investment Advisor and Sub-Advisor**	**Investment Advisor and Sub-Advisor**
Investment Advisor: BlackRock Advisors, LLC.	Same as Acquiring Fund.	Same as Acquiring Fund.
Sub-Advisor: BlackRock Financial Management, Inc.	Same as Acquiring Fund.	Same as Acquiring Fund.
Advisory and Sub-Advisory Fee	**Advisory and Sub-Advisory Fee**	**Advisory and Sub-Advisory Fee**
Advisory Fee: 0.75% of the Fund s average daily managed assets.	Same as Acquiring Fund.	Same as Acquiring Fund.
Sub-Advisory Fee: Equal to 59.0% of the advisory fee received by the Investment Advisor.	Same as Acquiring Fund.	Same as Acquiring Fund.
Portfolio Management Team	**Portfolio Management Team**	**Portfolio Management Team**
Leland Hart and C. Adrian Marshall.	Same as Acquiring Fund.	Leland Hart, James E. Keenan and C. Adrian Marshall.
Fiscal Year End	**Fiscal Year End**	**Fiscal Year End**
August 31.	February 28.	Same as Acquiring Fund.

Further Information Regarding the Reorganization

Each Target Fund s Board has determined that the Reorganizations are in the best interests of its respective Target Fund and the stockholders of such Fund and that the interests of such stockholders will not be diluted as a result of their Fund s Reorganization. Similarly, the Acquiring Fund s Board has determined that each Reorganization is in the best interests of the Acquiring Fund and its stockholders and that the interests of such stockholders will not be diluted as a result of each Reorganization. As a result of the Reorganizations, however, stockholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds.

Each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If a Reorganization so qualifies, in general, stockholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund shares of common stock for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Funds will recognize no gain or loss for U.S. Federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its stockholders will recognize any gain or loss for

U.S. federal income tax purposes pursuant to each Reorganization. It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund receive an opinion from Skadden, Arps, Slate, Meagher & Flom LLP (Skadden Arps), dated as of the closing date of such Reorganization (the Closing Date), regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code.

The Target Fund Boards request that stockholders of each Target Fund approve their Fund s proposed Reorganization at the Special Meeting to be held on Thursday, September 13, 2012 at 9:00 a.m. Stockholder approval of each Reorganization requires the affirmative vote by stockholders of each Target Fund representing a majority of the outstanding shares of common stock entitled to vote on the Reorganization. Subject to the requisite approval of the stockholders of each Target Fund with regard to each Reorganization, it is expected that the Closing Date will be after the close of business on or about October 12, 2012, but it may be at a different time as described herein.

For additional information regarding voting requirements, see Voting Information and Requirements.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The FRB Board recommends that stockholders of FRB vote **FOR** FRB s proposed Reorganization.

The DVF Board recommends that stockholders of DVF vote **FOR** DVF s proposed Reorganization.

PROPOSAL 2: ISSUANCES OF ADDITIONAL SHARES OF ACQUIRING FUND COMMON STOCK

In connection with each proposed Reorganization described under Proposal 1: The Reorganizations of the Target Funds, the Acquiring Fund will issue additional Acquiring Fund Shares and list such shares of common stock on the NYSE. All other things being equal, the Reorganizations will result in no reduction of the net asset value of the Acquiring Fund Shares, other than to reflect the costs of the Reorganizations.

No gain or loss for U.S. federal income tax purposes will be recognized by the Acquiring Fund or its stockholders pursuant to the Reorganizations. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganizations will benefit stockholders of the Acquiring Fund. In particular, the Acquiring Fund Board reviewed data presented by the Investment Advisor showing that the Acquiring Fund will experience a reduced Total Expense Ratio as a result of the proposed Reorganizations.

The Acquiring Fund Board requests that stockholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Shares in connection with the Reorganizations (the Issuances) at the Special Meeting to be held on Thursday, September 13, 2012 at 9:00 a.m. The Issuances must be approved by an affirmative vote of a majority of votes cast, where total votes cast represented over 50% of all securities entitled to vote. Subject to the requisite approval of the stockholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be after the close of business on or about October 12, 2012, but it may be at a different time as described herein. For additional information regarding voting requirements, see Voting Information and Requirements.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The Acquiring Fund Board recommends that stockholders of FRA vote **FOR** the Issuances of additional Acquiring Fund Shares in connection with each Reorganization.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Comparison of Risks

The Funds have either the same or substantially similar (but not identical) investment objectives and principal investment strategies. The Combined Fund will be managed in accordance with the same investment objectives and investment policies, and subject to the same risks, as FRA. The investment risks associated with an investment in FRA are substantially the same as those associated with an investment in the Target Funds. Risks that affect the shares of common stock of the Funds include high yield security risk, distressed securities risk, leverage risk, derivatives risk, liquidity and market price risk, issuer risk and market risk. Even though the Combined Fund will invest in floating rate debt securities, the risk to the Combined Fund will be less than the risk currently experienced by DVF s portfolio because the Combined Fund will not invest in as broad an array of security types as DVF. In addition, as exchange-traded closed-end funds, the Funds are subject to the risk that the Funds shares of common stock may trade at a discount from the Funds net asset value. Accordingly, the Funds are primarily designed for long-term investors and should not be considered a vehicle for trading purposes.

There are, however, some differences among the Funds. Although each of the Funds has the investment objective to provide stockholders with high current income, FRA and FRB also seek to provide shareholders with such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments. Another difference among the Funds is that although each of the Funds invests a substantial portion of their portfolio in senior floating rate loans that are rated below investment grade, DVF may invest across a broader array of security types that are rated below investment grade. In particular, DVF may also invest in fixed rate securities that are purchased with a derivative instrument (a swap, for example) to make the securities floating rate. While each Fund may only invest 20% of it total assets in securities other than floating rate debt securities, including, but not limited to fixed rate debt securities, DVF does not consider fixed rate debt securities accompanied by derivative transactions to count toward this 20% limit. FRA and FRB may not invest more than more than 10% of its total assets in securities such as senior loans or distressed securities, that are rated Caa1 or lower (if rated by Moody s), CCC+ or lower (if rated by S&P), or if unrated, a comparable quality security as that of a Caa1 or CCC+ rated security. DVF does not have a policy with regard to minimum ratings for such securities in which it invests. Another difference among the Funds is that FRA and FRB will not invest more than 10% of such Fund s total assets in debt securities of issuers located in emerging market countries, nor will FRA or FRB invest more than 10% of such Fund s total assets in debt securities denominated in currencies other than the U.S. dollar or that do not provide for payment to the Fund in U.S. dollars. DVF, on the other hand, may invest without limitation in debt securities of issuers domiciled outside the United States, including emerging market countries and may invest in debt securities denominated in currencies other than the U.S. dollar or that do not provide for payment to the Fund in U.S. dollars.

See Risk Factors and Special Considerations in the Statement of Additional Information for a further discussion of factors affecting the Funds shares of common stock.

Risks Related to the Reorganization

Expenses

While the Funds currently estimate that the Reorganizations will result in reduced aggregate expenses of the Combined Fund by approximately $403,828 per year if all the Reorganizations are completed, approximately $213,481 if only the Reorganization between FRB and FRA are approved and approximately $227,030 if only the Reorganization between DVF and FRA are approved, the realization of these reduced expenses will not affect holders of the Funds proportionately, and may take longer than expected to be realized or may not be realized at all.

After the Reorganizations, the Combined Fund is expected to incur lower Total Expenses on a per common share basis than is currently incurred by the Acquiring Fund. In addition, no matter which Funds complete their

Reorganizations, the Combined Fund may incur higher Total Expenses for a period due to expenses associated with the Reorganizations prior to experiencing such savings or may never experience such savings if its fixed costs were to increase or the value of its assets were to decrease.

Each Fund s Board believes that its stockholders should realize lower Total Expense Ratios after the Reorganizations than they would realize if the Reorganizations did not occur after the expenses associated with the Reorganizations have been paid. For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively. For the fiscal year ended February 29, 2012, FRB s Total Expense Ratio was 1.68% and for the 12-month period ended February 29, 2012, FRA s and DVF s Total Expense Ratios were 1.67% and 1.74%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012. See Reasons for the Reorganizations. As of February 29, 2012, the historical and *pro forma* total annual gross expense ratios applicable to the Reorganizations are as follows:

FRB Total Annual Gross Expense Ratio	**DVF Total Annual Gross Expense Ratio**	**Acquiring Fund Total Annual Gross Expense Ratio**	***Pro Forma* Combined Fund (FRB and DVF and Acquiring Fund)**	***Pro Forma* Combined Fund (FRB and Acquiring Fund)**	***Pro Forma* Combined Fund (DVF and Acquiring Fund)**
1.68%	1.74%	1.67%	1.62%	1.62%	1.64%

There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations. To the extent that one of the Reorganizations is not completed, but the other Reorganization is completed, any expected savings by the Combined Fund may be reduced. The Boards of the Funds and the Investment Advisor believe that the most likely result of the potential combinations of proposed Reorganizations is the combination of all the Funds.

The Funds will bear expenses incurred in connection with the Reorganizations, including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to stockholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganizations, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate except that, since the cost savings of FRA are expected to be less than those of the Target Funds, the Investment Advisor has decided to cover $100,000 of FRA s costs of the Reorganization. Because each of the Funds has already incurred expenses solely and directly attributable to the Reorganizations and because each of the Target Funds is responsible for paying those expenses and FRA is responsible for paying its expenses in excess of $100,000, if such Fund s respective stockholders do not approve their Fund s respective Reorganization, such Fund will continue to be responsible for the expenses arising from its proposed Reorganization even though its proposed Reorganization will not occur and those expenses may be material. Because of the expected benefits for each Fund, the Investment Advisor recommended, and the Boards have approved, that each DVF and FRB be responsible for their own Reorganization expenses and that FRA be responsible for its Reorganization expenses in excess of $100,000. See Reasons for the Reorganizations. Neither the Funds nor the Investment Advisor will pay any expenses of stockholders arising out of or in connection with the Reorganizations.

General Risks of Investing in the Funds

Market Price of Shares. As with any stock, the price of each Fund s common shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Each Fund s common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The common shares of each Fund have in the past fluctuated between a discount and a premium. As of May 31, 2012, FRB traded at a 0.45% discount to net asset value, DVF traded at a 5.87% discount to net asset value, and FRA traded at a 3.14% discount to net asset value. Upon consummation of the Reorganizations, the Acquiring Fund Shares may trade at a price that is less than the Acquiring Fund s current trading market price. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the Reorganizations.

Investment Strategy Risk. The types of investments that are selected through application of the Funds investment strategy can be expected to change over time. In pursuing their investment strategy, the Funds may incur adverse tax or brokerage consequences. Particular risks may be elevated during periods in which the Funds investment strategy dictates higher levels of investment in particular types of investments.

