



**\$300,000,000**

**The Gabelli Dividend & Income Trust**

**3,200,000 Shares, 5.875% Series A Cumulative Preferred Shares  
(Liquidation Preference \$25 per Share)**

**Auction Market Preferred Shares (“AMPS”)  
4,000 Shares, Series B  
4,800 Shares, Series C  
(Liquidation Preference \$25,000 per Share)**

The Gabelli Dividend & Income Trust, or the Fund, is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940. The Fund’s investment objective is to seek a high level of total return with an emphasis on dividends and income. The Fund attempts to achieve its objective by investing at least 80% of its assets in dividend paying or other income producing securities under normal market conditions. In addition, under normal market conditions, at least 50% of the Fund’s assets will consist of dividend paying equity securities. In making stock selections, Gabelli Funds, LLC, which serves as investment adviser to the Fund, looks for securities that have a superior yield, as well as capital gains potential. The Fund commenced its investment operations on November 28, 2003. We cannot assure you that the Fund’s objective will be achieved.

*(continued on following page)*

**Investing in our Series A Preferred or AMPS involves risks that are described in the “Risk Factors and Special Considerations” section beginning on page 40 of this prospectus.**

	<u>Public Offering Price(1)</u>	<u>Underwriting Discount</u>	<u>Proceeds before Expenses(2)</u>
Per Series A Cumulative Preferred Share . . .	\$25	\$.7875	\$24.2125
Total . . . . .	\$80,000,000	\$2,520,000	\$77,480,000
Per Series B AMPS . . . . .	\$25,000	\$250	\$24,750
Total . . . . .	\$100,000,000	\$1,000,000	\$99,000,000
Per Series C AMPS . . . . .	\$25,000	\$250	\$24,750
Total . . . . .	\$120,000,000	\$1,200,000	\$118,800,000

(1) Plus accumulated dividends, if any, from October 12, 2004  
(2) Offering expenses payable by the Fund are estimated at \$600,000

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Series A Preferred and AMPS being offered by this prospectus are being offered by the underwriters listed in this prospectus, subject to prior sale, when, as and if accepted by them and subject to certain conditions. The Fund expects that delivery of any Series A Preferred and AMPS will be made in book-entry form through the facilities of The Depository Trust Company on or about October 12, 2004.

**Merrill Lynch & Co.**

**Citigroup**

**A.G. Edwards**

**Gabelli & Company, Inc.**

The date of this prospectus is October 7, 2004.

*(continued from previous page)*

This prospectus describes the Fund's 5.875% Series A Cumulative Preferred Shares (the "Series A Preferred"), liquidation preference \$25 per share. Dividends on the Series A Preferred are cumulative from their original issue date at the annual rate of 5.875% of the liquidation preference of \$25 per share and are payable quarterly on March 26, June 26, September 26 and December 26 in each year, commencing on December 26, 2004.

This prospectus also describes the Fund's Series B Auction Market Preferred Shares (the "Series B AMPS"), liquidation preference \$25,000 per share and the Fund's Series C Auction Market Preferred Shares (the "Series C AMPS") (the Series B AMPS together with the Series C AMPS, the "AMPS"). The dividend rate for the AMPS will vary from dividend period to dividend period. The annual dividend rate for the initial dividend period will be 1.85% for the Series B AMPS and 1.85% for the Series C AMPS, of the liquidation preference of \$25,000 per share. The initial dividend period for the Series B AMPS commences on the date of issuance and continues through October 19, 2004. The initial dividend period for the Series C AMPS commences on the date of issuance and continues through October 21, 2004. For subsequent dividend periods, the AMPS will pay dividends based on a rate set at auction, usually held weekly.

The Fund offers by this prospectus, in the aggregate, \$300 million of preferred shares of either Series A Preferred, Series B or Series C AMPS, or a combination of all series.

Application has been made to list the Series A Preferred on the New York Stock Exchange. Subject to notice of issuance, trading of the Series A Preferred on the New York Stock Exchange is expected to commence within 30 days of the date of this prospectus. Prior to this offering, there has been no public market for the Series A Preferred. See "Underwriting."

The net proceeds of the offering, which are expected to be \$294,680,000, will be invested in accordance with the Fund's investment objective and policies. See "Investment Objective and Policies" beginning on page 32.

The Fund expects that dividends paid on the Series A Preferred and AMPS will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations) and (iii) investment company taxable income (other than qualified dividend income), including interest income, short-term capital gain and income from certain hedging and interest rate transactions. For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is currently 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2008. We cannot assure you, however, as to what percentage of the dividends paid on the Series A Preferred or AMPS will consist of long-term capital gains and qualified dividend income, which are taxed at lower rates for individuals than ordinary income. For a more detailed discussion, see "Taxation."

In order to be issued, the Series A Preferred must receive a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's"). In addition, in order to be issued, the AMPS must receive a rating of "Aaa" by Moody's and a rating of "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). In order to keep these ratings, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series A Preferred and AMPS under guidelines established by each of Moody's and S&P. See "Description of the Series A Preferred and the AMPS — Rating Agency Guidelines." The Fund is also required to maintain a minimum asset coverage by the Investment Company Act of 1940. If the Fund fails to maintain any of these minimum asset coverage requirements, the Fund may at its option (and in certain circumstances must) require, in accordance with its governing documents and the requirements of the Investment Company Act of 1940, that some or all of its outstanding preferred shares, including the Series A Preferred and/or AMPS, be sold back to it (redeemed). Otherwise, prior to October 12, 2009, the Series A Preferred will be

redeemable at the option of the Fund only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. Subject to certain notice and other requirements (including those set forth in Section 23(c) of the Investment Company Act of 1940), the Fund at its option may redeem (i) the Series A Preferred beginning on October 12, 2009, and (ii) the AMPS following the initial dividend period (so long as the Fund has not designated a non-call period). In the event the Fund redeems Series A Preferred, such redemption will be for cash at a redemption price equal to \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared). In the event the Fund redeems AMPS, such redemptions will be for cash, generally at a redemption price equal to \$25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared), although if the AMPS have a dividend period of more than one year, the Fund's Board of Trustees may determine to provide for a redemption premium.

This prospectus concisely sets forth important information about the Fund that you should know before deciding whether to invest in Series A Preferred or AMPS. You should read this prospectus and retain it for future reference.

The Fund has also filed with the Securities and Exchange Commission a Statement of Additional Information, dated October 7, 2004, which contains additional information about the Fund. The Statement of Additional Information is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 80 of this prospectus. You may request a free copy of the Statement of Additional Information by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or calling the Fund toll-free at (800) 422-3554. You may also obtain the Statement of Additional Information as well as reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the Securities and Exchange Commission on the Securities and Exchange Commission's web site (<http://www.sec.gov>).

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

**The AMPS will not be listed on an exchange. Investors may only buy or sell AMPS through an order placed at an auction with or through a broker-dealer in accordance with the procedures specified in this prospectus or in a secondary market maintained by certain broker-dealers should those broker-dealers decide to maintain a secondary market. Broker-dealers are not required to maintain a secondary market in the AMPS, and a secondary market may not provide you with liquidity.**

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**You should rely only on the information contained in or incorporated by reference into this prospectus. Neither the Fund nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither the Fund nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.**

## PROSPECTUS SUMMARY

*This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's Series A Preferred and AMPS, especially the information set forth under the heading "Risk Factors and Special Considerations." You should review the more detailed information contained in this prospectus, the Statement of Additional Information dated October 7, 2004 (the "SAI"), the Fund's Statement of Preferences of 5.875% Series A Cumulative Preferred Shares (the "Series A Statement of Preferences") and each of the Fund's Statement of Preferences for each of the series of Auction Market Preferred Shares on file with the Securities and Exchange Commission.*

**The Fund**..... The Fund is a closed-end, non-diversified management investment company organized under the laws of the State of Delaware on August 20, 2003. The Fund's outstanding common shares, par value \$.001 per share, are listed and traded on the New York Stock Exchange ("NYSE") under the symbol "GDV." As of June 30, 2004, the net assets of the Fund were \$1,608,572,253 and the Fund had outstanding 84,994,505 common shares. Prior to the issuance of the Series A Preferred and the AMPS offered by this prospectus, the Fund had no preferred shares outstanding.

**The Offering**..... The Fund offers by this prospectus, in the aggregate, \$300,000,000 of preferred shares of either Series A Preferred or AMPS, or a combination of such series. The Series A Preferred and the AMPS are being offered by a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and including Citigroup Global Markets Inc., A.G. Edwards & Sons, Inc. and Gabelli & Company, Inc. as underwriters. Upon issuance, the Series A Preferred and the AMPS will have equal seniority with respect to dividends and liquidation preference. See "Description of the Series A Preferred and the AMPS."

*Series A Preferred.* The Fund is offering 3,200,000 shares of 5.875% Series A Preferred, par value \$.001 per share, liquidation preference \$25 per share, at a purchase price of \$25 per share. Dividends on the shares of Series A Preferred will accumulate from the date on which such shares are issued. Application has been made to list the Series A Preferred on the NYSE and it is anticipated that trading of the Series A Preferred on the NYSE will commence within 30 days from the date of this prospectus.

*AMPS.* The Fund is offering 4,000 shares of Series B AMPS and 4,800 shares of Series C AMPS, each par value \$.001 per share, liquidation preference \$25,000 per share at a purchase price of \$25,000 per share, plus dividends, if any, that have accumulated from the commencement date of the dividend period during which such AMPS are issued. The AMPS will not be listed on an exchange. Instead, investors may buy or sell AMPS in an auction by submitting orders to broker-dealers that have entered into an agreement with the auction agent.

Generally, investors in Series A Preferred or AMPS will not receive certificates representing ownership of their shares. The securities

depository (The Depository Trust Company (“DTC”) or any successor) or its nominee for the account of the investor’s broker-dealer will maintain record ownership of the preferred shares in book-entry form. An investor’s broker-dealer, in turn, will maintain records of that investor’s beneficial ownership of preferred shares.

**Investment Objective** ..... The Fund’s investment objective is to provide a high level of total return on its assets with an emphasis on dividends and income. No assurance can be given that the Fund will achieve its investment objective. The Fund will attempt to achieve its investment objective by investing, under normal market conditions, at least 80% of its assets in dividend paying securities (such as common and preferred stock) or other income producing securities (such as fixed income debt securities and securities that are convertible into common stock). In addition, under normal market conditions, at least 50% of the Fund’s assets will consist of dividend paying equity securities. The Fund may invest up to 35% of its total assets in the securities of non-U.S. issuers and up to 25% of its total assets in securities of issuers in a single industry. There is no minimum credit rating for debt securities in which the Fund may invest, although the Fund will not invest more than 10% of its total assets in fixed-income nonconvertible securities rated in the lower rating categories of recognized statistical rating agencies — typically the Fund invests in those securities rated “BB” by S&P or “Ba” by Moody’s — or non-rated securities of comparable quality, all of which are commonly referred to as “junk bonds.” See “Investment Objective and Policies.”

The Investment Adviser’s investment philosophy with respect to both equity and debt securities is to identify assets that are selling in the public market at a discount to their private market value. The Investment Adviser defines private market value as the value informed purchasers are willing to pay to acquire assets with similar characteristics. In making stock selections, the Fund’s Investment Adviser looks for securities that have a superior yield, as well as capital gains potential.

**Dividends and Distributions** ..... *Series A Preferred.* Dividends on the Series A Preferred, at the annual rate of 5.875% of its \$25 per share liquidation preference, are cumulative from the original issue date and are payable, when, as and if declared by the Board of Trustees of the Fund, out of funds legally available therefor, quarterly on March 26, June 26, September 26, and December 26 in each year, commencing on December 26, 2004.

*AMPS.* The holders of AMPS are entitled to receive cash dividends, stated at annual rates of its \$25,000 per share liquidation preference, that will vary from dividend period to dividend period. The table below shows the dividend rate, the dividend payment date and the number of days for the initial dividend period on each series of the AMPS.

	<u>Initial Dividend Rate</u>	<u>Dividend Payment Date for Initial Dividend Period</u>	<u>Number of Days of Initial Dividend Period</u>
Series B AMPS .....	1.85%	October 20, 2004	8
Series C AMPS .....	1.85%	October 22, 2004	10

For subsequent dividend periods, each series of AMPS will pay dividends based on a rate set at auctions, normally held weekly. In most instances, dividends are payable weekly, on the first business day following the end of the dividend period. If the day on which dividends otherwise would be paid is not a business day, then dividends will be paid on the first business day that falls after the end of the dividend period. The Fund may, subject to certain conditions, designate special dividend periods of more (or less) than seven days. The dividend payment date for any such special dividend period will be set out in the notice designating the special dividend period. Dividends on shares of each series of AMPS will be cumulative from the date such shares are issued and will be paid out of legally available funds.

Any designation of a special dividend period will be effective only if, among other things, proper notice has been given, the auction immediately preceding the special dividend period was not a failed auction and the Fund has confirmed that it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount (as described under “Description of the Series A Preferred and the AMPS — Rating Agency Guidelines”). See “Description of the Series A Preferred and the AMPS — Dividends on the AMPS” and “The Auction of AMPS.”

There is no minimum rate with respect to any dividend period. There is a maximum rate. The maximum rate for any dividend period other than a default period will be the greater of (i) the applicable percentage of the reference rate set forth in the table below or (ii) the applicable spread set forth in the table below plus the reference rate. The reference rate is the applicable LIBOR Rate (for a dividend period or a special dividend period of fewer than 365 days), or the applicable Treasury Index Rate (for a special dividend period of 365 days or more). The applicable percentage and applicable spread will be determined based on the lower of the credit ratings assigned to each series of AMPS by Moody’s and S&P.

The applicable percentages and applicable spreads are as follows:

Credit Ratings		Applicable Percentage	Applicable Spread
Moody's	S&P		
Aaa	AAA	125%	1.25%
Aa3 to Aa1	AA- to AA+	150%	1.50%
A3 to A1	A- to A+	200%	2.00%
Baa3 to Baa1	BBB- to BBB+	250%	2.50%
Ba1 and lower	BB+ and lower	300%	3.00%

Assuming the Fund maintains an “Aaa” and “AAA” rating on each series of AMPS, the practical effect of the different methods used to determine the maximum applicable rate is shown in the table below:

Reference Rate	Maximum Applicable Rate Using the Applicable Percentage	Maximum Applicable Rate Using the Applicable Spread	Method Used to Determine the Maximum Applicable Rate
1%	1.25%	2.25%	Spread
2%	2.50%	3.25%	Spread
3%	3.75%	4.25%	Spread
4%	5.00%	5.25%	Spread
5%	6.25%	6.25%	Either
6%	7.50%	7.25%	Percentage

See “Description of the Series A Preferred and the AMPS — Dividends on the AMPS — Maximum Rate.” For example, calculated as of December 31, 2003 and June 30, 2004, respectively, the maximum rate for each series of AMPS (assuming a rating of “Aaa” by Moody’s and “AAA” by S&P) would have been approximately 2.40% and 2.86%, for dividend periods of 90 days, and approximately 3.02% and 4.04% for dividend periods of two years.\* There is no minimum rate with respect to any dividend period.