Issuer Risk; Market Risk; and Selection Risk. Issuer risk is the risk that the value of floating rate and other debt securities may decline for a number of reasons which directly relate to the issuer or borrower, such as a real or perceived management performance, financial leverage and reduced demand for the issuer s or borrower s goods and services. Market risk is the risk that the market will go down in value, including the possibility that the market will go down sharply and unpredictably. Selection risk is the risk that the securities that Fund management selects will underperform the relevant market indices or other funds with a similar investment objective and investment strategies.

Net Asset Value; Interest Rate Sensitivity; Credit Quality; and Other Market Conditions. Generally, when interest rates go up, the value of fixed rate debt securities goes down. Therefore, the net asset value of a fund that invests primarily in fixed rate securities changes in response to interest rate fluctuations. Because each Fund invests primarily in floating rate debt securities (including, in the case of DVF, fixed rate debt securities where the Fund has entered into certain derivative transactions to effectively convert the fixed rate payments into floating rate interest payments), the Investment Adviser generally expects the Combined Fund will have less interest rate risk (i.e., fluctuations in net asset value as a result of movements in interest rates) than a fund that invests primarily in fixed rate securities of similar maturity. Nevertheless, because the interest rate on floating rate debt securities may only reset periodically, the Combined Fund s net asset value may fluctuate from time to time due to interest rate movements when there is an imperfect correlation between the interest rates on the floating rate debt securities in the Fund s portfolio and prevailing interest rates. Importantly, a real or perceived decline in the credit quality or financial condition of an issuer or borrower in which each Fund invests may result in the value of the floating rate debt securities held by such Fund, the Fund s net asset value and potentially the market price of the Fund s common stock, to go down. A real or perceived serious deterioration in the credit quality or financial condition of an issuer or borrower could cause a permanent decrease in the Fund s net asset value. Furthermore, volatility in the capital markets and other adverse market conditions may result in a decrease in the value of floating rate debt securities held by each Fund. Any decrease in the value of the floating rate debt securities held by a Fund will result in a decrease in such Fund s net asset value and potentially the market price of that Fund s common stock. To the extent that changes in market rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate which is payable on loans of the type and quality in which each Fund invests, each Fund s net asset value could be adversely affected. This is because the value of a loan asset in each Fund is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is generally only a temporary lag before the portfolio reflects those changes, changes in a loan s value based on changes in the market spread on loans in each Fund s portfolio may be of longer duration. DVF may invest in debt securities with fixed rates of interest which generally will lose value in direct response to rising interest rates. However, FRA and FRB may only invest up to 20% of its total assets in such debt securities with fixed rates. Each Fund s use of leverage, as described below under Leverage, will tend to increase interest rate risk to such Fund s common stock.

Non-Payment Risk. The debt securities in which each Fund invests are subject to the risk of non-payment of interest and principal. When a borrower or issuer fails to make scheduled interest or principal payments on a debt security, the value of the security, and hence each Fund s net asset value, and potentially the market value of each Fund s shares of common stock, may go down. While a senior position in the capital structure of a borrower may provide some protection with respect to certain of each Fund s investments, losses may still occur.

Senior Loans. The senior loans in which each Fund invests can be expected to provide higher yields than certain investment grade securities, but such loans may be subject to greater risk of loss of principal and income resulting from nonpayment of interest and principal by the borrower. Senior loan obligations are frequently secured by pledges of liens and security interests in the assets of the borrower, and the holders of senior loans are frequently the beneficiaries of debt service subordination provisions imposed on the borrower s bondholders. Such security and subordination arrangements are designed to give senior loan investors preferential treatment over high yield bond investors in the event of a deterioration in the credit quality or default of the issuer. Even when these arrangements exist, however, there can be no assurance that the principal and interest owed on the senior loan will be repaid in full or in a timely manner. When a borrower fails to make scheduled interest or principal payments on a debt security, the value of the instrument, and hence each Fund s net asset value, and potentially the value of the Fund s shares of common stock, may go down. While collateral may provide some protection against devaluation due to a default on a collateralized loan, losses may not be completely covered by the liquidation or sale of collateral. To the extent the senior loan is secured by stock of the borrower and/or its subsidiaries and affiliates, such stock may lose all of its value in the event of a bankruptcy or insolvency of the borrower. Each Fund may invest in either secured or unsecured senior loans.

Senior 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, or which may be adjusted periodically, typically 30 to 90 days but generally not more than one year, in the case of LIBOR. Consequently, the value of senior loans held by each Fund may generally be expected to fluctuate less than the value of certain fixed rate securities as a result of changes in the interest rate environment. On the other hand, the secondary dealer market for certain senior loans may not be as well developed as the secondary dealer market for certain fixed rate securities, including high yield bonds, and therefore present increased market risk relating to liquidity and pricing concerns.

Each Fund has no minimum credit rating for the senior loans in which it invests. Investments rated below investment grade or, if unrated, considered by the Investment Adviser to be of similar credit quality, have a higher risk of non-payment than investment grade investments.

Senior loans made in connection with highly leveraged transactions are subject to greater risks than other senior loans. For example, the risks of default or bankruptcy of the borrower or the risks that other creditors of the borrower may seek to nullify or subordinate the Fund s claims on any collateral securing the loan is greater in highly leveraged transactions.

High Yield Securities. Each Fund may invest without limit and generally invests a substantial portion of its assets in below investment grade, high yield securities. The Acquiring Fund and FRB may not, however, invest more than 10% of its total assets in securities that are rated Caa1 or lower (if rated by Moody s) or CCC+ or lower (if rated by S&P) by each agency rating such security or, if unrated, are considered by the Investment Adviser to be of comparable quality or are otherwise considered to be Distressed Securities. DVF also may invest without limit in Distressed Securities which are discussed below under Distressed Securities. Investments in high yield securities entail a higher level of credit risk (loss of income and/or principal) and a corresponding greater risk of loss than investments in investment grade securities. Securities rated in the lower rating categories are considered to be predominantly speculative with respect to capacity to pay interest and dividend income and repay principal. Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. New issuers also may be inexperienced in managing their debt burden. The issuer s ability to service its debt obligations or to make dividend payments may be adversely affected by business developments unique to the issuer, the issuer s inability to meet specific projected business forecasts, or the inability of the issuer to obtain additional financing. Other than the Distressed Securities discussed below, the high yield securities in which each Fund may invest do not include securities which, at the time of investment, are in default or the issuers of which are in bankruptcy. However, there can be no assurance that such events will not occur after each Fund purchases a particular security, in which case such Fund may experience losses and incur costs.

High yield securities also tend to be more sensitive to economic conditions than investment grade securities. The financial condition of a high yield issuer or borrower is usually more susceptible to a general economic downturn or a sustained period of rising interest rates and high yield issuers are more likely than investment grade issuers or borrowers to become unable to make principal payments and interest or dividend payments during such time periods.

Like investment grade fixed income securities, high yield securities generally are purchased and sold through dealers who make a market in such securities for their own accounts. However, there are fewer dealers in the high yield market, which market may be less liquid than the market for investment grade fixed income securities, even under normal economic conditions. Also, there may be significant disparities in the prices quoted for high yield securities by various dealers and the spread between the bid and asked price is generally much larger than for investment grade securities. As a result, each Fund may experience difficulty acquiring appropriate high yield securities for investment. Investments in high yield securities may, from time to time, and especially in declining markets, become illiquid which might impede each Fund s ability to dispose of a particular security, or force each Fund to sell a security at a price lower than if the market were more liquid. Prices realized upon such sales might be less than the prices used in calculating each Fund s net asset value. The combination of price volatility and the limited liquidity of high yield securities, and in particular senior loans, may have an adverse effect on each Fund s investment performance.

High yield securities tend to be more volatile than investment grade fixed income securities, so that adverse events may have a greater impact on the prices of high yield securities than on investment grade fixed income securities. Factors adversely affecting the market value of such securities will adversely affect each Fund s net asset value, and potentially the market price of each Fund s shares of common stock.

Adverse publicity and negative investor perceptions of the high yield market, which could last for an extended time period also may reduce the value and liquidity of high yield securities. When the market value of high yield securities goes down, each Fund s net asset value, and potentially the market price of each Fund s shares of common stock, will decrease. In addition, each Fund may incur additional expenses if it is forced to seek recovery upon a default or restructuring of a portfolio holding.

High yield bonds (commonly referred to as junk bonds) are often unsecured and subordinated to other creditors of the issuer. In addition, junk bonds may have call or redemption features that permit an issuer to repurchase the securities from a Fund. If a call were exercised by an issuer during a period of declining interest rates, the Fund likely would have to replace such called securities with lower yielding securities that would decrease the net investment income to the Fund and dividends to stockholders.

Distressed Securities. An investment in Distressed Securities is speculative and involves significant risk in addition to the risks discussed above in connection with investments in high yield securities. Distressed Securities frequently do not produce income while they are outstanding. Each Fund may purchase Distressed Securities that are in default or the issuers of which are in bankruptcy. Such Fund may be required to bear certain extraordinary expenses in order to protect and recover its investment.

Intermediary Risk. Each Fund may invest in senior loans either by participating as a co-lender at the time the loan is originated or by buying a participation or assignment interest in the loan in the secondary market from a financial institution or an institutional investor. The financial status of the institutions interposed between each Fund and a borrower may affect the ability of the Fund to receive principal and interest payments.

The success of each Fund s investments in senior loans depends, to a great degree, on the skill with which an agent bank administers the terms of the senior loan agreements, monitors borrower compliance with covenants, collects principal, interest and fee payments from borrowers and, where necessary, enforces creditor remedies against borrowers. Agent banks typically have broad discretion in enforcing senior loan agreements.

Regulatory Changes. To the extent that legislation or state or federal bank or other regulators impose additional requirements or restrictions on the ability of certain financial institutions to make loans, particularly in connection with highly leveraged transactions, the availability of senior loans and other related investments sought after by each Fund may be reduced. Further, such legislation or regulation could depress the market value of senior loans and other debt securities held by the Fund.

Foreign Securities. Each Fund may invest without limitation in debt securities of issuers domiciled outside the United States, including, with regard to DVF, emerging market countries which are discussed below. The Acquiring Fund and FRB will not, however, invest more than 10% of each Fund s total assets in debt securities of issuers located in emerging market countries. The Acquiring Fund and FRB will invest primarily in U.S. dollar-denominated securities. The Acquiring Fund and FRB will not invest more than 10% of each Fund s total assets in debt securities denominated in currencies other than U.S. dollar or that do not provide for payment to the Fund in U.S. dollars. Although DVF intends to invest primarily in U.S. dollar-denominated securities, DVF also may invest in debt securities denominated in currencies other than U.S. dollar or that do not provide for payment to the Fund in U.S. dollars. Investments in non-U.S. debt securities may involve risks not typically involved in domestic investment, including fluctuation in foreign interest rates, currency risk (discussed below), risks, in the case of DVF, associated with holding the Fund s assets outside the United States, settlement risk, future foreign political and economic developments and the possible imposition of exchange controls or other governmental laws or regulations. In connection with each Fund s investments in foreign securities, each Fund may engage in foreign exchange transactions to hedge the value of such Fund s portfolio against adverse currency movements. Each Fund is not required to enter into foreign exchange transactions for hedging purposes and may choose not to do so.

Emerging Market Countries Risk. Each Fund may invest up to 10% of its total assets in debt securities of issuers located in emerging market countries. Investing in securities of issuers based in underdeveloped emerging market countries entails all of the risks of investing in securities of foreign issuers to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and in price volatility; (iii) certain national policies which may restrict each Fund s investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; and (iv) the limited legal rights and remedies available to holders following a default by the issuer.

Mortgage and Asset Backed Securities. Each Fund may invest in a variety of mortgage related and other asset backed securities, including both commercial and residential mortgage securities and other mortgage backed instruments issued on a public or private basis. Mortgage backed securities represent the right to receive a portion of principal and/or interest payments made on a pool of residential or commercial mortgage loans. When interest rates fall, borrowers may refinance or otherwise repay principal on their mortgages earlier than scheduled. When this happens, certain types of mortgage backed securities will be paid off more quickly than originally anticipated and each Fund will have to invest the proceeds in securities with lower yields. This risk is known as prepayment risk. When interest rates rise, certain types of mortgage backed securities will be paid off more slowly than originally anticipated and the value of these securities will fall. This risk is known as extension risk.

Because of prepayment risk and extension risk, mortgage backed securities react differently to changes in interest rates than other fixed income securities. Small movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain mortgage backed securities.

Like more traditional fixed income securities, the value of asset backed securities typically increases when interest rates fall and decreases when interest rates rise. Certain asset backed securities may also be subject to the risk of prepayment. In a period of declining interest rates, borrowers may pay what they owe on the underlying assets more quickly than anticipated. Prepayment reduces the yield to maturity and the average life of the asset backed securities. In addition, when each Fund reinvests the proceeds of a prepayment it may receive a lower interest rate than the rate on the security that was prepaid. In a period of rising interest rates, prepayments may occur at a slower rate than expected. As a result, the average maturity of each Fund s portfolio will increase. The value of longer term securities generally changes more widely in response to changes in interest rates than shorter term securities.

Leverage. Each Fund may leverage through borrowings, the issuance of debt securities, the issuance of shares of preferred stock or a combination thereof. Each Fund may borrow money and issue debt securities in amounts up to 33 $^{1}/_{3}$%, and may issue shares of preferred stock in amounts up to 50%, of the value of its total assets to finance additional investments. However, leverage involves risks, which can be significant. These risks include greater volatility in each Fund s net asset value, fluctuations in the dividend paid by the Fund and the market price of each Fund s common stock, the possibility that the value of the assets acquired with such borrowing will decrease although each Fund s liability is fixed and increased operating costs which may reduce each Fund s total return. To the extent the total return derived from securities purchased with funds received from leverage exceeds the cost of leverage, each Fund s return will be greater than if leverage had not been used. Conversely, if the total return derived from securities purchased with such funds is not sufficient to cover the cost of leverage, the return of each Fund will be less than if leverage had not been used, and therefore the amount available for distribution to stockholders as dividends and other distributions will be reduced.

Portfolio Strategies. Each Fund may engage in various portfolio strategies both to seek to increase the return of such Fund and to seek to hedge its portfolio against adverse effects from movements in interest rates and in the securities markets. These strategies include the use of derivatives, such as indexed securities, inverse securities, options, futures, options on futures, interest rate transactions, credit default swaps, interest rate swaps, total return swaps, short sales and foreign exchange transactions. For example, DVF may invest in fixed income debt securities and enter into certain derivative transactions, including interest rate swap agreements, in an attempt to convert the fixed rate interest payments it receives with respect to such securities into floating rate interest payments. Such strategies subject each Fund to the risk that, if the Investment Adviser incorrectly forecasts market values, interest rates or other applicable factors, such Fund s performance could suffer. Certain of these strategies such as inverse securities, credit default swaps, interest rate swaps, total return swaps and short sales may provide investment leverage to the Fund s portfolio and result in many of the same risks of leverage to the holders of each Fund s common stock as discussed above under Leverage. Each Fund is not required to use derivatives or other portfolio strategies to enhance income or to hedge its portfolio and may choose not to do so. There can be no assurance that each Fund s portfolio strategies will be effective. Some of the derivative strategies that each Fund may use to enhance its return are riskier than its hedging transactions and have speculative characteristics. Such strategies do not attempt to limit each Fund s risk of loss.

Derivatives Risk. Derivatives are financial contracts or instruments whose value depend on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indexes). Each Fund may invest in a variety of derivative instruments for hedging purposes or to seek to enhance its return, such as options, futures contracts and swap agreements, and may engage in short sales. Each Fund may also have exposure to derivatives through investment in credit linked notes, credit linked trust certificates and other securities issued by special purpose or structured vehicles. Each Fund may use derivatives as a substitute for taking a position in an underlying security or other asset, as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. Each Fund also may use derivatives to add leverage to the portfolio. Each Fund s use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, credit risk, counterparty risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If a Fund invests in a derivative instrument it could lose more than the principal amount invested. The use of derivatives also may increase the amount of taxes payable by stockholders. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that each Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

Credit Risk and Counterparty Risk. Each Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by such Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. Each Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Options and Futures Transactions. Each Fund may engage in options and futures transactions to reduce its exposure to interest rate movements or to enhance its return. If a Fund incorrectly forecasts market values, interest rates or other factors, such Fund s performance could suffer. Such Fund also may suffer a loss if the other party to the transaction fails to meet its obligations. The Funds are not required to enter into options and futures transactions for hedging purposes or to enhance their return and may choose not to do so.

Swaps. In order to seek to hedge the value of each Fund s portfolio, or to seek to enhance each Fund s return, a Fund may enter into interest rate, credit default or total return swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by the Fund, which would cause the Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. In addition to the risks applicable to swaps generally, credit default swap transactions involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty). Total return swap transactions involve the risks that the counterparty will default on its payment obligation to a Fund in the transaction and that such Fund will not be able to meet its obligation to the counterparty in the transaction. The Funds are not required to enter into interest rate, credit default or total return swap transactions for hedging purposes or to enhance their return and may choose not to do so.

Currency Risk. Securities in which each Fund invests may be denominated or quoted in currencies other than the U.S. dollar. Changes in foreign currency exchange rates affect the value of each Fund s portfolio, and hence each Fund s net asset value, and potentially the market value of each Fund s shares of common stock. Generally, when the U.S. dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. dollars. Conversely, when the U.S. dollar decreases in value against a foreign currency, a security denominated in that currency gains value because the currency is worth more U.S. dollars. This risk, generally known as currency risk, means that for non-U.S. dollar-denominated securities a strong U.S. dollar will reduce returns for investors while a weak U.S. dollar will increase those returns.

Emerging Market Countries Risk. Each Fund may invest in debt securities of issuers located in emerging market countries; however, DVF may invest in such securities without limitation and the Acquiring Fund and FRB may not invest more than 10% of its total assets in such securities. Investing in securities of issuers based in underdeveloped emerging market countries entails all of the risks of investing in securities of foreign issuers to a heightened degree. The risks of foreign investments are usually much greater for emerging markets. Investments in emerging markets may be considered speculative. Emerging markets include those countries defined as emerging or developing by the World Bank, the International Finance Corporation or the United Nations. Emerging markets are riskier because they develop unevenly and may never fully develop. They are more likely to experience hyperinflation and currency devaluations, which adversely affect returns to U.S. investors. In addition, the securities markets in many of these countries have far lower trading volumes and less liquidity than developed markets. Since these markets are so small, they may be more likely to suffer sharp and frequent price changes or long term price depression because of adverse publicity, investor perceptions or the actions of a few large investors.

In addition, traditional measures of investment value used in the United States, such as price to earnings ratios, may not apply to certain small markets.

Many emerging market countries have histories of political instability and abrupt changes in policies. As a result, their governments are more likely to take actions that are hostile or detrimental to private enterprise or foreign investment than those of more developed countries. Certain emerging market countries may also face other significant internal or external risks, including the risk of war and ethnic, religious and racial conflicts. In addition, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth.

Preferred Securities. Each Fund may invest in preferred securities, including convertible preferred securities that may be converted into common stock or other securities of the same or a different issuer. There are special risks associated with investing in preferred securities:

Subordination. Investments in preferred securities entail a higher level of credit risk than more senior debt instruments because preferred securities are subordinated to bonds and other debt instruments in an issuer s capital structure in terms of priority to corporate income and liquidation payments.

Limited Voting Rights. Holders of preferred securities usually have no voting rights with respect to the issuing company, although certain types of preferred securities provide their holders with the right to elect directors if preferred dividends have been in arrears for a specified number of periods. When those voting rights apply, once the issuer pays all the arrearages, the preferred security holders no longer have voting rights.

Redemption Rights. Certain preferred securities may contain special redemption features that grant the issuer of the preferred securities a right to redeem the securities prior to a specified date. As with all call provisions, a special redemption by the issuer may negatively impact the return of the security held by each Fund.

Deferral. Preferred securities also may include provisions that require or permit the issuer, at its discretion, to defer dividend distributions for a stated period or periods without any adverse consequences to the issuer. If a Fund owns a preferred security that is deferring its dividend distributions, such Fund may be required to report and possibly distribute income for tax purposes although it has not yet received such income.

Liquidity. Preferred securities may be substantially less liquid than many other securities, such as common stocks.

Non-Cumulative Preferred Securities. Dividends on non-cumulative preferred securities do not accrue. Unlike cumulative preferred securities, if a dividend on a share of non-cumulative preferred stock is not paid on the dividend payment date, that dividend ordinarily will never be paid.

Auction Rate or Remarketed Preferred Securities. Auction rate or remarketed preferred securities are adjustable preferred securities the dividends on which are determined at periodically held auctions or through remarketings. If sufficient bids do not exist at an auction (in case of auction rate preferred securities) or if a failed remarketing occurs (in the case of remarketed preferred securities), a Fund may not be able to sell all, and may not be able to sell any, of its auction rate or remarketed preferred securities through the auction or remarketing process. As a result, such Fund s investment in such stock may be illiquid.

Short Sales. Each Fund may make short sales of securities. A short sale is a transaction in which a Fund sells a security it does not own in anticipation that the market price of that security will decline. When each Fund makes a short sale, it must borrow the security sold short and deliver collateral to the broker dealer through which it made the short sale to cover its obligation to deliver the security upon conclusion of the sale. Each Fund s obligation to replace the borrowed security will be secured by collateral deposited with the broker dealer, usually cash, U.S. government securities or other liquid securities similar to those borrowed. Each Fund will also be required to segregate similar collateral. If the price of the security sold short increases between the time of the short sale and the time a certain Fund replaces the borrowed security, such Fund will incur a loss. Each Fund also may make a short sale (against the box) by selling a security that such Fund owns or has the right to acquire without the payment of further consideration. That Fund s potential for loss is greater if it does not own the security that it is short selling.