*Preferred Share Dividends.* Under current law, all preferred shares of the Fund must have the same seniority as to the payment of dividends. Accordingly, no full dividend will be declared or paid on any series of preferred shares of the Fund for any dividend period, or part thereof, unless full cumulative dividends due through the most recent dividend payment dates therefor for all series of outstanding preferred shares of the Fund are declared and paid. If full cumulative dividends due have not been declared and paid on all outstanding preferred shares of the Fund ranking on a parity with the Series A Preferred and the AMPS as to the payment of dividends, any dividends being paid on such preferred shares (including any outstanding Series A Preferred and AMPS) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends

\* Dividend periods presented for illustrative purposes only. Actual dividend periods may be of greater or lesser duration.

accumulated but unpaid on each such series of preferred shares on the relevant dividend payment date.

In the event that for any calendar year the total distributions on the Fund's preferred shares exceed the Fund's ordinary income and net capital gain allocable to those shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the shareholder's tax basis in his or her shares). The amount treated as a tax-free return of capital will reduce a shareholder's adjusted basis in its preferred shares, thereby increasing the shareholder's potential gain or reducing its potential loss on the sale of the shares.

*Common Share Dividends.* In order to allow its holders of common shares to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a policy, which may be changed at any time by the Board of Trustees, of paying distributions on its common shares of \$.10 per month, which is equal to an annual rate of 6% of the offering price per common share. On September 24, 2004, the Fund paid a quarterly dividend of \$0.30 per share, a portion of which constituted a return of capital. The composition of this dividend is based on earnings as of the record date. The actual composition of the distribution may change based on the Fund's investment activity through December 31, 2004.

**Auction Procedures.....** You may buy, sell or hold AMPS in the auction. The following is a brief summary of the auction procedures, which are described in more detail elsewhere in this prospectus and in the SAI. These auction procedures are complicated, and there are exceptions to these procedures. Many of the terms in this section have a special meaning as set forth in this prospectus or the SAI.

Provided that the Fund has not defaulted on its payment obligations to holders of each series of AMPS, the auctions determine the dividend rate for that series of AMPS, except that no dividend rate resulting from the auction process will be higher than the then-maximum rate. See "Description of the Series A Preferred and the AMPS — Dividends on the AMPS."

If you own shares of AMPS, you may instruct your broker-dealer to enter one of three kinds of orders in the auction with respect to your shares: sell, bid and hold.

If you enter a sell order, you indicate that you want to sell AMPS at \$25,000 per share, no matter what the next dividend period's rate will be.

If you enter a bid order, which must specify a dividend rate, you indicate that you want to purchase or hold the indicated number of shares of AMPS at \$25,000 per share if the dividend rate for the AMPS for the next dividend period is not less than the rate specified in the bid. A bid order will be deemed an irrevocable offer to sell AMPS if the next dividend period's rate is less than the rate you specify.

If you enter a hold order you indicate that you want to continue to own AMPS, no matter what the next dividend period's rate will be.

You may enter different types of orders for different portions of your AMPS. All orders must be for whole shares. All orders you submit are irrevocable. There is a fixed number of AMPS, and the dividend rate likely will vary from auction to auction depending on the number of bidders, the number of shares the bidders seek to buy, the rating of the AMPS and general economic conditions including current interest rates. If you own AMPS and submit a bid order specifying a rate that is higher than the then maximum rate, your bid order will be treated as a sell order. If you do not enter an order, the broker-dealer will ordinarily assume that you want to continue to hold your AMPS, but if you fail to submit an order and the dividend period is longer than 91 days, the broker-dealer will treat your failure to submit an order as a sell order.

If you do not then own AMPS, or want to buy more shares, you may instruct a broker-dealer to enter a bid order to buy shares in an auction at \$25,000 per share at or above the dividend rate you specify. If you bid for shares you do not already own at a rate higher than the then-maximum rate, your bid will not be considered.

Broker-dealers will submit orders from existing and potential holders of AMPS to the auction agent. Neither the Fund nor the auction agent will be responsible for a broker-dealer's failure to submit orders from existing or potential holders of AMPS. A broker-dealer's failure to submit orders for AMPS held by it or its customers will be treated in the same manner as a holder's failure to submit an order to the broker-dealer. A broker-dealer may submit orders to the auction agent for its own account provided that the broker-dealer is not an affiliate of the Fund. If a broker-dealer submits an order for its own account in any auction, it may have knowledge of orders placed though it in that auction and therefore have an advantage over other

bidders, but such broker-dealer would not have knowledge of orders submitted by other broker-dealers in that auction. As a result of bidding by the broker-dealer in an auction, the auction rate may be higher or lower than the rate that would have prevailed had the broker-dealer not bid. The Fund may not submit an order in any auction.

The auction agent after each auction for the AMPS will pay to each broker-dealer, from funds provided by the Fund, a service charge equal to, in the case of any auction immediately preceding a dividend period of less than one year, the product of (i) a fraction, the numerator of which is the number of days in such dividend period and the denominator of which is 360, times (ii)  $\frac{1}{4}$  of 1%, times (iii) \$25,000, times (iv) the aggregate number of AMPS placed by such broker-dealer at such auction. In the case of any auction immediately preceding a dividend period of one year or longer, the service charge shall be determined by mutual consent of the Fund and any such broker-dealer and shall be based upon a selling concession that would be applicable to an underwriting of fixed or variable rate preferred shares with a similar final maturity or variable rate dividend period, respectively, at the commencement of the dividend period with respect to such action. A broker-dealer may share a portion of any such fees with non-participating broker-dealers that submit orders to the broker-dealer for an auction that are placed by that broker-dealer in such Auction.

There are sufficient clearing bids for shares of AMPS in an auction if the number of AMPS subject to bid orders by broker-dealers for potential holders with a dividend rate equal to or lower than the then-maximum rate is at least equal to the number of AMPS subject to sell orders and the number of shares of AMPS subject to bids specifying rates higher than the then-maximum rate for the AMPS submitted or deemed submitted to the auction agent by broker-dealers for existing holders. If there are sufficient clearing bids for shares of AMPS, then the dividend rate for the next dividend period will be the lowest rate submitted which, taking into account that rate and all lower rate bids submitted from existing and potential holders, would result in existing and potential holders owning all the AMPS available for purchase in the auction.

If there are not sufficient clearing bids for shares of AMPS, then the auction is considered to be a failed auction, and the dividend rate will be the maximum rate. If the Fund has declared a special dividend period and there are not sufficient clearing bids, then the special dividend rate will not be effective and the dividend rate for the next period will be the same as during the current rate period. In either event, existing holders that have submitted sell orders (or are treated as having submitted sell orders) may not be able to sell any or all of the AMPS for which they submitted sell orders.

The auction agent will not consider a bid above the then-maximum rate. The purpose of the maximum rate is to place an upper limit on dividends with respect to the AMPS and in so doing to help protect the earnings available to pay dividends on the Fund's common shares, and to serve as the dividend rate in the event of a failed auction (that is, an auction where there are more shares of AMPS offered for sale than there are buyers for those shares).

If broker-dealers submit or are deemed to submit hold orders for all outstanding AMPS, the auction is considered an "all hold" auction and the dividend rate for the next dividend period will be the "all hold rate," which is 90% of the then-current reference rate. This rate may be less than the rate that would have been determined if an auction had occurred

The auction procedures include a pro rata allocation of each series of AMPS for purchase and sale. This allocation process may result in an existing holder selling, or a potential holder buying, fewer shares than the number of each series of AMPS in its order. If this happens, broker-dealers that have designated themselves as existing holders or potential holders in respect of customer orders will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made through DTC on the next business day after the auction date (which also is a dividend payment date). Purchasers will pay for their AMPS through broker-dealers in same-day funds to DTC against delivery to the broker-dealers. DTC will make payment to the sellers' broker-dealers in accordance with its normal procedures, which require broker-dealers to make payment against delivery in same-day funds. As used in this prospectus, a business day is a day on which the NYSE is open for trading, and which is not a Saturday, Sunday or any other day on which banks in New York City are authorized or obligated by law to close.

The first auction for Series B AMPS will be held on October 19, 2004, the business day preceding the dividend payment date for the initial dividend period. Thereafter, except during special dividend periods, auctions for Series B AMPS normally will be held every Tuesday (or the next preceding business day if Tuesday is a holiday), and each subsequent dividend period for the Series B AMPS normally will begin on the following Wednesday. The first auction for Series C AMPS will be held on October 21, 2004, the business day preceding the dividend payment date for the initial dividend period. Following the first auction of Series C AMPS, except during special dividend periods, auctions for Series C AMPS normally will be held every Thursday (or the next preceding business day if Thursday is a holiday), and each subsequent dividend period for the Series C AMPS normally will begin on the following Friday.

## Tax Treatment of Preferred

### Share Dividends .....

The Fund expects that dividends paid on the Series A Preferred and AMPS will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations) and (iii) investment company taxable income (other than qualified dividend income), including interest income, short-term capital gain and income from certain hedging and interest rate transactions. For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is currently 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2008. We cannot assure you, however, as to what percentage of the dividends paid on the Series A Preferred or AMPS will consist of long-term capital gains and qualified dividend income, which are taxed at lower rates for individuals than ordinary income. For a more detailed discussion, see “Taxation.”

## Rating and Asset

### Coverage Requirements .....

*Series A Preferred.* In order to be issued, the Series A Preferred must receive a rating of “Aaa” from Moody’s. The Series A Statement of Preferences contains certain tests that the Fund must satisfy to obtain and maintain a rating of “Aaa” from Moody’s on the Series A Preferred. See “Description of the Series A Preferred and the AMPS — Rating Agency Guidelines.”

*AMPS.* In order to be issued, each series of AMPS must receive both a rating of “Aaa” from Moody’s and a rating of “AAA” from S&P. As with the Series A Preferred, the Statement of Preferences of each of the series of AMPS contains certain tests that the Fund must satisfy to obtain and maintain a rating of “Aaa” from Moody’s and “AAA” from S&P. See “Description of the Series A Preferred and the AMPS — Rating Agency Guidelines.”

*Asset Coverage Requirements.* Under the asset coverage tests to which each of the Series A Preferred and each series of AMPS is subject, the Fund is required to maintain (i) assets having in the aggregate a discounted value greater than or equal to a Basic Maintenance Amount (as described under “Description of the Series A Preferred and the AMPS — Rating Agency Guidelines”) for each such series calculated pursuant to the applicable rating agency guidelines and (ii) an asset coverage of at least 200% (or such higher or lower percentage as may be required at the time under the Investment Company Act of 1940 (the “1940 Act”)) with respect to all outstanding preferred shares of the Fund, including the Series A Preferred and each series of AMPS. See “Description of the Series A Preferred and the AMPS — Asset Maintenance Requirements.”

The Fund estimates that if the shares offered hereby had been issued and sold as of September 15, 2004, the asset coverage under the 1940 Act would have been approximately 633% immediately following such issuance and (after giving effect to the deduction of the underwriting discounts and estimated offering expenses for such shares of \$5,320,000). The asset coverage would have been computed as follows:

$$\frac{\text{Value of Fund assets less liabilities not constituting senior securities}}{\text{Senior securities representing indebtedness plus liquidation value of the AMPS}} = \frac{\$1,901,426,486}{\$300,000,000} = 634\%$$

The Statement of Preferences for each of the Series A Preferred and each series of the AMPS, which contain the technical provisions of the various components of the asset coverage tests, will be filed as exhibits to this registration statement and may be obtained through the web site of the Securities and Exchange Commission (<http://www.sec.gov>).

**Mandatory Redemption.....**

The Series A Preferred and each series of the AMPS may be subject to mandatory redemption by the Fund to the extent the Fund fails to maintain the asset coverage requirements in accordance with the rating agency guidelines or the 1940 Act described above and does not cure such failure by the applicable cure date. If the Fund redeems preferred shares mandatorily, it may, but is not required to, redeem a sufficient number of such shares so that after the redemption the Fund exceeds the asset coverage required by the guidelines of each of the applicable rating agencies and the 1940 Act by 10%.

With respect to the Series A Preferred, any such redemption will be made for cash at a redemption price equal to \$25 per share, plus an amount equal to accumulated and unpaid dividends (whether or not earned or declared) to the redemption date.

With respect to each series of the AMPS, any such redemption will be made for cash at a redemption price equal to \$25,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared) to the redemption date, plus, in the case of each series of the AMPS having a dividend period of more than one year, any applicable redemption premium determined by the Board of Trustees. See “Description of the Series A Preferred and the AMPS — Redemption.”

In the event of a mandatory redemption, such redemption will be made from the Series A Preferred, each series of the AMPS or other preferred shares of the Fund in such proportions as the Fund may determine, subject to the limitations of the 1940 Act and Delaware law.

**Optional Redemption**..... Subject to the limitations of the 1940 Act and Delaware law, the Fund may, at its option, redeem the Series A Preferred and the AMPS as follows:

*Series A Preferred.* Commencing October 12, 2009 and at any time thereafter, the Fund at its option may redeem the Series A Preferred, in whole or in part, for cash at a redemption price per share equal to \$25, plus an amount equal to accumulated and unpaid dividends (whether or not earned or declared) to the redemption date. If fewer than all of the shares of the Series A Preferred are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. Prior to October 12, 2009, the Series A Preferred will be subject to optional redemption by the Fund at the redemption price only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. See “Description of the Series A Preferred and the AMPS — Redemption — Optional Redemption of the Series A Preferred.”

*AMPS.* The Fund at its option generally may redeem each series of the AMPS, in whole or in part, at any time other than during a non-call period. The Fund may declare a non-call period during a dividend period of more than seven days. If fewer than all of the shares of a series of the AMPS are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. See “Description of the Series A Preferred and the AMPS — Redemption — Optional Redemption of the AMPS.”

The redemption price per share of each series of AMPS will equal \$25,000, plus an amount equal to any accumulated but unpaid dividends thereon (whether or not earned or declared) to the redemption date, plus, in the case of each series of the AMPS having a dividend period of more than one year, any redemption premium applicable during such dividend period. See “Description of the Series A Preferred and the AMPS — Redemption — Optional Redemption of the AMPS.”

**Voting Rights**..... At all times, holders of the Fund’s preferred shares outstanding (including the Series A Preferred and each series of the AMPS), voting as a single class, will be entitled to elect two members of the Fund’s Board of Trustees, and holders of the preferred shares and common shares, voting as a single class, will elect the remaining trustees. However, upon a failure by the Fund to pay dividends on any of its preferred shares in an amount equal to two full years dividends, holders of the preferred shares, voting as a single class, will have the right to elect additional trustees that would then constitute a simple majority of the Board of Trustees until all cumulative dividends on all preferred shares have been paid or provided for.

Holders of outstanding Series A Preferred, AMPS and any other preferred shares will vote separately as a class on certain other

matters as required under the applicable Statement of Preferences, the 1940 Act and Delaware law. Except as otherwise indicated in this prospectus and as otherwise required by applicable law, holders of Series A Preferred and AMPS will be entitled to one vote per share on each matter submitted to a vote of shareholders and will vote together with holders of common shares and any other preferred shares as a single class. See “Description of the Series A Preferred and the AMPS — Voting Rights.”

**Liquidation Preference** ..... The liquidation preference of Series A Preferred is \$25. The liquidation preference of the AMPS is \$25,000 per share. Upon liquidation, preferred shareholders will be entitled to receive the liquidation preference with respect to their preferred shares plus an amount equal to accumulated but unpaid dividends with respect to such shares (whether or not earned or declared) to the date of distribution. See “Description of the Series A Preferred and the AMPS — Liquidation Rights.”

**Use of Proceeds** ..... The Fund will use the net proceeds from the offering to purchase additional portfolio securities in accordance with its investment objective and policies. See “Use of Proceeds.”

**Listing of the Series A Preferred** ..... Prior to this offering, there has been no public market for the Series A Preferred. Following its issuance (if issued), the Series A Preferred is expected to be listed on the NYSE. However, during an initial period which is not expected to exceed 30 days after the date of its initial issuance, the Series A Preferred will not be listed on any securities exchange and consequently may be illiquid during that period. There can be no assurance that a secondary market will provide owners with liquidity.

**Limitation on Secondary Market Trading of the AMPS** ..... The AMPS will not be listed on an exchange. Broker-dealers may, but are not obliged to, maintain a secondary trading market in each series of the AMPS outside of auctions. There can be no assurance that a secondary market will provide owners with liquidity. You may transfer AMPS outside of auctions only to or through a broker-dealer that has entered into an agreement with the auction agent or other persons as the Fund permits.

**Special Characteristics and Risks** ..... Risk is inherent in all investing. Therefore, before investing in the Series A Preferred or the AMPS you should consider the risks carefully.

**Series A Preferred.** Primary risks specially associated with an investment in the Series A Preferred include:

*Fluctuations in Market Price.* The market price for the Series A Preferred will be influenced by changes in interest rates, the

perceived credit quality of the Series A Preferred and other factors. See “Risk Factors and Special Considerations — Special Risks of the Series A Preferred — Fluctuations in Market Price.”

*Illiquidity Risk.* Prior to the offering, there has been no public market for the Series A Preferred. In the event the Series A Preferred is issued, prior application will have been made to list the Series A Preferred on the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its issuance, the Series A Preferred will not be listed on any securities exchange. During such period, the underwriters intend to make a market in the Series A Preferred, however, they have no obligation to do so. Consequently, the Series A Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series A Preferred being liquid at any time. See “Risk Factors and Special Considerations — Special Risks of the Series A Preferred — Illiquidity Risk.”

**AMPS.** Primary risks specially associated with an investment in AMPS include:

*Auction Risk.* You may not be able to sell your AMPS at an auction if the auction fails, *i.e.*, if there are more shares offered for sale than there are buyers for those shares. Also, if you place an order at an auction to retain AMPS only at a specified rate that exceeds the rate set at the auction, you will not retain your shares. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the affected series of AMPS, which could also affect the liquidity of your investment. See “Risk Factors and Special Considerations — Special Risks of the AMPS — Auction Risk.”

*Secondary Market Sale Risk.* If you try to sell your AMPS between auctions, you may not be able to sell them for \$25,000 per share or \$25,000 per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that may maintain a secondary trading market for AMPS are not required to maintain this market, and the Fund is not required to redeem AMPS if either an auction or an attempted secondary market sale fails because of a lack of buyers. In addition, a broker-dealer may, in its own discretion, decide to sell AMPS in the secondary market to investors at any time and at any price, including at prices equivalent to, below or above the par value of the AMPS. The AMPS are not listed on a stock exchange or the NASDAQ stock market. If you sell your AMPS to a broker-dealer between auctions, you may receive

less than the price you paid for them, especially when market interest rates have risen since the last auction or during a special dividend period. See “Risk Factors and Special Considerations — Special Risks of the AMPS — Secondary Market Sale Risk.”

***Both the Series A Preferred and AMPS.*** An investment in either the Series A Preferred or AMPS also includes the following primary risks:

*General Risks of Preferred Shares.* The market value for the Series A Preferred and the AMPS will be influenced by changes in interest rates, the perceived credit quality of the Series A Preferred or the AMPS and other factors.

The credit rating on the Series A Preferred and the AMPS could be reduced or withdrawn while an investor holds shares, and the credit rating does not eliminate or mitigate the risks of investing in the Series A Preferred and AMPS. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series A Preferred and AMPS.

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to pay dividends on the Series A Preferred and the AMPS.

The value of the Fund’s investment portfolio may decline, reducing the asset coverage for the Series A Preferred and the AMPS. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer’s preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and asset value of the Fund’s investment portfolio. In such circumstances, the Fund may be forced to mandatorily redeem shares of Series A Preferred and AMPS.

In general, the Fund may redeem your AMPS at any time and may redeem your Series A Preferred at any time after October 12, 2009, and may at any time redeem shares of either or both series to meet regulatory or rating agency requirements. Because of historically low interest rates, the current low cost of the AMPS to the Fund may rise dramatically, which in turn may prompt the Fund to redeem the AMPS earlier than it otherwise might. The Series A Preferred and the AMPS are subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series A Preferred or a redeemed series of the AMPS. Subject to such circumstances, the Series A Preferred and each series of the AMPS are perpetual.

The Series A Preferred and the AMPS are not obligations of the Fund. The Series A Preferred and the AMPS would be junior in

respect of dividends and liquidation preference to any indebtedness incurred by the Fund, including any senior securities of the Fund representing debt. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series A Preferred and the AMPS for the full redemption price.

*Leverage Risk.* The Fund intends to use financial leverage for investment purposes by issuing preferred shares and senior securities representing debt. It is currently anticipated that, taking into account the Series A Preferred and the AMPS being offered in this prospectus, the amount of leverage will represent approximately 16% of the Fund's managed assets (as defined below). The Fund expects that depending on interest rates and available investment opportunities it will increase its financial leverage through the issuance of additional senior securities up to approximately 33% of the Fund's total assets including the proceeds of the Series A Preferred and the AMPS. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage for the Series A Preferred and the AMPS. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make dividend payments on the preferred shares or principal or interest payments on debt securities, or to redeem preferred shares or repay debt, when it may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common share dividend payments and such a failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code. See "Taxation."

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund's assets, which includes for this purpose assets attributable to the aggregate net asset value of the common shares plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any preferred shares, the fee may be higher when leverage in the form of preferred shares is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed not to accept an incremental fee on any Series A Preferred or AMPS, as the case may be, to the extent the Fund's total return allocable to the common shares fails to meet certain hurdles described under "Management of the Fund — General." See "Risk Factors and Special Considerations — Risks Associated with both Series A Preferred and the AMPS — Leverage Risk."

*Special Risks Related to Preferred Shares of Senior Securities Representing Debt.* As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may

issue senior securities representing debt. In the event the Fund were to issue such securities, the Fund's obligations to pay dividends and, upon liquidation of the Fund, liquidation payments in respect of its preferred shares would be subordinate to the Fund's obligations to make any principal and interest payments due and owing with respect to its outstanding debt securities. Accordingly, the Fund's issuance of senior securities representing debt would have the effect of creating special risks for the Fund's preferred shareholders (including the holders of Series A Preferred and AMPS) that would not be present in a capital structure that did not include such securities. See "Risk Factors and Special Considerations — Risks Associated with both Series A Preferred and AMPS — Special Risks to Preferred Shares of Senior Securities Representing Debt."

*Restrictions on Dividends and Other Distributions.* Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's common shares and preferred shares, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred shares (including the Series A Preferred and the AMPS) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See "Taxation" in the SAI.

*Securities and Exchange Commission Inquiries.* Merrill Lynch and Citigroup Global Markets Inc. have advised the Fund that they and certain broker-dealers and other participants in the auction rate securities markets, including both taxable and tax exempt markets, have received letters from the Securities and Exchange Commission requesting that each of them voluntarily conduct an investigation regarding their respective practices and procedures in those markets. Merrill Lynch, Citigroup Global Markets Inc. and those other broker-dealers are cooperating and expect to continue to cooperate with the Securities and Exchange Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the market for the AMPS or the auctions.

### **Risks of Investing in the Fund**

*Limited Operating History.* The Fund is a non-diversified, closed-end management investment company with a limited operating history. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Limited Operating History."

*Common Stock Dividend Policy Risk.* The Fund has adopted a policy, which may be changed at any time by the Board of Trustees, of paying a dividend on its common shares of \$.30 per quarter, which is equal to an annual rate of 6% of the original issue price of the

common shares. In the event investment returns do not provide sufficient amounts to fund such distributions, the Fund may be required to return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's Series A Preferred and AMPS. The Fund made its first dividend payment on March 25, 2004, a portion of which constituted a return of capital.

*Value Investing Risk.* The Fund focuses its investments on dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks. The Fund focuses its investments on dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks including the risk of misestimation of certain fundamental factors. In addition, during certain time periods market dynamics may strongly favor "growth" stocks of issuers that do not display strong fundamentals relative to market price based upon positive price momentum and other factors. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Value Investing Risk."

*Non-Diversified Status.* As a non-diversified investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a more limited number of issuers than may a diversified fund, and accordingly, an investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Non-Diversified Status."

*Industry Concentration Risk.* The Fund may invest up to 25% of its assets in the securities of companies principally engaged in a single industry. In the event the Fund makes substantial investments in a single industry, the Fund would become more susceptible to adverse economic or regulatory occurrences affecting that industry. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Industry Concentration Risk."

*Special Risks Related to the Fund's Preferred Securities.* Special risks associated with the Fund's investing in preferred securities include deferral of distributions or dividend payments, in some cases the right of an issuer never to pay missed dividends, subordination, illiquidity, limited voting rights and redemption by the issuer. Because the Fund has no limit on its investment in non-cumulative preferred securities, the amount of dividends the Fund pays may be adversely affected if an issuer of a non-cumulative preferred stock held by the Fund determines not to pay dividends on such stock.

There is no assurance that dividends or distributions on preferred stock in which the Fund invests will be declared or otherwise made payable. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Special Risks Related to Preferred Securities.”

*Illiquid Securities.* The Fund has no limit on the amount of its net assets it may invest in unregistered and otherwise illiquid investments. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act of 1933. Unregistered securities generally can be resold only in privately negotiated transactions with a limited number of purchasers or in a public offering registered under the Securities Act. Considerable delay could be encountered in either event and, unless otherwise contractually provided for, the Fund’s proceeds upon sale may be reduced by the costs of registration or underwriting discounts. The difficulties and delays associated with such transactions could result in the Fund’s inability to realize a favorable price upon disposition of unregistered securities, and at times might make disposition of such securities impossible. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Illiquid Securities.”

*Foreign Securities Risk.* The Fund may invest up to 35% of its total assets in foreign securities. Investing in securities of foreign companies (or foreign governments), which are generally denominated in foreign currencies, may involve certain risks and opportunities not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluation of currencies. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Foreign Securities Risk.”

*Smaller Companies.* While the Fund intends to focus on the securities of established suppliers of accepted products and services, the Fund may also invest in smaller companies which may benefit from the development of new products and services. These smaller companies may present greater opportunities for capital appreciation, and may also involve greater investment risk than larger, more established companies. For example, smaller companies may have more limited product lines, market or financial resources, and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of other issuers. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Smaller Companies.”

*Investment Companies.* The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment

companies, the Fund will bear its ratable share of any such investment company's expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances, holders of the Fund's common shares will be subject to duplicative investment expenses. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Investment Companies."

*Lower Grade Securities.* The Fund may invest up to 10% of its total assets in fixed-income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Securities of below investment grade quality are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default and are commonly referred to as "junk bonds." See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Lower Grade Securities."

*Special Risks of Derivative Transactions.* The Fund may participate in certain derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave the Fund in a worse position than if it had not used such strategies. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Special Risks of Derivative Transactions."

*Interest Rate Transactions.* The Fund may enter into an interest rate swap or cap transaction with respect to all or a portion of the AMPS. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Interest Rate Transactions."

*Loans of Portfolio Securities.* The Fund may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the securities loaned if the borrower of the securities violates the terms of the loan or fails financially. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Loans of Portfolio Securities."

*Management Risk.* The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Management Risk.”

*Dependence on Key Personnel.* The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund’s investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Dependence on Key Personnel.”

*Current Developments.* As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. Securities Markets were closed for a four-day period. These terrorists attacks, the war in Iraq and its aftermath and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. Similar events in the future or other disruptions of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Series A Preferred and the AMPS. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Current Developments.”

*Anti-takeover Provisions.* The Fund’s governing documents include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See “Anti-Takeover Provisions of the Fund’s Governing Documents.”

*Status as a Regulated Investment Company.* The Fund has elected and has qualified for, and intends to remain qualified for, federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common shares if the Fund fails to satisfy the 1940 Act’s asset coverage requirements could jeopardize the Fund’s ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred shares to the extent necessary in order to maintain compliance with such asset coverage requirements. See “Taxation” for a more complete discussion of these and other federal income tax considerations.