Dividend Risk. Because each Fund invests primarily in floating rate debt securities, the amount of interest income available for each Fund s monthly distributions to its common stockholders may vary over time as a result of fluctuations in market interest rates. Generally, when market interest rates fall, the amount of interest income available for distribution to common stockholders will likewise decrease over time.

Liquidity of Investments. Certain debt securities, including in particular senior loans, in which each Fund invests may lack an established secondary trading market or are otherwise considered illiquid. Liquidity of a security relates to the ability to easily dispose of the security and the price to be obtained and does not generally relate to the credit risk or likelihood of receipt of cash at maturity. Illiquid securities may be subject to wide fluctuations in market value. Each Fund may be subject to significant delays in disposing of certain investments. As a result, each Fund may be forced to sell these investments at less than fair market value or may not be able to sell them when the Investment Adviser believes that it is desirable to do so. Illiquid securities also may entail registration expenses and other transaction costs that are higher than those for liquid investments.

Anti-Takeover Provisions. The Acquiring Fund s Charter, Bylaws and the Maryland General Corporation Law include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Directors. Such provisions could limit the ability of stockholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See Certain Provisions of the Charter.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Egypt, Libya and other regions of the Middle East and possible terrorist attacks in the United States and around the world and other similar events may result in market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Funds do not know how long the securities markets may be affected by these events and cannot predict the effects of these events or similar events in the future on the U.S. economy and securities markets. There can be no assurance that these events and other market disruptions will not have other material and adverse implications for each Fund. The terrorist attacks in the United States on September 11, 2001 have had a disruptive effect on the securities markets, some of which were closed for a four-day period. These terrorist attacks, and the continued threat of such attacks, and related events, including U.S. military actions in Iraq and continued unrest in the Middle East, have led to increased short term market volatility and may have long term effects on U.S. and world economies and markets. Similar disruptions of the financial markets could impact the market prices of portfolio securities, interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to each Fund s common stock. High yield securities tend to be more volatile than investment grade fixed income securities so that these events and other market disruptions may have a greater impact on the prices and volatility of high yield securities than on investment grade fixed income securities. There can be no assurance that these events and other market disruptions may not have other material and adverse implications for the high yield securities markets.

Recent Events. The debt and equity capital markets in the United States have been negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the repricing of credit risk in the broadly syndicated market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the resulting United States federal government actions have led to worsening general economic conditions, which have materially and adversely impacted the broader financial and credit markets and have reduced the availability of debt and equity capital for the market as a whole and financial firms in particular.

These events have been adversely affecting the willingness of some lenders to extend credit, in general, which may make it more difficult for issuers of debt securities to obtain financings or refinancings for their investment or lending activities or operations. There is a risk that such issuers will be unable to successfully complete such financings or refinancings. In particular, because of the current conditions in the credit markets, issuers of debt securities may be subject to increased cost for debt, tightening underwriting standards and reduced liquidity for loans they make, securities they purchase and securities they issue.

These events may increase the volatility of the value of securities owned by a Fund and/or result in sudden and significant valuation increases or declines in its portfolio. These events also may make it more difficult for a Fund to accurately value its securities or to sell its securities on a timely basis. These events could adversely affect the ability of a Fund to borrow for investment purposes, if it chose to do so, and increase the cost of such borrowings, which would reduce returns to the holders of shares of common stock. A significant decline in the value of a Fund s portfolios would likely result in a significant decline in the value of your investment in a Fund.

These events have adversely affected the broader economy, and may continue to do so, which in turn may adversely affect the ability of issuers of securities owned by a Fund to make payments of principal and interest when due, lead to lower credit ratings and increase defaults. There is also a risk that developments in sectors of the credit markets in which a Fund does not invest may adversely affect the liquidity and the value of securities in sectors of the credit markets in which a Fund does invest, including securities owned by Fund. Such developments could, in turn, reduce the value of securities owned by a Fund and adversely affect the net asset value of a Fund s shares of common stock.

Prolonged continuation or further deterioration of current market conditions could adversely impact a Fund s portfolio.

Government Intervention in Financial Markets. The recent instability in the financial markets discussed above has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity, including through direct purchases of equity in financial institutions. Federal, state, and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the instruments in which a Fund invests, or the issuers of such instruments, in ways that are unforeseeable. Legislation or regulation may also change the way in which a Fund is regulated. Such legislation or regulation could limit or preclude a Fund s ability to achieve its investment objective.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law in July 2010, is expected to result in a significant revision of the U.S. financial regulatory framework. The Dodd-Frank Act significantly revises and expands the rulemaking, supervisory and enforcement authority of federal bank, securities and commodities regulators. The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act including comprehensive regulation of the over-the-counter derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rulemaking, supervisory or enforcement actions that would adversely affect the Funds or investments made by the Funds. Possible regulatory actions taken under these revised and expanded powers may include actions related to financial consumer protection, proprietary trading and derivatives. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not have a material adverse effect on a Fund or will not impair the ability of the Fund to achieve its investment objective.

The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and a Fund and issuers of securities in which the Fund invests may be affected by the new legislation and regulation in ways that are currently unknown, unanticipated or unforeseeable. The regulation of various types of derivative instruments pursuant to the Dodd-Frank Act may adversely affect a Fund as well as issuers of securities in which the Fund invests that utilize derivatives strategies for hedging or other purposes. The implementation of the Dodd-Frank

Act could also adversely affect a Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase a Fund s and the Investment Advisor s exposure to potential liabilities. Increased regulatory oversight could also impose administrative burdens on a Fund and the Investment Advisor, including, without limitation, responding to investigations and implementing new policies and procedures. Any of these developments could reduce the profitability of a Fund by exposing it to additional costs, taxes, liabilities, enforcement actions and reputational risk.

Legislation Risk. At any time after the date of this Joint Proxy Statement/Prospectus, legislation may be enacted that could negatively affect the assets of a Fund or the issuers of such assets. Changing approaches to regulation may have a negative impact on the entities in which a Fund invests. Legislation or regulation may also change the way in which a Fund itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on a Fund or will not impair the ability of the Fund to achieve its investment objective.

EXPENSE TABLE FOR STOCKHOLDERS

Total Expenses Table for Stockholders of the Funds as of February 29, 2012

The table below illustrates the anticipated reduction in Total Expenses expected as a result of the Reorganizations. When we use the term Total Expenses, we mean a Fund s total annual operating expenses. When we use the term Total Expense Ratio, we mean a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its shares of common stock. The table sets forth (i) the Total Expenses paid by each Fund for the 12-month period ended February 29, 2012 and (ii) the *pro forma* Total Expenses for the Combined Fund, assuming the Reorganization had taken place on February 29, 2012. As shown below, the Reorganizations of the Funds are expected to result in a lower Total Expense Ratio for stockholders of each Fund for the period covered.

	FRB	DVF	FRA	Combined Fund (All Funds)(a)	Combined Fund (FRB and Acquiring Fund)(a)	Combined Fund (DVF and Acquiring Fund)(a)
Stockholder Transaction Expenses						
Maximum Sales Load (as a percentage of the offering price) imposed on purchases of shares of common stock(b)	None	None	None	None	None	None
Dividend Reinvestment and Cash Purchase Plan Fees	None	None	None	None	None	None
Annual Total Expenses (as a percentage of average net assets attributable to shares of common stock)						
Investment Management Fees(c)	1.00%	1.02%	1.00%	1.01%	1.00%	1.01%
Other Expenses	0.36%	0.38%	0.35%	0.28%	0.30%	0.30%
Interest Expense	0.32%	0.34%	0.32%	0.33%	0.32%	0.33%
Total Annual Fund Operating Expenses (Including Interest Expense)(d)(e)	1.68%	1.74%	1.67%	1.62%	1.62%	1.64%

(a) Assumes the Reorganizations had taken place on February 29, 2012.

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

(c) Each of the Funds currently pays the Investment Adviser a contractual management fee at an annual rate of 0.75% based on an aggregate of (i) the Combined Fund s average daily net assets (including proceeds from the issuance of any preferred stock) and (ii) the proceeds of any outstanding borrowings used for leverage (average daily managed assets). The contractual management fees will not increase following the Reorganizations as the Combined Fund will pay the Investment Adviser the same contractual management fee that each of the Funds currently pays the Investment Adviser. However, the effective management fee as a percentage of average net assets attributable to shares of common stock for the Combined Fund will increase by 0.01% for FRA and FRB because the Combined Fund utilizes a larger amount of leverage than FRA and FRB currently utilize.

(d) The Total Annual Fund Operating Expense (*excluding* interest expense) is 1.36% for FRB; 1.40% for DVF; 1.35% for FRA; 1.29% if all the Funds were combined; 1.30% if only FRB and FRA were combined; and 1.31% if only DVF and FRA were combined.

(e) For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively.

The following example is intended to help you compare the costs of investing in the shares of common stock of the Combined Fund *pro forma* if the Reorganization is completed with the costs of investing in FRB, DVF and the Acquiring Fund without the Reorganization. An investor in shares of common stock would pay the following expenses on a $1,000 investment, assuming (1) the Total Expense Ratio for each Fund set forth in the table above and (2) a 5% annual return throughout the period:

	1 Year	3 Years	5 Years	10 Years
FRB	$ 17	$ 53	$ 91	$ 199
DVF	$ 18	$ 55	$ 94	$ 205
Acquiring Fund	$ 17	$ 53	$ 91	$ 198
Combined Fund (All Target Funds into Acquiring Fund)	$ 16	$ 51	$ 88	$ 192
Combined Fund (FRB and Acquiring Fund)	$ 16	$ 51	$ 88	$ 192
Combined Fund (DVF and Acquiring Fund)	$ 17	$ 52	$ 89	$ 194

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

As shown above, for the 12-month period ended February 29, 2012, the Total Expense Ratios of FRB, DVF and FRA were 1.68%, 1.74% and 1.67%, respectively. The Funds estimate that the completion of the Reorganization would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012. See Reasons for the Reorganizations.

The Funds will bear expenses incurred in connection with the Reorganizations that are not reflected in Other Expenses, including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to stockholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganizations, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate.

Because each of the Funds has already incurred expenses solely and directly attributable to the Reorganizations and because each of the Target Funds is responsible for paying those expenses and FRA is responsible for paying its expenses in excess of $100,000, if such Fund s respective stockholders do not approve their Fund s respective Reorganization, such Fund will continue to be responsible for the expenses arising from its proposed Reorganization even though its proposed Reorganization will not occur and those expenses may be material. Because of the expected benefits outlined above for each Fund, and because, over time, the savings attributable to each Fund s participation in each Reorganization outweigh the costs associated with such Reorganization, the Investment Advisor recommended, and the Boards have approved, that DVF and FRB be responsible for their own Reorganization expenses and that FRA be responsible for its Reorganization expenses in excess of $100,000. See Reasons for the Reorganizations. Such expenses are estimated to be $930,000 in the aggregate, of which $300,000 is estimated to be attributable to FRB, $300,000 is estimated to be attributable to DVF, and $330,000 is estimated to be attributable to FRA, of which the Investment Advisor has agreed to pay $100,000. The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein. Neither the Funds nor the Investment Advisor will pay any expenses of stockholders arising out of or in connection with the Reorganizations.