**Management and Fees** ..... Gabelli Funds, LLC serves as the Fund’s Investment Adviser and is compensated for its services and its related expenses at an annual rate of 1.00% of the Fund’s average weekly net assets. As used in this prospectus, net assets means the aggregate net asset value of the common shares (which for purposes of the Investment Adviser’s compensation also includes assets attributable to outstanding preferred shares, with no deduction for the liquidation preference of any preferred shares). Notwithstanding the foregoing, the Investment Adviser has voluntarily agreed to waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of the Fund’s outstanding Series A Preferred or AMPS, as the case may be, for any calendar year in which the net asset value total return of the Fund allocable to the common shares, including distributions and the advisory fee subject to potential waiver, is less than (i) in the case of the Series A Preferred, the stated annual dividend rate of such series and (ii) in the case of each series of the AMPS, the net cost of capital to the Fund with respect to each series of the AMPS for such year expressed as a percentage (including, without duplication, dividends paid by the Fund on each series of the AMPS and the net cost to the Fund of any associated swap or cap transaction if the Fund hedges its AMPS dividend obligations). This waiver will apply to the portion of the Fund’s assets attributable to the Series A Preferred and AMPS, respectively, for so long as any shares of such series remain outstanding. The Investment Adviser is responsible for administration of the Fund and currently utilizes and pays the fees of a third party sub-administrator. See “Management of the Fund.”

The Securities and Exchange Commission, the New York Attorney General and officials of other states have been conducting inquiries into, and bringing enforcement and other proceedings regarding, trading abuses involving open-end investment companies. The Investment Adviser has received information requests and subpoenas from the New York Attorney General and the Securities and Exchange Commission in connection with these inquiries. The Investment Adviser and its affiliates have been complying with these requests and have been independently reviewing their mutual fund practices in a variety of areas. For further details regarding the Investment Adviser’s ongoing review in connection with these requests, see “Management of the Fund — Regulatory Matters.”

**Repurchase of Common Shares and Anti-takeover Provisions** ... The Fund’s Board of Trustees has authorized the Fund to repurchase its common shares in the open market when the common shares are trading at a discount of 7.5% or more from net asset value. Such repurchases are subject to certain notice and other requirements under the 1940 Act. Since the Fund commenced operations, it has repurchased 220,700 of its shares on the open market.

Certain provisions of the Fund’s Agreement and Declaration of Trust and By-Laws (collectively, the “Governing Documents”) may be regarded as “anti-takeover” provisions. Pursuant to these provisions,

only one of three classes of trustees is elected each year, and the affirmative vote of the holders of 75% of the outstanding shares of the Fund are necessary to authorize the conversion of the Fund from a closed-end to an open-end investment company. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal shareholder. These provisions may have the effect of depriving Fund common shareholders of an opportunity to sell their shares at a premium to the prevailing market price. See “Anti-Takeover Provisions of the Fund’s Governing Documents.”

**Custodian, Transfer Agent,  
Auction Agent and Dividend  
Disbursing Agent .....**

State Street Bank and Trust Company (the “Custodian”), located at 150 Royall Street, Canton, Massachusetts 02021, serves as the custodian of the Fund’s assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund’s assets in compliance with the 1940 Act. For its services, the Custodian will receive a monthly fee based upon, among other things, the average value of the total assets of the Fund, plus certain charges for securities transactions.

EquiServe Trust Company, N.A., located at P.O. Box 43025, Providence, Rhode Island 02940-3025, serves as the Fund’s dividend disbursing agent, as agent under the Fund’s automatic dividend reinvestment and voluntary cash purchase plan, and as transfer agent and registrar with respect to the common shares of the Fund.

*Series A Preferred.* EquiServe will also serve as the transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series A Preferred.

*AMPS.* The Bank of New York will serve as the auction agent, transfer agent, registrar, dividend paying agent and redemption agent with respect to each series of the AMPS.

**Interest Rate Transactions .....**

The Fund may enter into interest rate swap or cap transactions in relation to all or a portion of a series of the AMPS in order to manage the impact on its portfolio of changes on the dividend rate of that series of the AMPS. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for a series of the AMPS that is lower than the Fund would have to pay if it issued fixed rate preferred shares. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions.

In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the “counterparty”) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that

is intended to approximate the Fund's variable rate payment obligation on a series of the AMPS. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, the Fund would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred share dividends when due in accordance with the Statement of Preferences of each of the series of AMPS even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend payments on its preferred shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on its preferred shares.

A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. If the Fund fails to maintain the required asset coverage on its outstanding preferred shares or fails to comply with other covenants, the Fund may, at its option (and in certain circumstances must require), consistent with its Governing Documents and the requirements of the 1940 Act, that some or all of its preferred shares (including the Series A Preferred or the AMPS) be sold back to it (redeemed). Such redemption likely would result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could require the Fund to make a termination payment to the counterparty.

The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund does not presently intend to enter into interest rate swap or cap transactions relating to a series of the AMPS in a notional amount in excess of the outstanding amount of that series of the AMPS. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements. See "How the Fund Manages Risk — Interest Rate Transactions."

## FINANCIAL HIGHLIGHTS

The table below sets forth selected financial data for a common share outstanding throughout the period(s) presented. The per share operating performance and ratios for the fiscal period ended December 31, 2003 have been audited by PricewaterhouseCoopers LLP, the Fund's Independent Registered Public Accounting Firm, as stated in their report which is incorporated by reference into the SAI. The following information should be read in conjunction with the Financial Statements and Notes thereto, which are incorporated by reference into the SAI.

<b>Selected data for a Fund common share outstanding throughout each period</b>	<b>Six Months Ended June 30, 2004</b>	<b>For the Period from November 18, 2003(a) to December 31, 2003</b>
<b>Operating performance:</b>		
Net asset value, beginning of period.....	\$ 19.26	\$ 19.06(b)
Net investment income (loss).....	0.14	-----
Net realized and unrealized gain on investments .....	<u>0.16</u>	<u>0.20</u>
Total from investment operations .....	<u>0.30</u>	<u>0.20</u>
<b>Distributions to Fund Shareholders:</b>		
Net investment income.....	(0.14)	-----
Net realized gain (loss) on investments .....	(0.05)	-----
Return of Capital.....	<u>(0.41)***</u>	-----
Total distributions to Fund shareholders.....	<u>(0.60)</u>	<u>-----</u>
<b>Capital share transactions:</b>		
Decrease in net asset value from common stock share transactions .....	(0.02)	-----
Offering costs for common shares charged to paid-in capital.....	<u>(0.01)</u>	-----
	<u>(0.03)</u>	<u>-----</u>
Net asset value, end of period .....	<u>\$ 18.93</u>	<u>\$ 19.26</u>
Net asset value total return .....	<u>1.4%**</u>	<u>1.0%***</u>
Market value, end of period.....	<u>\$ 17.39</u>	<u>\$ 20.00</u>
Total investment return .....	<u>(10.2)%**</u>	<u>0.0%****</u>
<b>Ratios to average net assets and supplemental data:</b>		
Net assets, end of period (in 000's) .....	\$1,608,572	\$1,451,650
Ratio of net investment income (loss) to average net assets.....	1.41%(c)	(0.04%)(c)
Ratio of operating expenses to average net assets.....	1.09%(c)	(1.38%)(c)
Portfolio turnover rate.....	11.3%	0.4%

(a) The Gabelli Dividend & Income Trust commenced investment operations on November 28, 2003.

(b) The beginning NAV includes a \$.04 reduction for costs associated with the initial public offering.

(c) Annualized.

\*Based on current earnings and subject to change and recharacterization at fiscal year end.

\*\*Total return for the period of less than one year is not annualized.

\*\*\*Based on net asset value per share at commencement of operations of \$19.06 per share. Total return for the period of less than one year is not annualized.

\*\*\*\*Based on market value per share at initial public offering of \$20.00 per share. Total return for the period of less than one year is not annualized.

## USE OF PROCEEDS

The net proceeds of the offering are estimated at approximately \$294,680,000, after deduction of the underwriting discounts and estimated offering expenses payable by the Fund. The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objective and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months.

## THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Delaware statutory trust on August 20, 2003, pursuant to an Agreement and Declaration of Trust governed by the laws of the State of Delaware. The Fund commenced its investment operations on November 28, 2003 and, accordingly, has a limited operating history. The Fund's principal office is located at One Corporate Center, Rye, New York 10580-1422.

The Fund has 84,994,505 common shares outstanding, 73,000,000 of which were issued on November 28, 2003 in connection with the Fund's initial public offering and 9,700,000 of which were issued on January 7, 2004 pursuant to an overallotment option exercised by the Fund's underwriters. The remaining common shares outstanding are owned by the Investment Adviser or its sole shareholder, Gabelli Asset Management Company, Inc. The Fund currently trades on the NYSE under the symbol "GDV."

The following table provides information about the Fund's outstanding shares as of June 30, 2004.

Title of Class	Amount Authorized	Amount held by the Fund for its Account	Amount Outstanding
Common Shares .....	Unlimited	0	84,994,505
Preferred Shares			
Series A Preferred..	Unlimited	0	0
Series B AMPS.....	Unlimited	0	0
Series C AMPS.....	Unlimited	0	0

## CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of September 15, 2004, and its adjusted capitalization assuming the Series A Preferred and the AMPS offered in this prospectus had been issued.

	<b>As of September 15, 2004</b>	
	<b>Actual</b>	<b>As adjusted</b> (unaudited)
Preferred shares, \$0.001 par value, unlimited shares authorized. (The “Actual” column reflects the Fund’s outstanding capitalization as of September 15, 2004; the “As Adjusted” column assumes the issuance of 3,200,000 shares of Series A Preferred and 8,800 shares of AMPS, \$25 and \$25,000 liquidation preference, respectively) .....	--	\$ 300,000,000
Shareholders’ equity applicable to common shares:		
Common shares, \$.001 par value per share; 84,842,505 shares outstanding .....	\$ 84,843	\$ 84,843
Paid-in surplus* .....	1,617,373,217	1,612,053,217
Distributions in excess of net investment income .....	(50,685,669)	(50,685,669)
Net unrealized appreciation .....	39,974,095	39,974,095
Net assets applicable to common shares.....	1,606,746,486	1,601,426,486
Net assets, plus the liquidation preference of preferred shares .....	1,606,746,486	1,901,426,486

\* As adjusted paid-in surplus reflects a reduction for the sales load and estimated offering cost of the Series A Preferred and/or the AMPS issuance of \$5,320,000.

For financial reporting purposes the Fund is required to deduct the liquidation preference of its outstanding preferred shares as well as the principal amount of its outstanding senior debt from “net assets,” so long as the senior securities have redemption features that are not solely within the control of the Fund. For all regulatory purposes, the Fund’s preferred shares will be treated as equity (rather than as indebtedness).

## INVESTMENT OBJECTIVE AND POLICIES

### Investment Objective

The Fund's investment objective is to provide a high level of total return on its assets with an emphasis on dividends and income. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in dividend paying or income producing equity or debt securities.

### Investment Methodology of the Fund

In selecting securities for the Fund, the Investment Adviser normally will consider the following factors, among others:

- the Investment Adviser's own evaluations of the private market value (which is defined below), cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;
- the interest or dividend income generated by the securities;
- the potential for capital appreciation of the securities;
- the prices of the securities relative to other comparable securities;
- whether the securities are entitled to the benefits of call protection or other protective covenants; and
- the existence of any anti-dilution protections or guarantees of the security.

The Investment Adviser's investment philosophy with respect to debt and equity securities is to identify assets that are selling in the public market at a discount to their private market value. The Investment Adviser defines private market value as the value informed purchasers are willing to pay to acquire assets with similar characteristics. The Investment Adviser also normally evaluates an issuer's free cash flow and long-term earnings trends. Finally, the Investment Adviser looks for a catalyst, something indigenous to the company, its industry or country that will surface additional value.

### Certain Investment Practices

*Equity Securities.* Under normal market conditions the Fund will invest at least 50% of its total assets in dividend paying equity securities, *i.e.*, common stocks and preferred stocks.

Common stocks represent the residual ownership interest in the issuer and holders of common stock are entitled to the income and increase in the value of the assets and business of the issuer after all of its debt obligations and obligations to preferred shareholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

Equity securities also include preferred stock (whether or not convertible into common stock) and debt securities convertible into or exchangeable for common or preferred stock. Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuer in all respects. As a general rule the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred stock generally also reflects some element of conversion

value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similarly stated yield characteristics. The market value of preferred stock will also generally reflect whether (and if so when) the issuer may force holders to sell their preferred stock back to the issuer and whether (and if so when) the holders may force the issuer to buy back their preferred stock. Generally speaking, the right of the issuer to repurchase the preferred stock tends to reduce any premium that the preferred stock might otherwise trade at due to interest rate or credit factors, while the right of the holders to require the issuer to repurchase the preferred stock tend to reduce any discount that the preferred stock might otherwise trade at due to interest rate or credit factors. In addition, some preferred stocks are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred stocks, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. There is no assurance that dividends or distributions on non-cumulative preferred stocks in which the Fund invests will be declared or otherwise made payable.

Securities that are convertible into or exchangeable for preferred or common stock are liabilities of the issuer but are generally subordinated to more senior elements of the issuer's balance sheet. Although such securities also generally reflect an element of conversion value, their market value also varies with interest rates and perceived credit risk. Many convertible securities are not investment grade, that is, not rated "BBB" or better by S&P or "Baa" or better by Moody's or considered by the Investment Adviser to be of similar quality. There is no minimum credit rating or independent investment limitation for these securities in which the Fund may invest. Preferred stocks and convertible securities may have many of the same characteristics and risks as nonconvertible debt securities. See " — Lower Grade Securities."

The Investment Adviser believes that preferred stock and convertible securities of certain companies offer the opportunity for capital appreciation as well as periodic income. This is particularly true in the case of companies that have performed below expectations. If a company's performance has been poor enough, its preferred stock and convertible securities may trade more like common stock than like fixed income securities, which may result in above average appreciation if the company's performance improves. Even if the credit quality of such a company is not in question, the market price of its convertible securities may reflect little or no element of conversion value if the price of its common stock has fallen substantially below the conversion price. This can result in the possibility of capital appreciation if the price of the company's common stock recovers.

*Lower Grade Securities.* The Fund may invest up to 10% of its total assets in fixed-income nonconvertible securities rated in the lower rating categories of recognized statistical rating agencies or non-rated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are rated lower than "BBB" by S&P or lower than "Baa" by Moody's (or unrated debt securities of comparable quality) are referred to in the financial press as "junk bonds."

Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality bonds. In addition, such comparable unrated securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities

of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management and regulatory matters.

In addition, the market value of securities in lower rated categories is more volatile than that of higher quality securities, and the markets in which such lower rated or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value to respond to changes in the economy or the financial markets.