REASONS FOR THE REORGANIZATIONS

The primary factors considered by the Board of each Fund with regard to the Reorganizations include, but are not limited to, the following:

1. The Combined Fund is expected to have a lower Total Expense Ratio than each of the Funds had prior to the Reorganization.

The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012.

2. The expectation that, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund.

3. Each Fund s stockholders will remain invested in a diversified, NYSE-listed, closed-end management investment company that will have substantially greater net assets and either the same or substantially similar (but not identical) investment objectives and policies and, as a result, the style and risk/return profile of the Combined Fund will remain comparable to those of each Target Fund stockholders current investments, subject to the differences described in Comparison of the Funds.

Each Fund s stockholders would continue to own a closed-end fund that (i) has the same investment adviser and portfolio managers as FRA, (ii) has comparable risk-return attributes as FRA, (iii) similarly focuses its investments in floating rate debt securities and instruments and (iv) trades at market price on the NYSE. See Investment Objectives and Policies for additional information regarding the Funds investment objective(s) and policies.

4. Under current market conditions and all other things being equal, the earnings rate of the Combined Fund is expected to be higher than the current earnings rate of each of the Funds, which is expected to support a higher distribution level based on net asset value for the Combined Fund than each Fund prior to the Reorganization.

5. The common shares of each Fund have historically fluctuated between a discount and a premium. As of May 4, 2012, FRA, FRB and DVF each traded at a discount to their respective NAV. To the extent FRB and DVF are trading at a wider discount (or a narrower premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent FRB and DVF are trading at a narrower discount (or wider premium) than FRA at the time of the Reorganizations, FRB and DVF shareholders may be negatively impacted if the Reorganizations are consummated. FRA shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves.

6. The Combined Fund is expected to achieve certain operating and administrative efficiencies from its larger net asset size. The larger net asset size of the Combined Fund could permit the Combined Fund to achieve certain economies of scale as certain fixed and variable costs can be spread over a larger asset base and the larger Combined Fund may realize greater investment flexibility and investment

options, greater diversification of portfolio investments, the ability to trade in larger positions, more favorable transaction terms, better trade execution, more consistent implementation of investment strategies, additional research coverage and greater liquidity.

7. The Combined Fund may experience potential benefits from having fewer closed-end funds in the market, including potential benefits from a more efficient secondary market and an increased focus by investors on the remaining funds in the market (including the Combined Fund), and fewer similar funds in the same fund complex, including potential benefits from easier product differentiation for stockholders (including stockholders of the Combined Fund).

8. The Combined Fund may provide greater secondary market liquidity for its shares of common stock as it would be larger than any of the Funds.

9. Stockholders will recognize no gain or loss for U.S. federal income tax purposes as a result of the Reorganizations (except with respect to cash received in lieu of fractional shares), as each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code.

10. Stockholders will benefit from the continuing experience and expertise of the portfolio management team designated for the Combined Fund and the team s commitment to the investment style and strategies to be used in managing the assets of the Combined Fund. See Management of the Funds. The portfolio guidelines of the Combined Fund will either be the same or substantially similar (but not identical) to that of each Target Fund, as described in greater detail elsewhere in this Joint Proxy Statement/Prospectus. As a result, it is not anticipated that there will be significant disposition of the holdings in each Target Fund as a result of the Reorganization. In addition, nothing will require the Funds to dispose of holdings in the Target Funds portfolio if, in the reasonable judgment of the Boards or the Investment Advisor, such disposition would adversely affect the tax-free nature of the Reorganizations for U.S. federal income tax purposes.

11. The aggregate net asset value of the shares of the Combined Fund that the Target Fund stockholders will receive in the Reorganization is expected to equal the aggregate net asset value (not the market value) of the Target Fund shares that the Target Fund stockholders owned immediately prior to the Reorganization, and the net asset value of Target Fund shares will not be diluted as a result of the Reorganization.

12. While the capital loss carryforwards of the Combined Fund attributable to each Target Fund that participates in a Reorganization will be subject to tax loss limitation rules by reason of such Target Fund undergoing an ownership change in the Reorganization, the Boards of the Target Funds currently expect that such tax loss limitation rules should not have a material adverse effect on the Combined Fund s utilization of each Target Fund s capital loss carryforward as compared with what each Target Fund s utilization of its own capital loss carryforward would be without the Reorganization. The actual effect of the loss limitation rules depends on many variables and assumptions, including projected performance, and is, therefore, highly uncertain.

The Board of each Fund believes that the Reorganizations would benefit stockholders of the Funds, based on a number of factors, including: (i) that stockholders would not be diluted with respect to net asset value; (ii) the relative similarity of the investment strategies and policies of the Funds; (iii) the larger net asset base of the Combined Fund after the Reorganizations; (iv) the capabilities of the management team of the Combined Fund that would manage the Combined Fund; and (v) the possibility of achieving economies of scale going forward while promoting more efficient operations, administration and portfolio management while also enabling greater diversification of investments, lower expense ratios as a result of a larger asset base and greater shareholder liquidity. Considering these and other reasons, the Board of each Fund unanimously concluded that completion of the Reorganizations is in the best interests of each Fund and its stockholders and that the interests of the stockholders of each Fund will not be diluted with respect to net asset value as a result of the Reorganizations. This determination was made on the basis of each Director s business judgment after consideration of all of the factors taken as a whole with respect to each Fund and its stockholders, although individual Directors may have placed different weight on various factors and assigned different degrees of materiality to various factors, particularly if all of the Reorganizations are approved, which the Boards believe is the most likely result of all of the potential combinations of proposed reorganizations.

PROPOSAL 1: THE REORGANIZATIONS OF THE TARGET FUNDS

The Reorganizations seek to combine three funds that are either the same or substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies. Each Fund is registered as a diversified, closed-end management investment company under the 1940 Act. Each Fund s shares of common stock are listed on the NYSE. The Funds have the same investment adviser. Each of the investment objectives and the investment strategies and restrictions of the Funds are the same or substantially similar (but not identical). Each of the Funds has the investment objective to provide high current income; however, the Acquiring Fund and FRB also seek to provide such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments. Each Fund s investment objective(s) is a fundamental policy and may not be changed without stockholder approval. Each Fund, under normal market conditions, invests at least 80% of its net assets in floating rate debt securities. DVF differs from the other Funds in that it may invest across a broader array of security types that are rated below investment grade including fixed rate securities that are purchased with a derivative instrument (a swap, for example) to make the securities floating rate.

The Board of each Fund, including the Independent Directors, has unanimously approved each Reorganization Agreement. In each Reorganization, each Target Fund will merge with and into the Merger Subsidiary, and each Target Fund will terminate its registration under the 1940 Act. Following the Reorganizations, the Merger Subsidiary will dissolve under Maryland law and be liquidated into the Acquiring Fund. The outstanding shares of common stock of each Target Fund will be exchanged for newly-issued Acquiring Fund Shares, par value $0.10 per share. The aggregate net asset value of Acquiring Fund Shares received by a Target Fund s stockholders in each Reorganization will equal the aggregate net asset value (not the market value) of Target Fund shares of common stock held immediately prior to that Reorganization, less the costs of that Reorganization (although stockholders may receive cash for their fractional shares of common stock). The Acquiring Fund will continue to operate as a registered, diversified, closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

The Boards have reviewed data presented by the Investment Advisor and believe that the Reorganizations generally would result in a reduced Total Expense Ratio for each of the Funds as certain fixed administrative costs would be spread across the Combined Fund s larger asset base. If the Reorganizations are approved, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.75% of the Combined Fund s average daily managed assets. Because each of the Funds borrows for investment purposes and the Combined Fund intends to borrow for investment purposes, the Combined Fund s managed assets will generally be equal to the total assets of the Combined Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage).

For the fiscal year ended August 31, 2011, the Total Expense Ratios of FRA and DVF were 1.60% and 1.74%, respectively. For the fiscal year ended February 29, 2012, FRB s Total Expense Ratio was 1.68% and for the 12-month period ended February 29, 2012, FRA s and DVF s Total Expense Ratios were 1.67% and 1.74%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.62% on a *pro forma* basis for the 12-month period ended February 29, 2012.

The table below shows the projected Total Expense Ratios on a *pro forma* basis for each possible combination of Funds for the 12-month period ended February 29, 2012.

	***Pro Forma* Combined Fund (All Funds)**	***Pro Forma* Combined Fund (FRB and Acquiring Fund)**	***Pro Forma* Combined Fund (DVF Acquiring Fund)**
Total Expense Ratios	1.62%	1.62%	1.64%

In approving the proposed Reorganizations, the Board of each Fund, including the Independent Directors, determined that participation in the Reorganizations is in the best interests of each Fund and its stockholders and that the interests of each Fund s stockholders will not be diluted with respect to the net asset value of such Fund as a result of its Reorganization. Before reaching these conclusions, the Board of each Fund, including the Independent Directors, engaged in a thorough review process relating to the proposed Reorganizations. The Boards of the Funds also received a memorandum outlining, among other things, the legal standards and certain other considerations relevant to the Boards deliberations. The Boards of the Funds, including all of the Independent Directors, approved the Reorganization at a meeting held on May 22-23, 2012.

Considering these and other reasons, the Board of each Target Fund unanimously concluded that completion of the Reorganizations is in the best interests of each Target Fund and its stockholders and that the interests of the stockholders of each Target Fund will not be diluted as a result of the Reorganizations. This determination was made on the basis of each Director s business judgment after consideration of all of the factors taken as a whole with respect to each Target Fund and its stockholders, although individual Directors may have placed different weight and assigned different degrees of materiality to various factors. See Reasons for the Reorganization.

If a Reorganization is not approved by a Target Fund s stockholders, such Target Fund will continue to operate for the time being as a standalone Maryland corporation, and will continue to be advised by the Investment Advisor. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganization by the other Funds.

The Target Fund Boards have determined that the Reorganizations are in the best interests of each Target Fund and the stockholders of each Target Fund and that the interests of such stockholders will not be diluted as a result of their Fund s Reorganization. Similarly, the Acquiring Fund Board has determined that each Reorganization is in the best interests of the Acquiring Fund and its stockholders and that the interests of such stockholders will not be diluted as a result of each Reorganization. As a result of the Reorganizations, however, stockholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds.

Each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If a Reorganization so qualifies, in general, stockholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund shares of common stock for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Funds will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither Acquiring Fund nor its stockholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to each Reorganization. It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund receive an opinion from Skadden Arps, dated as of the Closing Date, regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code.

The Target Fund Boards request that stockholders of each Target Fund approve their Fund s proposed Reorganization at the Special Meeting to be held on Thursday, September 13, 2012 at 9:00 a.m. Stockholder approval of each Reorganization requires the affirmative vote by stockholders of each Target Fund representing a majority of the outstanding shares of common stock entitled to vote on the Reorganization. Subject to the requisite approval of the stockholders of each Target Fund with regard to each Reorganization, it is expected that the Closing Date will be after the close of business on or about October 12, 2012, but it may be at a different time as described herein.

For additional information regarding voting requirements, see Voting Information and Requirements.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The FRB Board recommends that stockholders of FRB vote **FOR** FRB s proposed Reorganization.

The DVF Board recommends that stockholders of DVF vote **FOR** DVF s proposed Reorganization.

INVESTMENT OBJECTIVES AND POLICIES

The structure, organization and investment policies of the Funds are substantially similar. Each Fund is a diversified, closed-end management investment company registered under the 1940 Act. Each Fund s shares of common stock are also listed for trading on the NYSE. The investment objectives of the Funds are substantially similar. Each of the Funds has the investment objective to provide high current income; however, the Acquiring Fund and FRB also seek to provide such preservation of capital as is consistent with investment in a diversified, leveraged portfolio consisting primarily of floating rate debt securities and instruments. The investment objective(s) of each Fund is a fundamental policy of such Fund and may not be changed without stockholder approval.

Each Fund seeks to achieve its investment objective by investing primarily in floating rate debt securities.

The Funds investment policies and restrictions are the same or substantially similar (but not identical). Under normal market conditions, the Funds invest at least 80% of such Fund s net assets in floating rate debt securities. DVF differs from the other Funds in that it may invest in a broader array of security types including fixed rate securities that are purchased with a derivative instrument (a swap, for example) to make the securities floating rate. For a comparison of the Funds, see Comparison of the Funds.

Each Fund currently utilizes leverage for investment purposes. At times, each Fund utilizes leverage through borrowings, the issuance of short term debt securities, the issuance of shares of preferred stock or a combination thereof. Each Fund has the ability to utilize leverage through borrowings or the issuance of short term debt securities in an amount up to $33^{1/3}$% of the value of its total assets (including the amount obtained from such borrowings or debt issuance). Each Fund also has the ability to utilize leverage through the issuance of shares of preferred stock in an amount up to 50% of the value of its total assets (including the amount obtained from such issuance).

Each Fund is classified as diversified within the meaning of the 1940 Act, which means that it is must satisfy the 5% and 10% requirements (described below) with respect to 75% of its total assets. Each Fund s investments will be limited so as to qualify the Fund as a regulated investment company for purposes of Federal tax laws. Requirements for qualification include limiting its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund s total assets will be invested in (A) the securities of a single issuer (other than U.S. Government securities and securities of other regulated investment companies), (B) the securities of two or more issuers (other than securities of other regulated investment companies) controlled by the Fund and engaged in the same, similar or related trades or businesses, or (C) the securities of one or more qualified publicly traded partnerships, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer and the Fund will not own more than 10% of the outstanding voting securities of a single issuer (other than U.S. Government securities and securities of other regulated investment companies).

Floating Rate Debt Securities

Under normal market conditions each Fund will invest at least 80% of an aggregate of (i) such Fund s net assets (including proceeds from the issuance of any preferred stock) and (ii) the proceeds of any outstanding borrowings for investment purposes, in floating rate debt securities. Floating rate debt securities include floating or variable rate securities that pay interest at rates that adjust whenever a specified interest rate changes and/or which reset on predetermined dates (such as the last day of a month or calendar quarter). In addition to senior loans, these floating rate debt securities may include, without limitation, instruments such as catastrophe and other event linked bonds, bank capital securities, corporate bonds, notes, money market instruments and certain types of mortgage related and other asset backed securities. Due to their floating or variable rate features, these instruments will generally pay higher levels of income in a rising interest rate environment and lower levels of income as interest rates decline. For the same reason, the market value of a floating rate debt security is generally expected to have less sensitivity to fluctuations in market interest rates than a fixed rate debt instrument, although the value of a floating rate debt security may nonetheless decline as interest rates rise and due to other factors, such as real or perceived changes in credit quality or financial condition of the issuer or borrower, volatility in the capital markets or other adverse market conditions.

Senior Loans

Under normal market conditions each Fund anticipates investing a substantial portion of its floating rate debt assets in senior loans. The senior loans in which each Fund invests primarily consist of direct obligations of a borrower undertaken to finance the growth of the borrower s business, internally or externally, or to finance a capital restructuring. Senior loans may also include debtor in possession financings pursuant to Chapter 11 of the U.S. Bankruptcy Code and obligations of a borrower issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code. A significant portion of such senior loans are highly leveraged loans such as leveraged buy-out loans, leveraged recapitalization loans and other types of acquisition loans. Such senior loans may be structured to include both term loans, which are generally fully funded at the time of each Fund s investment, and revolving credit facilities or delayed draw term loans, which would require such Fund to make additional investments in the senior loans as required under the terms of the credit facility. Such senior loans may also include receivables purchase facilities, which are similar to revolving credit facilities secured by a borrower s receivables. Senior loans generally are issued in the form of senior syndicated loans, but each Fund also may invest from time to time in privately placed notes, credit linked notes, structured notes or other instruments with credit and pricing terms which are, in the opinion of the Investment Adviser, consistent with investments in senior loan obligations.

Each Fund may invest without limitation in debt securities of issuers domiciled outside the United States. The Acquiring Fund, however, will not invest more than 10% of its total assets in debt securities of issuers located in emerging market countries. The Acquiring Fund will not invest more than 10% of its total assets in debt securities denominated in currencies other than the U.S. dollar or that do not provide for payment to the Acquiring Fund in U.S. dollars. Investments in foreign securities involve certain risks not involved in domestic investments. Loans to such non-U.S. borrowers involve risks not typically involved in domestic investment, including fluctuation in foreign exchange rates, future foreign political and economic developments, and the possible imposition of exchange controls or other foreign or U.S. governmental laws or restrictions applicable to such loans. With respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments which could affect the Acquiring Fund s investments in those countries. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payment position. In addition, information with respect to non-U.S. borrowers may differ from that available with respect to U.S. borrowers, since foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. borrowers.

The senior loans in which each Fund invests generally hold a senior position in the capital structure of the borrower. Such loans may include loans that hold the most senior position, loans that hold an equal ranking with other senior debt, or loans that are, in the judgment of the Investment Adviser, in the category of senior debt. A senior position in the borrower s capital structure generally gives the holder of the senior loan a claim on some or all of the borrower s assets that is senior to that of subordinated debt, preferred stock and common stock in the event the borrower defaults or becomes bankrupt. The senior loans in which each Fund invests may be wholly or partially secured by collateral, or may be unsecured. In the event of a default, the ability of an investor to have access to any collateral may be limited by bankruptcy and other insolvency laws. The value of the collateral also may decline subsequent to each Fund s investment in the senior loan. Under certain circumstances, the collateral may be released with the consent of the Agent Bank and Co-Lenders (each as defined below), or pursuant to the terms of the underlying credit agreement with the borrower. There is no assurance that the liquidation of the collateral will satisfy the borrower s obligation in the event of nonpayment of scheduled interest or principal, or that the collateral could be readily liquidated. As a result, a Fund might not receive payments to which it is entitled and thereby may experience a decline in the value of the investment, and possibly, its net asset value.

In the case of highly leveraged senior loans, a borrower is often required to pledge collateral that may include (i) working capital assets, such as accounts receivable and inventory, (ii) tangible fixed assets, such as real property, buildings and equipment, (iii) intangible assets, such as trademarks, copyrights and patent rights and/or (iv) security interests in securities of subsidiaries or affiliates. Collateral also may include guarantees or other credit support by subsidiaries or affiliates. In some cases the only collateral for the senior loan is the stock of the borrower and/or its subsidiaries and affiliates. To the extent a senior loan is secured by stock of the borrower and/or its subsidiaries and affiliates, such stock may lose all of its value in the event of a bankruptcy or insolvency of the borrower. In the case of senior loans to privately held companies, the companies owners may provide additional credit support in the form of guarantees and/or pledges of other securities that they own.

In the case of project finance loans, the borrower is generally a special purpose entity that pledges undeveloped land and other non-income producing assets as collateral and obtains construction completion guaranties from third parties, such as the project sponsor. Project finance credit facilities typically provide for payment of interest from escrowed funds during a scheduled construction period, and for the pledge of current and fixed assets after the project is constructed and becomes operational. During the construction period, however, the lenders bear the risk that the project will not be constructed in a timely manner, or will exhaust project funds prior to completion. In such an event, the lenders may need to take legal action to enforce the completion guaranties, or may need to lend more money to the project on less favorable financing terms, or may need to liquidate the undeveloped project assets. There can be no assurance in any of such cases that the lenders will recover all of their invested capital.

The rate of interest payable on senior floating rate loans is established as the sum of a base lending rate plus a specified margin. These base lending rates generally are the prime rate (Prime Rate) of a designated U.S. bank, London Interbank Offered Rate (LIBOR), the Certificate of Deposit (CD) rate or another base lending rate used by commercial lenders. The interest rate on Prime Rate-based senior loans floats daily as the Prime Rate changes, while the interest rate on LIBOR-based and CD-based senior loans is reset periodically, typically every one, two, three or six months. Certain of the senior floating rate loans in which each Fund invests permit the borrower to select an interest rate reset period of up to one year. A portion of each Fund s portfolio may be invested in senior loans with interest rates that are fixed for the term of the loan. Investment in senior loans with longer interest rate reset periods or fixed interest rates may increase fluctuations in each Fund s net asset value, and potentially the market price of each Fund s shares of common stock, as a result of changes in interest rates.

Each Fund may receive and/or pay certain fees in connection with its lending activities. These fees are in addition to interest payments received and may include facility fees, commitment fees, amendment and waiver fees, commissions and prepayment fees. In certain circumstances, each Fund may receive a prepayment fee on the prepayment of a senior loan by a borrower. In connection with the acquisition of senior loans or other debt securities, each Fund also may acquire warrants and other debt and equity securities of the borrower or issuer or its affiliates. The acquisition of such debt and equity securities will only be incidental to each Fund s purchase of an interest in a senior loan or other debt security. Each Fund may also acquire other debt and equity securities of the borrower or issuer in connection with an amendment, waiver, conversion or exchange of a senior loan or in connection with a bankruptcy or workout of the borrower or issuer.

In making an investment in a senior loan, the Investment Adviser will consider factors deemed by it to be appropriate to the analysis of the borrower and the senior loan. The Investment Adviser performs its own independent credit analysis of the borrower in addition to utilizing information prepared and supplied by the Agent Bank, Co-Lender or Participant (each defined below) from whom each Fund purchases its interest in a senior loan. Such factors include, but are not limited to, the legal/protective features associated with the securities (such as their position in the borrower s capital structure and any security through collateral), financial ratios of the borrower such as pre-tax interest coverage, leverage ratios, and the ratios of cash flows to total debts and the ratio of tangible assets to debt. In its analysis of these factors, the Investment Adviser also will be influenced by the nature of the industry in which the borrower is engaged, the nature of the borrower s assets and the Investment Adviser s assessments of the general quality of the borrower. The Investment Adviser s analysis continues on an ongoing basis for any senior loans in which each Fund has invested. Although the Investment Adviser uses due care in making such analysis, there can be no assurance that such analysis will disclose factors that may impair the value of the senior loan.