Lower grade securities and unrated securities of comparable quality also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay interest currently. Interest rates are at historical lows and, therefore, it is likely that they will rise in the future.

As part of its investments in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection and the value of these securities will appreciate. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher-yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing and current anticipated results of operations. In selecting investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies might change their ratings of a particular issue to reflect subsequent events on a timely basis. Moreover, such ratings do not assess the risk of a decline in market value. None of these events will require the sale of the securities by the Fund, although the Investment Adviser will consider these events in determining whether the Fund should continue to hold the securities.

The market for lower grade and comparable unrated securities has experienced periods of significantly adverse price and liquidity several times, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the

ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

*Securities Subject to Reorganization.* The Fund may invest without limit in securities of companies for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or reorganization proposal has been announced if, in the judgment of the Investment Adviser, there is a reasonable prospect of high total return significantly greater than the brokerage and other transaction expenses involved.

In general, securities which are the subject of such an offer or proposal sell at a premium to their historic market price immediately prior to the announcement of the offer or may also discount what the stated or appraised value of the security would be if the contemplated transaction were approved or consummated. Such investments may be advantageous when the discount significantly overstates the risk of the contingencies involved; significantly undervalues the securities, assets or cash to be received by shareholders of the prospective portfolio company as a result of the contemplated transaction; or fails adequately to recognize the possibility that the offer or proposal may be replaced or superseded by an offer or proposal of greater value. The evaluation of such contingencies requires unusually broad knowledge and experience on the part of the Investment Adviser which must appraise not only the value of the issuer and its component businesses as well as the assets or securities to be received as a result of the contemplated transaction but also the financial resources and business motivation of the offeror and/or the dynamics and business climate when the offer or proposal is in process. The Investment Adviser has experience investing in securities subject to reorganization as a secondary strategy, and since 1993 the Investment Adviser has advised a registered open-end fund which from time to time uses risk arbitrage as a principal investment strategy. Since such investments are ordinarily short-term in nature, they will tend to increase the turnover ratio of the Fund, thereby increasing its brokerage and other transaction expenses. The Investment Adviser intends to select investments of this type which, in its view, have a reasonable prospect of capital appreciation which is significant in relation to both risk involved and the potential of available alternative investments.

*Temporary Defensive Investments.* Under normal market conditions at least 80% of the Fund's assets will consist of "dividend paying securities" *i.e.*, common stock and other equity securities of foreign and domestic companies which have historically paid periodic dividends to holders, or "income securities," *i.e.*, non-dividend paying equity or debt securities having a history of regular payments or accrual of income to holders. However, when a temporary defensive posture is believed by the Investment Adviser to be warranted ("temporary defensive periods"), the Fund may without limitation hold cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The money market instruments in which the Fund may invest are obligations of the U.S. government, its agencies or instrumentalities; commercial paper rated "A-1" or higher by S&P or "Prime-1" by Moody's; and certificates of deposit and bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. During temporary defensive periods, the Fund may also invest to the extent permitted by applicable law in shares of money market mutual funds, which, under current law, in the absence of an exemptive order will not be affiliated with the Investment Adviser. Money market mutual funds are investment companies and the investments in those companies by the Fund are in some cases subject to certain fundamental investment restrictions and applicable law. As a shareholder in a mutual fund, the Fund will bear its ratable share of its expenses, including management fees, and will remain subject to payment of the fees to the Investment Adviser, with respect to assets so invested. See "Management of the Fund — General." The Fund may find it more difficult to achieve its investment objective during temporary defensive periods.

*Options.* The Fund may purchase or sell, *i.e.*, write, options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the over-the-counter ("OTC")

market, as a means of achieving additional return or of hedging the value of the Fund's portfolio. A call option is a contract that, in return for a premium, gives the holder of the option the right to buy from the writer of the call option the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period. A put option is the reverse of a call option, giving the holder the right, in return for a premium, to sell the underlying security to the writer, at a specified price, and obligating the writer to purchase the underlying security from the holder at that price. The Fund may purchase call or put options as long as the aggregate initial margins and premiums, measured at the time of such investment, do not exceed 10% of the fair market value of the Fund's total assets.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange which provides a secondary market for an option of the same series or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options.

Although the Investment Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option-writing program it undertakes.

*Futures Contracts and Options on Futures.* The Fund may purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future. These futures contracts and related options may be on debt securities, financial indices, securities indices, U.S. government securities and foreign currencies. The Investment Adviser has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act and

therefore is not subject to registration under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments described in this Prospectus and the SAI are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission.

*Forward Foreign Currency Exchange Contracts.* Subject to guidelines of the Board of Trustees, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against uncertainty in the level of future currency exchange rates. The Fund may enter into such contracts on a spot, *i.e.*, cash, basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund expects to invest in forward currency contracts for hedging or currency risk management purposes and not in order to speculate on currency exchange rate movements. The Fund will only enter into forward currency contracts with parties which it believes to be creditworthy.

*When Issued, Delayed Delivery Securities and Forward Commitments.* The Fund may enter into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, *i.e.*, a when, as and if issued security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its custodian cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

*Short Sales.* The Fund may make short sales of securities. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. The market value of the securities sold short of any one issuer will not exceed either 10% of the Fund's total assets or 5% of such issuer's voting securities. The Fund also will not make a short sale, if, after giving effect to such sale, the market value of all securities sold short exceeds 25% of the value of its assets. The Fund may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Fund owns, or has the immediate and unconditional right to acquire at no additional cost, the identical security.

The Fund expects to make short sales both to obtain capital gains from anticipated declines in securities and as a form of hedging to offset potential declines in long positions in the same or similar securities. The short sale of a security is considered a speculative investment technique. Short sales "against the box" may be subject to special tax rules, one of the effects of which may be to accelerate income to the Fund.

When the Fund makes a short sale, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale in order to satisfy its obligation to deliver the security upon conclusion of the sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any payments received on such borrowed securities.

If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, and any loss will be increased, by the transaction costs incurred by the Fund, including the costs associated with providing collateral to the broker-dealer (usually cash, U.S. government securities or other highly liquid debt securities) and the maintenance of collateral with its custodian. Although the Fund's gain is limited to the price at which it sold the security short, its potential loss is theoretically unlimited.

*Repurchase Agreements.* Repurchase agreements may be seen as loans by the Fund collateralized by an underlying debt securities. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed price and time. This arrangement results in a fixed rate of return to the Fund that is not subject to market fluctuations during the holding period. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and the Fund is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. The Investment Adviser, acting under the supervision of the Board of Trustees of the Fund, reviews the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level. The Fund will not enter into repurchase agreements with the Investment Adviser or any of its affiliates.

*Restricted and Illiquid Securities.* The Fund may invest in securities for which there is no readily available trading market or are otherwise illiquid. Illiquid securities include securities legally restricted as to resale, such as commercial paper issued pursuant to Section 4(2) of the Securities Act of 1933 and securities eligible for resale pursuant to Rule 144A thereunder. Section 4(2) and Rule 144A securities may, however, be treated as liquid by the Investment Adviser pursuant to procedures adopted by the Board of Trustees, which require consideration of factors such as trading activity, availability of market quotations and number of dealers willing to purchase the security. If the Fund invests in Rule 144A securities, the level of portfolio illiquidity may be increased to the extent that eligible buyers become uninterested in purchasing such securities.

It may be difficult to sell such securities at a price representing the fair value until such time as such securities may be sold publicly. Where registration is required, a considerable period may elapse between a decision to sell the securities and the time when it would be permitted to sell. Thus, the Fund may not be able to obtain as favorable a price as that prevailing at the time of the decision to sell. The Fund may also acquire securities through private placements under which it may agree to contractual restrictions on the resale of such securities. Such restrictions might prevent their sale at a time when such sale would otherwise be desirable.

*Foreign Securities.* The Fund may invest up to 35% of its total assets in securities of non-U.S. issuers, which are generally denominated in foreign currencies. See "Risk Factors and Special Considerations — Risks of Investing in the Fund — Foreign Securities."

The Fund may purchase sponsored American Depositary Receipts ("ADRs") or U.S. dollar-denominated securities of foreign issuers, which will not be included in this foreign securities limitation. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets.

*Industry Concentration.* The Fund may invest up to 25% of its total assets in securities of issuers in a single industry. See “Risk Factors and Special Considerations — Risks of Investing in the Fund — Industry Concentration Risk.”

*Leveraging.* As provided in the 1940 Act and subject to certain exceptions, the Fund may issue senior securities (which may be stock, such as preferred shares, or securities representing debt) so long as its total assets, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the amount of preferred shares and debt outstanding. Any such preferred shares may be convertible in accordance with Securities and Exchange Commission staff guidelines, which may permit each fund to obtain leverage at attractive rates. The use of leverage magnifies the impact of changes in net asset value. For example, a fund that uses 33% leverage will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. In addition, if the cost of leverage exceeds the return on the securities acquired with the proceeds of leverage, the use of leverage will diminish rather than enhance the return to the Fund. The use of leverage generally increases the volatility of returns to the Fund. See “Risk Factors and Special Considerations — Risks Associated with both the Series A Preferred and AMPS—Leverage Risk.”

In the event the Fund had both outstanding preferred shares (such as the Series A Preferred or the AMPS) and senior securities representing debt at the same time, the Fund’s obligations to pay dividends and, upon liquidation of the Fund, liquidation payments in respect of its preferred shares would be subordinate to the Fund’s obligations to make any principal and/or interest payments due and owing with respect to its outstanding senior debt securities. Accordingly, the Fund’s issuance of senior securities representing debt would have the effect of creating special risks for the Fund’s preferred shareholders (including the holders of Series A Preferred and/or AMPS) that would not be present in a capital structure that did not include such securities. See “Risk Factors and Special Considerations — Risks Associated with both the Series A Preferred and AMPS — Special Risks to Preferred Shares of Senior Securities Representing Debt.”

Further information on the investment objectives and policies of the Fund are set forth in the SAI.

*Investment Restrictions.* The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Fund’s Series A Statement of Preferences and Statement of Preferences of each of the series of AMPS, a majority, as defined in the 1940 Act, of the outstanding preferred shares of the Fund (voting separately as a single class) is also required to change a fundamental policy. The Fund’s investment restrictions are more fully discussed under “Investment Restrictions” in the SAI.

*Loans of Portfolio Securities.* To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if the loan is collateralized in accordance with applicable regulatory requirements.

If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities violate the terms of the loan or fail financially. There can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Fund, and any gain or loss in the market price during the loan would inure to the Fund. If the other party to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law

regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss. See "Investment Objective and Policies — Additional Investment Policies — Loans of Portfolio Securities" in the SAI.

*Portfolio Turnover.* The Fund will buy and sell securities to accomplish its investment objective. The investment policies of the Fund may lead to frequent changes in investments, particularly in periods of rapidly fluctuating interest or currency exchange rates.

Portfolio turnover generally involves some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. The portfolio turnover rate is computed by dividing the lesser of the amount of the securities purchased or securities sold by the average monthly value of securities owned during the year (excluding securities whose maturities at acquisition were one year or less). Higher portfolio turnover may decrease the after-tax return to individual investors in the Fund to the extent it results in a decrease of the long term capital gains portion of distributions to shareholders.

As of June 30, 2004, the portfolio turnover rate of the Fund since January 1, 2004 was 11.3%. The Fund anticipates that its portfolio turnover rate will generally not exceed 100%.

Further information on the investment objective and policies of the Fund are set forth in the SAI.

## **RISK FACTORS AND SPECIAL CONSIDERATIONS**

Investors should consider the following risk factors and special considerations associated with investing in the Fund.

### **Preferred Shares**

#### **Special Risks of the Series A Preferred**

*Fluctuations in Market Price.* The market price for the Series A Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series A Preferred and other factors.

*Illiquidity Risk.* Prior to the offering, there has been no public market for the Series A Preferred. In the event the Series A Preferred is issued, prior application will have been made to list the Series A Preferred on the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its issuance, the Series A Preferred will not be listed on any securities exchange. During such period, the underwriters intend to make a market in the Series A Preferred, however, they have no obligation to do so. Consequently, the Series A Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series A Preferred being liquid at any time.

#### **Special Risks of the AMPS**

*Auction Risk.* You may not be able to sell your AMPS at an auction if the auction fails, *i.e.*, if there are more AMPS offered for sale than there are buyers for those shares. Also, if you place an order at an auction to retain AMPS only at a specified rate that exceeds the rate set at the auction, you will not retain your AMPS. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive

a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the affected series of AMPS, which could also affect the liquidity of your investment. See “Description of the Series A Preferred and the AMPS” and “The Auction of AMPS.”

*Secondary Market Sale Risk.* If you try to sell your AMPS between auctions, you may not be able to sell them for \$25,000 per share or \$25,000 per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that may maintain a secondary trading market for a series of the AMPS are not required to maintain this market, and the Fund is not required to redeem the AMPS if either an auction or an attempted secondary market sale fails because of a lack of buyers. In addition, a broker-dealer may, in its own discretion, decide to sell AMPS in the secondary market to investors at any time and at any price, including at prices equivalent to, below or above the par value of the AMPS. The AMPS are not listed on a stock exchange or the NASDAQ stock market. If you sell your AMPS to a broker-dealer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction or during a special dividend period.

### **Risks Associated With Both the Series A Preferred and AMPS**

*General Risks of Preferred Shares.* There are a number of risks associated with an investment in the Series A Preferred or the AMPS.

The market value for the Series A Preferred and/or the AMPS will be influenced by changes in interest rates, the perceived credit quality of the Series A Preferred or the AMPS and other factors.

The credit rating on the Series A Preferred and/or the AMPS could be reduced or withdrawn while an investor holds shares, and the credit rating does not eliminate or mitigate the risks of investing in the Series A Preferred and/or the AMPS. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series A Preferred and the AMPS.

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to pay dividends on the Series A Preferred and/or the AMPS.

The value of the Fund’s investment portfolio may decline, reducing the asset coverage for the Series A Preferred and/or the AMPS. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer’s preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and/or asset value of the Fund’s investment portfolio. In such circumstances, the Fund may be forced to mandatorily redeem shares of Series A Preferred and/or AMPS.

In general, the Fund may redeem your AMPS at any time and may redeem your Series A Preferred at any time after October 12, 2009 and may at any time redeem shares of either or both series to meet regulatory or rating agency requirements. Because of historically low interest rates, the current low cost of the AMPS to the Fund may rise dramatically, which in turn may prompt the Fund to redeem the AMPS earlier than it otherwise might. The Series A Preferred and/or each series of AMPS are subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series A Preferred or the AMPS. Subject to such circumstances, the Series A Preferred and/or the AMPS are perpetual.