Senior loans made in connection with highly leveraged transactions are subject to greater credit risks than other senior loans in which each Fund may invest. These credit risks include a greater possibility of default or bankruptcy of the borrower and the assertion that the pledging of collateral to secure the loan constituted a fraudulent conveyance or preferential transfer which can be nullified or subordinated to the rights of other creditors of the borrower under applicable law.

The secondary market for trading of senior loans continues to develop and mature. One of the effects of a more active and liquid secondary market, however, is that a senior loan may trade at a premium or discount to the principal amount, or par value, of the loan. There are many factors that influence the market value of a senior loan, including technical factors relating to the operation of the loan market, supply and demand conditions, market perceptions about the credit quality or financial condition of the borrower or more general concerns about the industry in which the borrower operates. Each Fund participates in this secondary market for senior loans, purchasing and selling loans that may trade at a premium or discount to the par value of the loan.

The Acquiring Fund does not have a policy with regard to minimum ratings for senior loans in which it may invest, except that the Acquiring Fund may not invest more than 10% of its total assets in securities that are rated Caa1 or lower (if rated by Moody s) or CCC+ or lower (if rated by S&P) by each agency rating such security or, if unrated, are considered by the Investment Adviser to be of comparable quality or are otherwise considered to be Distressed Securities. Investments in senior loans are based primarily on the Investment Adviser s independent credit analyses of a particular borrower.

A borrower must comply with various restrictive covenants contained in any credit agreement between the borrower and the lending syndicate. Such covenants, in addition to requiring the scheduled payment of interest and principal, may include restrictions on dividend payments and other distributions to stockholders, provisions requiring the borrower to maintain specific financial ratios or relationships, limits on total debt and restrictions on the borrower s ability to pledge its assets. In addition, the loan agreement may contain a covenant requiring the borrower to prepay the senior loan with any excess cash flow. Excess cash flow generally includes net cash flow after scheduled debt service payments and permitted capital expenditures, among other things, as well as the proceeds from asset dispositions or sales of securities. A breach of a covenant (after giving effect to any cure period) which is not waived by the Agent Bank and the lending syndicate normally is an event of default (i.e., the Agent Bank has the right to call the outstanding senior loan).

It is expected that a majority of the senior loans will have stated maturities ranging from three to ten years. However, such senior loans usually require, in addition to scheduled payments of interest and principal, the prepayment of the senior loan from excess cash flow, as discussed above, and typically permit the borrower to prepay at its election. The degree to which borrowers prepay senior loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the borrower and competitive conditions among lenders, among other factors. Accordingly, prepayments cannot be predicted with accuracy. Upon a prepayment, the Acquiring Fund may receive both a prepayment fee from the prepaying borrower and a facility fee on the purchase of a new senior loan with the proceeds from the prepayment of the former. Such fees may mitigate any adverse impact on the yield on the Acquiring Fund s portfolio which may arise as a result of prepayments and the reinvestment of such proceeds in senior loans bearing lower interest rates.

A senior loan in which the Acquiring Fund may invest typically is originated, negotiated and structured by a syndicate of lenders (Co-Lenders) consisting of commercial banks, thrift institutions, insurance companies, finance companies, investment banking firms, securities brokerage houses or other financial institutions or institutional investors, one or more of which administers the loan on behalf of the syndicate (the Agent Bank). Co-Lenders may sell senior loans to third parties (Participants). The Acquiring Fund invests in a senior loan either by participating in the primary distribution as a Co-Lender at the time the loan is originated or by buying an assignment or participation interest in the senior loan in the secondary market from a Co-Lender or a Participant. The Acquiring Fund will not act as an Agent Bank, guarantor, sole negotiator or sole structurer with respect to a senior loan.

The Acquiring Fund may invest in a senior loan at origination as a Co-Lender or by acquiring an assignment or participation interest in the secondary market from a Co-Lender or Participant. If the Acquiring Fund purchases an assignment, the Acquiring Fund typically accepts all of the rights of the assigning lender in a senior loan, including the right to receive payments of principal and interest and other amounts directly from the borrower and to enforce its rights as a lender directly against the borrower and assumes all of the obligations of the assigning lender, including any obligations to make future advances to the borrower. As a result, therefore, the Acquiring Fund has the status of a Co-Lender. In some cases, the rights and obligations acquired by a purchaser of an assignment may differ from, and may be more limited than, the rights and obligations of the assigning lender. The Acquiring Fund also may purchase a participation in a portion of the rights of a Co-Lender or Participant in a senior loan by means of a participation agreement. A participation is similar to an assignment in that the Co-Lender or Participant transfers to the Acquiring Fund all or a portion of an interest in a senior loan. Unlike an assignment, however, a participation does not establish any direct relationship between the Acquiring Fund and the borrower. In such a case, the Acquiring Fund is required to rely on the Co-Lender or Participant that sold the participation not only for the enforcement of the Acquiring Fund s rights against the borrower but also for the receipt and processing of payments due to the Acquiring Fund under the senior loans.

Because it may be necessary to assert through a Co-Lender or Participant such rights as may exist against the borrower, in the event the borrower fails to pay principal and interest when due, the Acquiring Fund may be subject to delays, expenses and risks that are greater than those that would be involved if the Acquiring Fund could enforce its rights directly against the borrower. Moreover, under the terms of a participation, the Acquiring Fund may be regarded as a creditor of the Co-Lender or Participant that sold the participation (rather than of the borrower), so that the Acquiring Fund may also be subject to the risk that the Co-Lender or Participant may become insolvent. Similar risks may arise with respect to the Agent Bank, as described below. Further, in the event of the bankruptcy or insolvency of the borrower, the obligation of the borrower to repay the senior loan may be subject to certain defenses that can be asserted by such borrower as a result of improper conduct by the Agent Bank, Co-Lender or Participant.

In a typical senior loan, the Agent Bank administers the terms of the credit agreement and is responsible for the collection of principal and interest and fee payments from the borrower and the apportionment of these payments to the credit of all lenders which are parties to the credit agreement. The Acquiring Fund generally relies on the Agent Bank (or the Co-Lender or Participant that sold the Acquiring Fund a participation interest) to collect its portion of the payments on the senior loan. Furthermore, the Acquiring Fund generally relies on the Agent Bank to use appropriate creditor remedies against the borrower. Typically, under credit agreements, the Agent Bank is given broad discretion in enforcing the credit agreement, and is obligated to use only the same care it would use in the management of its own property. The borrower compensates the Agent Bank for these services. Such compensation may include special fees paid on structuring and funding the senior loan and other fees paid on a continuing basis.

In the event that an Agent Bank becomes insolvent, or has a receiver, conservator, or similar official appointed for it by the appropriate bank regulatory authority or becomes a debtor in a bankruptcy proceeding, assets held by the Agent Bank under the credit agreement should remain available to holders of senior loans.

If, however, assets held by the Agent Bank for the benefit of the Acquiring Fund were determined by an appropriate regulatory authority or court to be subject to the claims of the Agent Bank s general or secured creditors, the Acquiring Fund might incur certain costs and delays in realizing payment on a senior loan or suffer a loss of principal and/or interest. In situations involving a Co-Lender or Participant that sold the Acquiring Fund a participation interest, similar risks may arise, as described above.

The Acquiring Fund may have certain obligations pursuant to a credit agreement, which may include the obligation to make future advances to the borrower in connection with revolving credit facilities in certain circumstances. These commitments may have the effect of requiring the Acquiring Fund to increase its investment in a borrower at a time it might not be desirable to do so (including at a time when the borrower s financial condition makes it unlikely that such amounts will be repaid). The Acquiring Fund currently intends to reserve against such contingent obligations by segregating sufficient investments in liquid assets. The Acquiring Fund will not invest in senior loans that would require the Acquiring Fund to make any additional investments in connection with such future advances if such commitments would cause the Acquiring Fund to fail to meet the diversification requirements described under Investment Restrictions.

High Yield Securities

The Acquiring Fund may invest without limit and generally intends to invest a substantial portion of its assets in high yield securities, including senior loans and other floating or fixed rate debt securities, that are rated below investment grade by the established rating services (Ba or lower by Moody s or BB or lower by S&P) or, if unrated, are considered by the Investment Adviser to be of comparable quality. The Acquiring Fund may not, however, invest more than 10% of its total assets (at the time of investment) in securities that are rated Caa1 or lower (if rated by Moody s) or CCC+ or lower (if rated by S&P) by each agency rating such security or, if unrated, are considered by the Investment Adviser to be of comparable quality or are otherwise considered to be Distressed Securities. High yield bonds commonly are referred to as junk bonds. See Appendix A Ratings of Securities for information concerning rating categories.

Selection and supervision of high yield securities by the Investment Adviser involves continuous analysis of individual issuers, general business conditions and other factors which may be too time-consuming or too costly for the average investor. The furnishing of these services does not, of course, guarantee successful results. The Investment Adviser s analysis of issuers includes, among other things, historic and current financial conditions, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical costs, strength of management, responsiveness to business conditions, credit standing, and current and anticipated results of operations. Analysis of general conditions and other factors may include anticipated change in economic activity and interest rates, the availability of new investment opportunities and the economic outlook for specific industries. While the Investment Adviser considers as one factor in its credit analysis the ratings assigned by the rating services, the Investment Adviser performs its own independent credit analysis of issuers and, consequently, the Acquiring Fund may invest, without limit, in unrated securities. As a result, the Acquiring Fund s ability to achieve its investment objective may depend to a greater extent on the Investment Adviser s own credit analysis than investment companies which invest in investment grade securities. The Acquiring Fund may continue to hold securities that are downgraded after the Acquiring Fund purchases them and will sell such securities only if, in the Investment Adviser s judgment, it is advantageous to sell such securities.

Investments in high yield securities generally provide greater income than investments in investment grade securities, but they also typically entail greater price volatility and principal and income risk, including the possibility of issuer default and bankruptcy. High yield securities are regarded as being predominantly speculative as to the issuer s ability to make repayments of principal and payments of interest. Investment in such securities involves substantial risk. Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers generally are greater than is the case with investment grade securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of high yield securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During periods of economic downturn, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer s ability to service its debt obligations also may be adversely affected by specific issuer developments, or the issuer s inability to meet specific projected business forecasts or the unavailability of additional financing. Therefore, there can be no assurance that in the future there will not exist a higher default rate relative to the rates currently existing in the high yield market. If an issuer of high yield securities defaults, in addition to risking non-payment of all or a portion of interest and principal, the Acquiring Fund may incur additional expenses to seek recovery. The market prices of high yield securities structured as zero-coupon, step-up or payment-in-kind securities will normally be affected to a greater extent by interest rate changes, and therefore tend to be more volatile than the prices of securities that pay interest currently and in cash. Other than with respect to Distressed Securities (which are discussed below), the high yield securities in which the Acquiring Fund may invest do not include securities which, at the time of investment, are in default or the issuers of which are in bankruptcy. However, there can be no assurance that such events will not occur after the Acquiring Fund purchases a particular security, in which case the Acquiring Fund may experience losses and incur costs.