The Series A Preferred and the AMPS are not obligations of the Fund. The Series A Preferred and/or the AMPS would be junior in respect of dividends and liquidation preference to any indebtedness incurred by the Fund, including any senior securities of the Fund representing debt. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series A Preferred and/or the AMPS for the full redemption price.

*Leverage Risk.* The Fund intends to use financial leverage for investment purposes by issuing preferred shares and/or senior securities representing debt. It is currently anticipated that, taking into account the Series A Preferred and/or the AMPS being offered in this prospectus, the amount of leverage initially will represent approximately 16% of the Fund's total assets. The Fund expects that depending on interest rates and available investment opportunities it will increase its financial leverage through the issuance of additional senior securities up to approximately 33% of the Fund's total assets including the proceeds of the Series A Preferred and/or the AMPS. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage for the Series A Preferred and/or AMPS. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make dividend payments on the preferred shares or principal or interest payments on debt securities, or to redeem preferred shares or repay debt, when it may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common share dividend payments and such a failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code. See "Taxation."

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund's net assets, which includes for this purpose assets attributable to the aggregate net asset value of the common shares plus assets attributable to any outstanding preferred shares, with no deduction for the liquidation preference of any preferred shares, the fee may be higher when leverage in the form of preferred shares is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed not to accept an incremental fee on any Series A Preferred or AMPS, as the case may be, to the extent the Fund's total return allocable to the common shares fails to meet certain hurdles described under "Management of the Fund - General."

*Special Risks to Preferred Shares of Senior Securities Representing Debt.* As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue senior securities representing debt. In the event the Fund were to issue such securities, the Fund's obligations to pay dividends and, upon liquidation of the Fund, liquidation payments in respect of its preferred shares would be subordinate to the Fund's obligations to make any principal and/or interest payments due and owing with respect to its outstanding senior debt securities. Accordingly, the Fund's issuance of senior securities representing debt would have the effect of creating special risks for the Fund's preferred shareholders (including the holders of Series A Preferred and/or AMPS) that would not be present in a capital structure that did not include such securities.

*Restrictions on Dividends and Other Distributions.* Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's common shares and preferred shares, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred shares (including the Series A Preferred and/or the AMPS) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See "Taxation" in the SAI.

*Securities and Exchange Commission Inquiries.* Merrill Lynch and Citigroup Global Markets Inc. have advised the Fund that they and certain broker-dealers and other participants in the auction rate securities markets, including both taxable and tax exempt markets, have received letters from the Securities and Exchange Commission requesting that each of them voluntarily conduct an investigation regarding their respective practices and procedures in those markets. Merrill Lynch, Citigroup Global Markets Inc. and those other broker-dealers are cooperating and expect to continue to cooperate with the Securities and Exchange Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the market for the AMPS or the auctions.

## **Risks of Investing in the Fund**

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

*Common Stock Dividend Policy Risk.* The Fund has recently adopted a policy, which may be changed at any time by the Board of Trustees, of paying a monthly distribution on its common shares of \$.10 per share, which is equal to an annual rate of 6% of the original issue price of the common shares. In the event investment returns do not provide sufficient amounts to fund such distributions, the Fund may be required to return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's Series A Preferred and the AMPS. The Fund made its third dividend payment on September 24, 2004, a portion of which constituted a return of capital.

*Value Investing Risk.* The Fund focuses its investments on dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks. These securities generally are selected on the basis of an issuer's fundamentals relative to current market price. Such securities are subject to the risk of mis-estimation of certain fundamental factors. In addition, during certain time periods market dynamics may strongly favor "growth" stocks of issuers that do not display strong fundamentals relative to market price based upon positive price momentum and other factors. Disciplined adherence to a "value" investment mandate during such periods can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible equity style mandates.

*Non-Diversified Status.* The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means the Fund is not limited by the 1940 Act in the proportion of its assets that may be invested in the securities of a single issuer. However, the Fund has in the past conducted and intends to conduct its operations so as to qualify as a "regulated investment company," or RIC, for purposes of the Code, which will relieve it of any liability for federal income tax to the extent its earnings are distributed to shareholders. To qualify as a "regulated investment company," among other requirements, the Fund will limit its investments so that, with certain exceptions, at the close of each quarter of the taxable year (a) not more than 25% of the market value of its total assets will be invested in the securities (other than U.S. government securities or the securities of other RICs) of a single issuer or any two or more issuers that the Fund controls and which are determined to be engaged in the same, similar or related trades or businesses; and (b) at least 50% of the market value of the Fund's assets will be represented by cash, securities of other regulated investment companies, U.S. government securities and other securities, with such other securities limited in respect of any one issuer to an amount not greater than 5% of the value of the Fund's assets and not more than 10% of the outstanding voting securities of such issuer.

As a non-diversified investment company, the Fund may invest in the securities of individual issuers to a greater degree than a diversified investment company. As a result, the Fund may be more vulnerable to events affecting a single issuer and therefore, subject to greater volatility than a fund that is more broadly diversified. Accordingly, an investment in the Fund may present greater risk to an investor than an investment in a diversified company.

*Industry Concentration Risk.* The Fund may invest up to 25% of its total assets in securities of a single industry. Should the Fund choose to do so, the net asset value of the Fund will be more susceptible to factors affecting those particular types of companies, which, depending on the particular industry, may include, among others: governmental regulation; inflation; cost increases in raw materials, fuel and other operating expenses; technological innovations that may render existing products and equipment obsolete; and increasing interest rates resulting in high interest costs on borrowings needed for capital investment, including costs associated with compliance with environmental and other regulations. In such circumstances the Fund's investments may be subject to greater risk and market fluctuation than a fund that had securities representing a broader range of industries.

*Special Risks Related to Preferred Securities.* There are special risks associated with the Fund's investing in preferred securities, including:

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

Non-Cumulative Dividends. Some preferred stocks are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred stock held by the Fund determine not to pay dividends on such stock, the Fund's return from that security may be adversely affected. There is no assurance that dividends or distributions on non-cumulative preferred stocks in which the Fund invests will be declared or otherwise made payable.

Subordination. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt security instruments.

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

Limited Voting Rights. Generally, preferred security holders (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may be entitled to elect a number of trustees to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

Special Redemption Rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. A redemption by the issuer may negatively impact the return of the security held by the Fund.

*Illiquid Securities.* The Fund has no limit on the amount of its net assets it may invest in unregistered and otherwise illiquid investments. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act of 1933. Unregistered securities generally can be resold only in privately negotiated transactions with a limited number of purchasers or in a public offering registered under the Securities Act of 1933. Considerable delay could be encountered in either event and, unless otherwise contractually provided for, the Fund's proceeds upon sale may be reduced by the costs of registration or underwriting discounts. The difficulties and delays associated with such transactions could result in the Fund's inability to realize a favorable price upon disposition of unregistered securities, and at times might make disposition of such securities impossible.

*Foreign Securities Risk.* The Fund may invest up to 35% of its total assets in the securities of foreign issuers. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. In addition, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries.

There may be less publicly available information about a foreign company than a U.S. company. Foreign securities markets may have substantially less volume than U.S. securities markets and some foreign company securities are less liquid than securities of otherwise comparable U.S. companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-U.S. securities markets and the increased costs of maintaining the custody of foreign securities. The Fund does not have an independent limit on the amount of its assets that it may invest in the securities of foreign issuers.

The Fund also may purchase ADRs or U.S. dollar-denominated securities of foreign issuers. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

*Smaller Companies.* While the Fund intends to focus on the securities of established suppliers of accepted products and services, the Fund may also invest in smaller companies which may benefit from the development of new products and services. These smaller companies may present greater

opportunities for capital appreciation, and may also involve greater investment risk than larger, more established companies. For example, smaller companies may have more limited product lines, market or financial resources and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of other issuers.

*Investment Companies.* The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment company's expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances holders of the Fund's common shares will be subject to duplicative investment expenses.

*Lower Grade Securities.* The Fund may invest up to 10% of its total assets in nonconvertible preferred stock or debt securities rated in the lower rating categories of nationally recognized statistical rating organizations (*i.e.*, rated "Ba" or lower by Moody's or "BB" or lower by S&P or Fitch) or unrated securities of comparable quality, and an unlimited percentage of its assets in convertible bonds of such quality. These high yield securities, also sometimes referred to as "junk bonds," generally pay a premium above the yields of U.S. government securities or debt securities of investment grade issuers because they are subject to greater risks than these securities. These risks, which reflect their speculative character, include the following:

- greater volatility;
- greater credit risk and risk of default;
- potentially greater sensitivity to general economic or industry conditions;
- potential lack of attractive resale opportunities (illiquidity); and
- additional expenses to seek recovery from issuers who default.

In addition, the prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market value of lower grade securities may be more volatile than the market value of investment grade securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than investment grade securities, which primarily reflect fluctuations in general levels of interest rates.

Ratings are relative and subjective and not absolute standards of quality. Securities ratings are based largely on the issuer's historical financial condition and the rating agencies' analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition.

As a part of its investments in lower grade fixed-income securities, the Fund may invest in the securities of issuers in default. The Fund will invest in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations and emerge from bankruptcy protection and that the value of such issuers' securities will appreciate. By investing in the securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of these securities will not otherwise appreciate.

For a further description of lower grade securities and the risks associated therewith, see "Investment Objective and Policies — Certain Investment Practices — Lower Grade Securities." For a

description of the ratings categories of certain recognized statistical ratings agencies, see Appendix A to this prospectus.

*Special Risks of Derivative Transactions.* Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency and interest rate markets is inaccurate, the consequences to the Fund may leave the Fund in a worse position than if it had not used such strategies. Risks inherent in the use of options, foreign currency, futures contracts and options on futures contracts, securities indices and foreign currencies include:

- dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;
- imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;
- the fact that skills needed to use these strategies are different from those needed to select portfolio securities;
- the possible absence of a liquid secondary market for any particular instrument at any time;
- the possible need to defer closing out certain hedged positions to avoid adverse tax consequences;
- the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain "cover" or to segregate securities in connection with the hedging techniques; and
- the creditworthiness of counterparties.

*Futures Transactions.* The Fund may invest without limit in futures contracts. Futures and options on futures entail certain risks, including but not limited to the following:

- no assurance that futures contracts or options on futures can be offset at favorable prices;
- possible reduction of the return of the Fund due to the use of hedging;
- possible reduction in value of both the securities hedged and the hedging instrument;
- possible lack of liquidity due to daily limits or price fluctuations;
- imperfect correlation between the contracts and the securities being hedged; and
- losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

*Forward Currency Exchange Contracts.* There is no independent limit on the Fund's ability to invest in foreign currency exchange contracts. The use of forward currency contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover.

*Counterparty Risk.* The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the 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 bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

For a further description of such derivative investments, see “Investment Objective and Policies — Additional Investment Policies” in the SAI.

*Loans of Portfolio Securities.* Consistent with applicable regulatory requirements and the Fund’s investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, provided that such loans are callable at any time by the Fund (subject to notice provisions described in the SAI), and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earning interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund’s loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements.

For a further description of such loans of portfolio securities, see “Investment Objective and Policies — Additional Investment Policies — Loans of Portfolio Securities” in the SAI.

*Management Risk.* The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

*Interest Rate Transactions.* The Fund may enter into an interest rate swap or cap transaction with respect to all or a portion of the AMPS. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See “How the Fund Manages Risk — Interest Rate Transactions.”

*Dependence on Key Personnel.* The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund’s investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

*Current Developments.* As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. Securities Markets were closed for a four-day period. These terrorists attacks, the war in Iraq and its aftermath and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. Similar events in the future or other disruptions of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Series A Preferred and/or the AMPS.

*Anti-Takeover Provisions.* The Fund’s Governing Documents include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See “Anti-Takeover Provisions of the Fund’s Governing Documents.”

*Status as a Regulated Investment Company.* The Fund has elected and has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common shares if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred shares to the extent necessary in order to maintain compliance with such asset coverage requirements. See "Taxation" for a more complete discussion of these and other federal income tax considerations.

## HOW THE FUND MANAGES RISK

### Investment Restrictions

The Fund has adopted certain investment limitations, some of which are fundamental policies of the Fund, designed to limit investment risk and maintain portfolio diversification. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Fund's Series A Statement of Preferences and Statement of Preferences of each of the series of AMPS, a majority, as defined in the 1940 Act, of the outstanding preferred shares of the Fund (voting separately as a single class) is also required to change a fundamental policy. The Fund may become subject to guidelines that are more limiting than its current investment restrictions in order to obtain and maintain ratings from Moody's and S&P on its preferred shares.

### Interest Rate Transactions

The Fund may enter into interest rate swap or cap transactions in relation to all or a portion of the AMPS in order to manage the impact on its portfolio of changes in the dividend rate of a series of the AMPS. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for a series of the AMPS that is lower than the Fund would have to pay if it issued fixed rate preferred shares.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on a series of the AMPS. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred share dividends when due in accordance with the Statement of Preferences of the relevant series of the AMPS even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend payments on the AMPS. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on the AMPS. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the AMPS. A sudden and dramatic decline in

interest rates may result in a significant decline in the asset coverage. Under the Series A Statement of Preferences and Statement of Preferences for each series of the AMPS, if the Fund fails to maintain the required asset coverage on the outstanding preferred shares (including the AMPS) or fails to comply with other covenants, the Fund may, at its option (and in certain circumstances will be required to), mandatorily redeem some or all of these shares. The Fund may also choose to redeem some or all of the AMPS at any time. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund does not presently intend to enter into interest rate swap or cap transactions relating to the AMPS in a notional amount in excess of the outstanding amount of the AMPS. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

## **MANAGEMENT OF THE FUND**

### **General**

The Fund's Board of Trustees (who, with the Fund's officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser, Gabelli Funds, LLC, located at One Corporate Center, Rye, New York 10580-1422, and the Sub-Administrator (as defined below). Pursuant to an investment advisory contract with the Fund, the Investment Adviser, under the supervision of the Fund's Board, provides a continuous investment program for the Fund's portfolio; provides investment research and makes and executes recommendations for the purchase and sale of securities; and provides all facilities and personnel, including officers required for its administrative management and pays the compensation of all officers and trustees of the Fund who are its affiliates. As compensation for its services and the related expenses borne by the Investment Adviser, the Fund pays the Investment Adviser a fee, computed daily and payable monthly, equal, on an annual basis, to 1.00% of the Fund's average weekly net assets. As used in this prospectus, net assets means the aggregate net asset value of the common shares (which includes for this purpose assets attributable to outstanding preferred shares, if any, with no deduction for the liquidation preference of such preferred shares). However, the Investment Adviser has voluntarily agreed to waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of, as the case may be, its outstanding Series A Preferred and/or AMPS for any calendar year in which the net asset value total return of the Fund allocable to the common shares, including distributions and the advisory fee subject to potential waiver, is less than (i) in the case of the Series A Preferred, the stated annual dividend rate of such series and (ii) in the case of the AMPS, the net cost of capital to the Fund with respect to each series of the AMPS for such year expressed as a percentage (including, without duplication, dividends paid by the Fund on each series of the AMPS and the net cost to the Fund of any associated swap or cap transaction if the Fund hedges its AMPS dividend obligations). This waiver will apply to the portion of the Fund's assets attributable to the Series A Preferred and each series of the AMPS Preferred, respectively, for so long as any shares of such series remain outstanding.

## **The Investment Adviser**

Gabelli Funds, LLC acts as the Fund's Investment Adviser pursuant to an advisory agreement with the Fund. The Investment Adviser is a New York corporation with principal offices located at One Corporate Center, Rye, New York 10580. The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of June 30, 2004, the Investment Adviser acted as registered investment adviser to 27 management investment companies with aggregate net assets of \$12.1 billion. The Investment Adviser, together with other affiliated investment advisers noted below had assets under management totaling approximately \$28.2 billion as of June 30, 2004. GAMCO Investors, Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub-adviser to management investment companies having aggregate assets of \$13.6 billion under management as of June 30, 2004. Gabelli Fixed Income LLC, an affiliate of the Investment Adviser, acts as investment adviser for The Treasurer's Funds (money market funds) and separate accounts having aggregate assets of \$1.0 billion under management as of June 30, 2004. Gabelli Advisers, Inc., an affiliate of the Investment Adviser, acts as investment manager to the Gabelli Westwood Funds having aggregate assets of \$438 million under management as of June 30, 2004.

The Investment Adviser is a wholly-owned subsidiary of Gabelli Asset Management Inc., a New York corporation, whose Class A Common Stock is traded on the NYSE under the symbol "GBL." Mr. Mario J. Gabelli may be deemed a "controlling person" of the Investment Adviser on the basis of his ownership of a majority of the stock of Gabelli Group Capital Partners, Inc., which owns a majority of the capital stock of Gabelli Asset Management Inc.

## **Payment of Expenses**

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the investment advisory agreement between the Fund and the Investment Adviser (the "Advisory Agreement"), including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administration of the Fund (but excluding costs associated with the calculation of the net asset value), as well as the fees of all trustees of the Fund who are affiliated with the Investment Adviser. The Fund pays all other expenses incurred in its operation including, among other things, offering expenses, expenses for legal and Independent Registered Public Accounting Firm services, rating agency fees, costs of printing proxies, share certificates and shareholder reports, charges of the custodian, any subcustodian, auction agent, transfer agent(s) and dividend paying agent, expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, Security and Exchange Commission fees, fees and expenses of unaffiliated directors, accounting and pricing costs, including costs of calculating the net asset value of the Fund, membership fees in trade associations, fidelity bond coverage for its officers and employees, directors' and officers' errors and omission insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses, expenses of qualifying its shares for sale in various states, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

## **Selection of Securities Brokers**

The Advisory Agreement contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to Gabelli & Company, Inc. or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than Gabelli & Company, Inc. that are higher than might be charged by another qualified broker to obtain brokerage and/or research services

considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Advisory Agreement, including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

### **Portfolio Manager**

Mario J. Gabelli currently leads the investment team responsible for the day-to-day management of the Fund. Mr. Gabelli has served as Chairman, President and Chief Investment Officer of the Investment Adviser since 1980. Mr. Gabelli also serves as Portfolio Manager for a number of other funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli's responsibilities, he will devote less than all of his time to the day-to-day management at the Fund. Over the past five years, Mr. Gabelli has served as Chairman of the Board and Chief Executive Officer of Gabelli Asset Management Inc.; Chief Investment Officer of GAMCO Investors, Inc.; Vice Chairman of the Board of Lynch Corporation, a diversified manufacturing company, and Vice Chairman of the Board and Chief Executive Officer of Lynch Interactive Corporation, a multimedia and communications services company.

Barbara G. Marcin serves as a senior portfolio manager for the Fund. Ms. Marcin joined Gabelli Asset Management Inc. in 1999 to manage larger capitalization value style portfolios. Ms. Marcin currently serves as the portfolio manager of the Gabelli Blue Chip Value Fund. Prior thereto, she worked at Citibank Global Asset Management where she was head of value investments and was a member of the Global Investment Policy Committee and co-Chair of the U.S. Equity Policy Committee. Prior to joining Citibank, she worked at Fiduciary Trust Company for ten years as a portfolio manager and as an analyst in the Personal Financial Management Group at EF Hutton. Ms. Marcin received a M.B.A. from Harvard University and a B.A. from the University of Virginia.

### **Non-Resident Trustees**

Karl Otto Pöhl, Anthonie C. van Ekris and Mario d'Urso, Trustees of the Fund, reside outside the United States and all or a significant portion of their assets are located outside the United States. None of these trustees has an authorized agent in the United States to receive service of process. As a result, it may not be possible for investors to effect service of process within the United States or to enforce against either director in United States courts judgments predicated upon civil liability provisions of United States securities laws. It may also not be possible to enforce against either trustee in foreign courts judgments of United States courts or liabilities in original actions predicated upon civil liability provisions of the United States.

### **Sub-Administrator**

The Investment Adviser has entered into a sub-administration agreement with PFPC Inc. (the "Sub-Administrator") pursuant to which the Sub-Administrator provides certain administrative services necessary for the Fund's operations which do not include the investment and portfolio management services provided by the Investment Adviser. For these services and the related expenses borne by the Sub-Administrator, the Investment Adviser pays a prorated monthly fee at the annual rate of .0275% of the first \$10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and administered by the Sub-Administrator, .0125% of the aggregate average net assets exceeding \$10 billion and .01% of the aggregate average net assets in excess of \$15 billion. The Sub-Administrator has its principal office at 760 Moore Road, King of Prussia, Pennsylvania 19406.

## **Regulatory Matters**

The Securities and Exchange Commission, the New York Attorney General and officials of other states have been conducting inquiries into, and bringing enforcement and other proceedings regarding, trading abuses involving open-end investment companies. The Investment Adviser has received information requests and subpoenas from the Securities and Exchange Commission and the New York Attorney General in connection with these inquiries. The Investment Adviser and its affiliates have been complying with these requests and have been independently reviewing their mutual fund practices in a variety of areas. The Investment Adviser has not found any information that it believes would be material to the ability of the Investment Adviser to fulfill its obligations under the Advisory Agreement. More specifically, the Investment Adviser has not found any evidence of facilitating trading in the Gabelli mutual funds after the 4:00 p.m. pricing time or of improper short-term trading in these funds by its investment professionals or senior executives. The Investment Adviser has found that one investor, which had been engaged in short term trading in one of the Gabelli mutual funds (the prospectus of which did not at that time impose limits on short-term trading) and which had subsequently made an investment in a hedge fund managed by an affiliate of the Investment Adviser, was banned from the mutual fund only after certain other investors were banned. The Investment Adviser believes that this relationship was not material to the Investment Adviser. Inasmuch as both the Investment Adviser's review of its mutual fund practices and the governmental probes of the mutual fund industry are ongoing, no assurance can be provided that additional facts will not come to light in the course of its review that may be material to the Investment Adviser or that the Investment Adviser will not become the subject of enforcement or other proceedings by the Securities and Exchange Commission or the New York Attorney General. In light of the current turmoil in the mutual fund industry arising from the late trading, improper market timing and employee trading problems, there can be no assurance that any such action could not have an adverse impact on the Investment Adviser or on its ability to fulfill its obligations under the Advisory Agreement.

## **PORTFOLIO TRANSACTIONS**

Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, Inc., an affiliate of the Investment Adviser, may execute portfolio transactions on stock exchanges and in the over-the-counter markets on an agency basis and receive a stated commission therefor. For a more detailed discussion of the Fund's brokerage allocation practices, see "Portfolio Transactions" in the SAI.

## **DIVIDENDS AND DISTRIBUTIONS**

The Fund has a policy, which may be modified at any time by its Board of Trustees, of paying regular distributions on its common shares. The Fund has recently adopted a policy, which may be changed at any time by the Board of Trustees, of paying monthly distributions of \$.10 per share, which is equal to an annual rate of 6% of the offering price per common share. This policy permits holders of common shares to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their common shares without having to sell shares. On September 24, 2004, the Fund paid its third dividend of \$.30 per share, a portion of which constituted a return of capital. To avoid paying income tax at the corporate level, the Fund will distribute substantially all of its investment company taxable income and net capital gains.

The Fund may retain for reinvestment, and pay the resulting federal income taxes on, its net capital gain, if any, although, as previously mentioned, the Fund intends to distribute substantially all of its net capital gain each year. In the event that the Fund's investment company taxable income and net capital gains exceed the total of the Fund's quarterly distributions and the amount of distributions on any preferred shares issued by the Fund, the Fund intends to pay such excess once a year. If, for any calendar

year, the total quarterly distributions and the amount of distributions on any preferred shares issued by the Fund exceed investment company taxable income and net capital gain, the excess will generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in his or her shares. Any distributions to the holders of preferred shares which constitute tax-free return of capital will reduce a shareholder's tax basis in such preferred shares, thereby increasing such shareholder's potential gain or reducing his or her potential loss on the sale of the preferred shares. Any amounts distributed to a preferred shareholder in excess of the basis in the preferred shares will generally be taxable to the shareholder as capital gain. See "Taxation."

In the event the Fund distributes amounts in excess of its investment company taxable income and net capital gain, such distributions will decrease the Fund's total assets and, therefore, have the likely effect of increasing the Fund's expense ratio as the Fund's fixed expenses will become a larger percentage of the Fund's average net assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment may not dictate such action.

The Fund, along with other closed-end registered investment companies advised by the Investment Adviser, is covered by an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting the Fund to make periodic distributions of long-term capital gains provided that any distribution policy of the Fund with respect to its common shares calls for periodic (*e.g.*, quarterly or semi-annually, but in no event more frequently than monthly) distributions in an amount equal to a fixed percentage of the Fund's average net asset value over a specified period of time or market price per common share at or about the time of distribution or pay-out of a fixed dollar amount. The Fund's current policy is to make quarterly distributions to holders of its common shares. The exemption also permits the Fund to make such distributions with respect to its preferred shares, if any, in accordance with such shares' terms.

## **DESCRIPTION OF THE SERIES A PREFERRED AND THE AMPS**

The Fund offers by this prospectus, in the aggregate, \$300 million of preferred shares of either Series A Preferred or AMPS, or a combination of such series. The following is a brief description of the terms of each of the Series A Preferred and each of the series of AMPS. This description does not purport to be complete and is qualified by reference to the Fund's Declaration of Trust and Statements of Preferences (the Fund's Governing Documents), including the provisions of the Series A Statement of Preferences and Statement of Preferences of each of the series of AMPS. For complete terms of the Series A Preferred or each series of the AMPS, including definitions of terms used in this prospectus, please refer to the actual terms of such series, which are set forth in the applicable Statement of Preferences.

### **General**

Under its Governing Documents, the Fund is authorized to issue an unlimited amount of preferred shares. Under its Governing Documents, the Fund is authorized to issue such preferred shares as Series A Preferred and AMPS in the amounts offered by this Prospectus. No fractional shares of either series will be issued. The Board of Trustees reserves the right to issue additional preferred shares, including Series A Preferred or AMPS, or senior securities representing debt from time to time, subject to the restrictions in the Fund's Governing Documents and the 1940 Act.

If and when issued, the Series A Preferred will have a liquidation preference of \$25 per share and the AMPS will have a liquidation preference of \$25,000 per share. Upon a liquidation, each holder of Series A Preferred or AMPS will be entitled to receive out of the assets of the Fund available for distribution to shareholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common shares or any other shares of the Fund ranking junior to the Series A Preferred and the AMPS as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid dividends (whether or not earned or declared, excluding interest thereon) to the date of distribution and such shareholders shall be entitled to no further participation in any distribution or payment in connection with such liquidation. The Series A Preferred and the AMPS will rank on a parity with any other series of preferred shares (including other series of AMPS) of the Fund as to the payment of dividends and the distribution of assets upon liquidation, and will be junior to the Fund's obligations with respect to any outstanding senior securities representing debt. Series A Preferred and each series of the AMPS each carry one vote per share on all matters on which such shares are entitled to vote. The Series A Preferred and each series of the AMPS will, upon issuance, be fully paid and nonassessable and will have no preemptive, exchange or conversion rights. The Board of Trustees may by resolution classify or reclassify any authorized but unissued capital shares of the Fund from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or terms or conditions of redemption. The Fund will not issue any class of shares senior to the Series A Preferred and/or the AMPS.

### **Rating Agency Guidelines**

Upon issuance, both the Series A Preferred and the AMPS will be rated "Aaa" by Moody's. In addition, the AMPS will also be rated "AAA" by S&P. The Fund is required under Moody's and S&P guidelines to maintain assets having in the aggregate a discounted value at least equal to the Basic Maintenance Amount (as defined below) for its outstanding preferred shares, including any outstanding Series A Preferred or AMPS, with respect to the separate guidelines Moody's and S&P has each established for determining discounted value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of discounted value (as defined by such rating agency). The Moody's and S&P guidelines also impose certain diversification requirements and industry concentration limitations on the Fund's overall portfolio, and apply specified discounts to securities held by the Fund (except certain money market securities). The "Basic Maintenance Amount" is equal to (i) the sum of (a) the aggregate liquidation preference of any preferred shares then outstanding plus (to the extent not included in the liquidation preference of such preferred shares) an amount equal to the aggregate accumulated but unpaid dividends (whether or not earned or declared) in respect of such preferred shares, (b) the total principal of any debt (plus accrued and projected interest), (c) certain Fund expenses and (d) certain other current liabilities (excluding any unpaid dividends on the Fund's common shares) less (ii) the Fund's (a) cash and (b) assets consisting of indebtedness which (y) to mature prior to or on the date of redemption or repurchase of the preferred shares and are U.S. Government Securities or evidences of indebtedness rated at least "Aaa," "P-1", "VMIG-1" or "MIG-1" by Moody's or "AAA", "SP-1+" or "A-1+" by S&P, and (z) is held by the Fund for the payment of dividends or distributions, the redemption or repurchase of preferred shares or the Fund's liabilities.