High yield securities tend to be more volatile than investment grade securities, so that adverse events may have a greater impact on the prices of high yield securities than on investment grade securities. Factors adversely affecting the market value of such securities are likely to affect adversely the Acquiring Fund s net asset value, and potentially the market price of the Acquiring Fund s shares of common stock.

Like investment grade securities, high yield securities generally are purchased and sold through dealers who make a market in such securities for their own accounts. However, there are fewer dealers in the high yield market, which market may be less liquid than the market for investment grade securities, even under normal economic conditions. This is particularly the case in the senior loan market. Also, there may be significant disparities in the prices quoted for high yield securities by various dealers and the spread between the bid and asked price is generally much larger than for investment grade securities. As a result, the Acquiring Fund may experience difficulty acquiring appropriate high yield securities for investment.

Adverse conditions and investor perceptions thereof (whether or not based on economic fundamentals) may impair liquidity in the high yield market, and in particular the senior loan market, and may cause the prices the Acquiring Fund receives for its high yield securities to be reduced. In addition, the Acquiring Fund may experience difficulty in liquidating a portion of its portfolio when necessary to meet the Acquiring Fund s liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer. Under such conditions, judgment may play a greater role in valuing certain of the Acquiring Fund s portfolio securities than in the case of securities trading in a more liquid market. In addition, the Acquiring Fund may incur additional expenses if it is forced to seek recovery upon a default of a portfolio holding or if it participates in the restructuring of the obligation.

The risk of loss due to default by an issuer is significantly greater for the holders of junk bonds because such securities are often unsecured and subordinated to other creditors of the issuer. In addition, junk bonds may have call or redemption features that permit an issuer to repurchase the securities from the Acquiring Fund. If a call were exercised by an issuer during a period of declining interest rates, the Acquiring Fund likely would have to replace such called securities with lower yielding securities, thus decreasing the net investment income to the Acquiring Fund and dividends to stockholders.

The high yield securities in which the Acquiring Fund invests may include credit linked notes, structured notes, credit linked trust certificates or other instruments evidencing interests in special purpose vehicles or trusts that hold interests in high yield securities.

Distressed Securities

Distressed Securities are high yield/high risk securities, including certain senior loans purchased in the secondary market, that are the subject of bankruptcy proceedings or otherwise in default as to the repayment of principal and/or payment of interest at the time of acquisition by the Acquiring Fund or are rated in the lowest rating categories (Ca or lower by Moody s or CC or lower by S&P) or, if unrated, are considered by the Investment Adviser to be of comparable quality. Investment in Distressed Securities is speculative and involves significant risk. Distressed Securities frequently do not produce income while they are outstanding and may require the Acquiring Fund to bear certain extraordinary expenses in order to protect and recover its investment. The Acquiring Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the Distressed Securities will eventually be satisfied (e.g., through a liquidation of the obligor s assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to Distressed Securities held by the Acquiring Fund, there can be no assurance that the securities or other assets received by the Acquiring Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by the Acquiring Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Acquiring Fund s participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of Distressed Securities, the Acquiring Fund may be restricted from disposing of such securities.

Other Investments

The Acquiring Fund may invest up to 20% of its total assets in securities other than floating rate debt securities. These securities include, but are not limited to, fixed rate debt securities such as convertible securities, bonds, notes, fixed rate loans and mortgage related and other asset backed securities issued on a public or private basis, collateralized debt obligations, preferred securities, commercial paper, U.S. government securities, structured notes, credit linked notes, credit linked trust certificates and other hybrid instruments.

To a limited extent, incidental to and in connection with its investment activities or pursuant to a convertible feature in a security, the Acquiring Fund may acquire warrants and other debt and equity securities. The Acquiring Fund may also acquire other debt and equity securities of a borrower or issuer in connection with an amendment, waiver, conversion or exchange of a senior loan or other debt security or in connection with a bankruptcy or workout of the borrower or issuer.

Bonds

The Acquiring Fund may invest in bonds of varying maturities issued by U.S. and non-U.S. corporations and other business or governmental entities. Bonds can be variable or fixed rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a variable or fixed rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are perpetual in that they have no maturity date. The Acquiring Fund may also invest in catastrophe or other event linked bonds.

Zero-coupon bonds pay interest only at maturity rather than at intervals during the life of the security. Like zero-coupon bonds, step up bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (PIKs) are debt obligations that pay interest in the form of other debt obligations, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds, step-ups 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 Acquiring Fund would be required to distribute the income on these instruments as it accrues, even though the Acquiring Fund will not receive the income on a current basis or in cash. Thus, the Acquiring Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its stockholders.

Preferred Securities

The Acquiring Fund may invest in preferred securities, including preferred securities that may be converted into common stock or other securities of the same or a different issuer. Generally, preferred securities receive dividends in priority to distributions on common stock and usually have a priority of claim over common stockholders if the issuer of the stock is liquidated. Preferred securities have certain characteristics of both debt and equity securities. Like debt securities, preferred securities rate of income is generally contractually fixed. Like equity securities, preferred securities do not have rights to precipitate bankruptcy filings or collection activities in the event of missed payments. Furthermore, preferred securities are generally in a subordinated position in an issuer s capital structure and their value is heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows. Certain preferred securities in which the Acquiring Fund may invest have a variable dividend, generally determined on a quarterly or other periodic basis, either according to a formula based upon a specified premium or discount to the yield on particular U.S. Treasury securities or based on an auction process, involving bids submitted by holders and prospective purchasers of such securities. Some preferred securities in which the Acquiring Fund may invest offer a fixed rate of return with no maturity date. Because they never mature, these preferred securities act like long term bonds, can be more volatile than other types of preferred securities and may have heightened sensitivity to changes in interest rates. Because preferred securities represent an equity ownership interest in a company, their value usually will react more strongly than bonds and other debt securities to actual or perceived changes in a company s financial condition or prospects, or to fluctuations in the equity markets. The types of preferred securities in which the Acquiring Fund may invest include trust preferred securities.

Convertible Securities

The Acquiring Fund may invest in convertible securities. A convertible security is a bond, debenture, note or preferred security that may be converted into or exchanged for a prescribed amount of common stock or other securities of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest or dividends generally paid or accrued until the convertible security matures or is redeemed, converted or exchanged. Convertible securities, including convertible preferred securities, have several unique investment characteristics such as (i) higher yields than common stocks, but lower yields than comparable nonconvertible securities, (ii) a lesser degree of fluctuation in value than the underlying stock since they have fixed income characteristics and (iii) the potential for capital appreciation if the market price of the underlying common stock increases. Holders of convertible securities have a claim on the assets of the issuer prior to the common stockholders but may be subordinated to similar non-convertible securities of the same issuer. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security s governing instrument. If a convertible security held by the Acquiring Fund is called for redemption, the Acquiring Fund may be required to permit the issuer to redeem the security, convert it into the underlying common stock or other securities or sell it to a third party.

Mortgage and Asset Backed Securities

Mortgage backed securities are pass through securities, meaning that principal and interest payments made by the borrower on the underlying mortgages are passed through to the Acquiring Fund. The value of mortgage backed securities, like that of traditional fixed rate securities, typically increases when interest rates fall and decreases when interest rates rise. However, mortgage backed securities differ from traditional fixed rate securities because of their potential for prepayment without penalty. The price paid by the Acquiring Fund for its mortgage backed securities, the yield the Acquiring Fund expects to receive from such securities and the average life of the securities are based on a number of factors, including the anticipated rate of prepayment of the underlying mortgages. In a period of declining interest rates, borrowers may prepay the underlying mortgages more quickly than anticipated, thereby reducing the yield to maturity and the average life of the mortgage backed securities. Moreover, when the Acquiring Fund reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid.

To the extent that the Acquiring Fund purchases mortgage backed securities at a premium, mortgage foreclosures and principal prepayments may result in a loss to the extent of the premium paid. If the Acquiring Fund buys such securities at a discount, both scheduled payments of principal and unscheduled prepayments will increase current and total returns and will accelerate the recognition of income which, when distributed to shareholders, will be taxable as ordinary income. In a period of rising interest rates, prepayments of the underlying mortgages may occur at a slower than expected rate, creating maturity extension risk. This particular risk may effectively change a security that was considered short or intermediate term at the time of purchase into a long term security. Since long term securities generally fluctuate more widely in response to changes in interest rates than short term securities, maturity extension risk could increase the inherent volatility of the Acquiring Fund.

The mortgage backed securities in which the Acquiring Fund may invest may be guaranteed by the Government National Mortgage Association (GNMA) or issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC). Certain of the asset backed securities in which the Acquiring Fund will invest may be guaranteed by the Small Business Administration (SBA) or issued in programs originated by the Resolution Trust Corporation (RTC). GNMA, FNMA, FHLMC and SBA are agencies or instrumentalities of the United States.

The Acquiring Fund may invest in pass through mortgage backed securities that represent ownership interests in a pool of mortgages on single-family or multi-family residences. Such securities represent interests in pools of residential mortgage loans originated by U.S. governmental or private lenders and guaranteed, to the extent provided in such securities, by the U.S. Government, one of its agencies or instrumentalities or by private guarantors. Such securities, which are ownership interests in the underlying mortgage loans, differ from conventional debt securities, which provide for periodic payment of interest in fixed amounts (usually semiannually) and principal payments at maturity or on specified call dates. Mortgage pass through securities provide for monthly payments that pass through the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans, net of any fees paid to the guarantor of such securities and the servicer of the underlying mortgage loans. The Acquiring Fund may also invest in collateralized mortgage obligations (CMOs) which are debt obligations collateralized by mortgage loans or mortgage pass through securities.

Asset backed securities are pass through securities, meaning that principal and interest payments made by the borrower on the underlying assets (such as credit card receivables) are passed through to the Acquiring Fund. The value of asset backed securities, like that of traditional fixed rate securities, typically increases when interest rates fall and decreases when interest rates rise. However, asset backed securities differ from traditional fixed rate securities because of their potential for prepayment. The price paid by the Acquiring Fund for its asset backed securities, the yield the Acquiring Fund expects to receive from such securities and the average life of the securities are based on a number of factors, including the anticipated rate of prepayment of the underlying assets. In a period of declining interest rates, borrowers may prepay the underlying assets more quickly than anticipated, thereby reducing the yield to maturity and the average life of the asset backed securities. Moreover, when the Acquiring Fund reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid. To the extent that the Acquiring Fund purchases asset backed securities at a premium, prepayments may result in a loss to the extent of the premium paid. If the Acquiring Fund buys such securities at a discount, both scheduled payments and unscheduled prepayments will increase current and total returns and will accelerate the recognition of income which, when distributed to shareholders, will be taxable as ordinary income. In a period of rising interest rates, prepayments of the underlying assets may occur at a slower than expected rate, creating maturity extension risk. This particular risk may effectively change a security that was considered short or intermediate term at the time of purchase into a long term security. Since long term securi