If the Fund does not timely cure a failure to maintain a discounted value of its portfolio equal to the Basic Maintenance Amount in accordance with the requirements of the applicable rating agency or agencies then rating the Series A Preferred or the AMPS at the request of the Fund, the Fund may, and in certain circumstances will be required to, mandatorily redeem preferred shares, including the Series A Preferred or the AMPS, as described below under " — Redemption."

The Fund may, but is not required to, adopt any modifications to the rating agency guidelines that may hereafter be established by Moody's and S&P. Failure to adopt any such modifications, however, may result in a change in the relevant rating agency's ratings or a withdrawal of such ratings altogether. In addition, any rating agency providing a rating for the Series A Preferred or the AMPS at the request of the Fund may, at any time, change or withdraw any such rating. The Board of Trustees, without further action by the shareholders, may amend, alter, add to or repeal certain of the definitions and related provisions that have been adopted by the Fund pursuant to the rating agency guidelines if the Board determines that such modification is necessary to prevent a reduction in rating of the preferred shares by Moody's and S&P, as the case may be, is in the best interests of the holders of common shares and is not adverse to the holders of preferred shares in view of advice to the Fund by Moody's and S&P (or such other rating agency then rating the Series A Preferred and/or the AMPS at the request of the Fund) that such modification would not adversely affect, as the case may be, its then current rating of the Series A Preferred and/or the AMPS.

The Board of Trustees may amend either the Series A Statement of Preferences or the Statement of Preferences of each of the series of AMPS's definition of "Maximum Rate" (the "maximum rate" as defined below under "— Dividends on the AMPS — Maximum Rate") to increase the percentage amount by which the applicable reference rate is multiplied or to increase the applicable spread to which the reference rate is added to determine the maximum rate without the vote or consent of the holders of the AMPS or any other shareholder of the Fund, but only after consultation with the broker-dealers and with confirmation from each applicable rating agency that the Fund could meet applicable rating agency asset coverage tests immediately following any such increase

As described by Moody's and S&P, the ratings assigned to the Series A Preferred and each of the series of AMPS are assessments of the capacity and willingness of the Fund to pay the obligations of each of the Series A Preferred and each of the series of AMPS. The ratings on the Series A Preferred and each of the series of AMPS are not recommendations to purchase, hold or sell shares of either series, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines also do not address the likelihood that an owner of Series A Preferred or AMPS will be able to sell such shares on an exchange, in an auction or otherwise. The ratings are based on current information furnished to Moody's and S&P by the Fund and the Investment Adviser and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information.

The rating agency guidelines will apply to the Series A Preferred or AMPS, as the case may be, only so long as such rating agency is rating such shares at the request of the Fund. The Fund will pay fees to Moody's and S&P for rating the Series A Preferred and the AMPS.

### **Asset Maintenance Requirements**

In addition to the requirements summarized under "— Rating Agency Guidelines" above, the Fund must also satisfy asset maintenance requirements under the 1940 Act with respect to its preferred shares. The 1940 Act requirements are summarized below.

The Fund will be required under the Series A Statement of Preferences and the Statement of Preferences of each of the series of AMPS to determine whether it has, as of the last business day of each March, June, September and December of each year, an "asset coverage" (as defined in the 1940 Act) of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding senior securities of the Fund that are stock, including any outstanding Series A Preferred and the AMPS. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured within 60 calendar days, in the case of the Series A Preferred, or

10 business days, in the case of each series of AMPS, (including the Series A Preferred or the AMPS) the Fund may, and in certain circumstances will be required to, mandatorily redeem the number of preferred shares sufficient to satisfy such asset coverage. See “ — Redemption” below.

If the shares of Series A Preferred and/or AMPS offered hereby had been issued and sold as of September 15, 2004, the asset coverage required under the 1940 Act (after giving effect to the deduction of the underwriting discounts and estimated offering expenses for such shares of \$5,320,000), would have been computed as follows:

$$\frac{\text{Value of Fund assets less liabilities not constituting senior securities}}{\text{Senior securities representing indebtedness plus liquidation preference of each class of preferred shares}} = \frac{\$1,901,426,486}{\$300,000,000} = 634\%$$

### **Dividends on the Series A Preferred**

Upon issuance of the Series A Preferred (if issued), holders of shares of Series A Preferred will be entitled to receive, when, as and if declared by the Board of Trustees of the Fund out of funds legally available therefor, cumulative cash dividends, at the annual rate of 5.875% (computed on the basis of a 360-day year consisting of twelve 30-day months) of the liquidation preference of \$25 per share, payable quarterly on March 26, June 26, September 26 and December 26 of each year or, if any such day is not a business day, the immediately succeeding business day. Such dividends will commence on December 26, 2009 and will be payable to the persons in whose names the shares of Series A Preferred are registered at the close of business on the fifth preceding business day.

Dividends on the shares of Series A Preferred will accumulate from the date on which such shares are issued.

### **Dividends on the AMPS**

*General.* Upon issuance of the AMPS (if issued), the holders of each series of AMPS will be entitled to receive cash dividends stated at annual rates as a percentage of its \$25,000 per share liquidation preference, that will vary from dividend period to dividend period. The dividend rate for the initial dividend period for each series of AMPS offered in this prospectus will be the rate set out on the cover of this prospectus. For subsequent dividend periods, each series of AMPS will pay dividends based on a rate set at the auction, normally held weekly, but the rates set at the auction will not exceed the maximum rate. Dividend periods generally will be seven days, and the dividend periods generally will begin on the first business day after an auction. In most instances, dividends are also paid weekly, on the business day following the end of the dividend period. The Fund, subject to some limitations, may change the length of the dividend periods, designating them as “special dividend periods,” as described below.

*Dividend Payments.* Except as described below, the dividend payment date will be the first business day after the dividend period ends. The dividend payment dates for special dividend periods of more (or less) than seven days will be set out in the notice designating a special dividend period. See “ — Designation of Special Dividend Periods” for a discussion of payment dates for a special dividend period.

Dividends on each series of AMPS will be paid on the dividend payment date to holders of record as their names appear on the Fund’s share ledger or share records on the business day next preceding the dividend payment date. If dividends are in arrears, they may be declared and paid at any time to holders of record as their names appear on the Fund’s share ledger or share records on a date not more than 15 days before the payment date, as the Fund’s Board of Trustees may fix.

The dividend paying agent, in accordance with its current procedures, is expected to credit in same-day funds on each dividend payment date dividends received from the Fund to the accounts of broker-dealers who act on behalf of holders of AMPS. Such broker-dealers, in turn, are expected to distribute dividend payments to the person for whom they are acting as agents. If a broker-dealer does not make dividends available to holders of AMPS in same-day funds, these shareholders will not have funds available until the next business day.

*Dividend Rate Set at Auction.* The AMPS pay dividends based on a rate set at auction at which each series of AMPS may be bought and sold. The auction usually is held weekly, but may be held more or less frequently. The Bank of New York, the auction agent, reviews orders from broker-dealers on behalf of existing holders who wish to sell, hold at the auction rate, or hold only at a specified dividend rate, and on behalf of potential holders who wish to buy shares of a series of AMPS. The auction agent then determines the lowest dividend rate that will result in all of the shares of that series of AMPS continuing to be held. See “The Auction of AMPS.”

If a dividend payment date is not a business day because the NYSE is closed for business for more than three consecutive business days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services, or the dividend payable on such date can not be paid for any such reason, then:

- the dividend payment date for the affected dividend period will be the next business day on which the Fund and its paying agent, if any, are able to cause the dividend to be paid using their reasonable best efforts;
- the affected dividend period will end on the day it would have ended had such event not occurred and the dividend payment date had remained the scheduled date; and
- the next dividend period will begin and end on the dates on which it would have begun and ended had such event not occurred and the dividend payment date remained the scheduled date.

*Determination of Dividend Rates.* The Fund computes the dividends per share by multiplying the applicable rate determined at the auction by a fraction, the numerator of which normally is the number of days in such dividend period and the denominator of which is 360. This applicable rate is then multiplied by \$25,000 to arrive at the dividend per share.

*Maximum Rate.* The dividend rate that results from an auction for a series of AMPS will not be greater than the applicable “maximum rate.” The maximum rate for any standard dividend period will be the greater of the applicable percentage of the Reference Rate or the Reference Rate plus the applicable spread. The Reference Rate will be the applicable LIBOR Rate (as defined below) for a dividend period of fewer than 365 days or the Treasury Index Rate (as defined below) for a dividend period of 365 days or more. The applicable percentage and the applicable spread will be determined based on the lower of the credit ratings assigned to the relevant series of AMPS by Moody’s and S&P on the auction date for such period (as set forth in the table on the next page). If Moody’s and/or S&P do not make such rating available, the rate shall be determined by reference to equivalent ratings issued by a substitute rating agency. In the case of a special dividend period, (1) the Fund will communicate the maximum applicable rate in a notice of special rate period for such dividend payment period, (2) the applicable percentage and applicable spread will be determined on the date two business days before the first day of such special dividend period and (3) the reference rate will be the applicable LIBOR Rate for a dividend period of fewer than 365 days or the Treasury Index Rate for a dividend period of 365 days or more.

The Fund will take all reasonable action necessary to enable Moody's and S&P to provide ratings for each series of AMPS. If such ratings are not made available by Moody's or S&P, the Fund, after consultation with the lead Broker-Dealer, initially Merrill Lynch, Pierce, Fenner & Smith Incorporated, will select one or more other rating agencies to act as substitute rating agencies.

The "LIBOR Rate," as described in greater detail in the Statement of Preferences of each of the series of AMPS, is the applicable London Inter-Bank Offered Rate for deposits in U.S. dollars for the period most closely approximating the applicable dividend period for the relevant series of AMPS.

The "Treasury Index Rate," as described in greater detail in the Statement of Preferences of each of the series of AMPS, is the average yield to maturity for certain U.S. Treasury securities having substantially the same length to maturity as the applicable dividend period for the relevant series of AMPS.

Credit Ratings		Applicable Percentage	Applicable Spread
Moody's	S&P		
Aaa	AAA	125%	1.25%
Aa3 to Aa1	AA- to AA+	150%	1.50%
A3 to A1	A- to A+	200%	2.00%
Baa3 to Baa1	BBB- to BBB+	250%	2.50%
Ba1 and lower	BB+ and lower	300%	3.00%

Assuming the Fund maintains an "AAA" and "Aaa" rating on the AMPS, the practical effect of the different methods used to determine the maximum rate is shown in the table below:

Reference Rate	Maximum Applicable Rate Using the Applicable Percentage	Maximum Applicable Rate Using the Applicable Spread	Method Used to Determine the Maximum Applicable Rate
1%	1.25%	2.25%	Spread
2%	2.50%	3.25%	Spread
3%	3.75%	4.25%	Spread
4%	5.00%	5.25%	Spread
5%	6.25%	6.25%	Either
6%	7.50%	7.25%	Percentage

There is no minimum dividend rate in respect of any dividend period.

*Effect of Failure to Pay Dividends in a Timely Manner.* If the Fund fails to pay the paying agent the full amount of any dividend or redemption price, as applicable, for a series of AMPS in a timely manner the dividend rate for that series of AMPS for the dividend period following such a failure to pay (such period referred to as the default period) and any subsequent dividend period for which such default is continuing, will be the default rate. In the event the Fund fully pays all default amounts due during a dividend period, the dividend rate for the remainder of that dividend period will be, as the case may be, the applicable rate (for the first dividend period following a dividend default) or the then maximum rate (for any subsequent dividend period for which such default is continuing).

The default rate is 300% of the applicable LIBOR Rate for a dividend period of 364 days or fewer and 300% of the applicable Treasury Index Rate for a dividend period of longer than 364 days.

*Designation of Special Dividend Periods.* The Fund may instruct the auction agent to hold auctions more or less frequently than weekly and may designate dividend periods longer or shorter than one week. The Fund may do this if, for example, the Fund expects that short-term rates might increase or market conditions otherwise change, in an effort to optimize the effect of the Fund's leverage on holders of its common shares. The Fund does not currently expect to hold auctions and pay dividends less frequently than weekly or establish dividend periods longer or shorter than one week. If the Fund designates a special dividend period, changes in interest rates could affect the price received if shares of AMPS are sold in the secondary market.

Any designation of a special dividend period for a series of the AMPS will be effective only if (i) notice thereof has been given as provided for in the Governing Documents, (ii) any failure to pay in a timely manner to the auction agent the full amount of any dividend on, or the redemption price of, that series of AMPS has been cured as provided for in the Governing Documents, (iii) the auction immediately preceding the special dividend period was not a failed auction, (iv) if the Fund has mailed a notice of redemption with respect to that series of AMPS, the Fund has deposited with the paying agent all funds necessary for such redemption and (v) the Fund has confirmed that as of the auction date next preceding the first day of such special dividend period, it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount (as defined below), and the Fund has consulted with the broker-dealers for that series of AMPS including the lead broker-dealer, initially Merrill Lynch, Pierce, Fenner & Smith Incorporated, and the Fund has provided notice of such designation and a Basic Maintenance Report to each rating agency then rating that series of the AMPS at the request of the Fund.

The dividend payment date for any special dividend period will be the first business day after the end of the special dividend period. In addition, for special dividend periods of at least 91 days, dividend payment dates will occur on the first business day of each calendar month within such dividend period and on the business day following the last day of such dividend period.

Before the Fund designates a special dividend period: (i) at least seven business days (or two business days in the event the duration of the dividend period prior to such special dividend period is less than eight days) and not more than 30 business days before the first day of the proposed special dividend period, the Fund will issue a press release stating its intention to designate a special dividend period and inform the auction agent of the proposed special dividend period by telephonic or other means and confirm it in writing promptly thereafter and (ii) the Fund must inform the auction agent of the proposed special dividend period by 3:00 p.m., New York City time on the second business day before the first day of the proposed special dividend period.

See the SAI for more information.

### **Restrictions on Dividends and Other Distributions for the Series A Preferred and the AMPS**

So long as any Series A Preferred or AMPS is outstanding, the Fund may not pay any dividend or distribution (other than a dividend or distribution paid in common shares or in options, warrants or rights to subscribe for or purchase common shares) in respect of the common shares or call for redemption, redeem, purchase or otherwise acquire for consideration any common shares (except by conversion into or exchange for shares of the Fund ranking junior to the Series A Preferred and/or the AMPS as to the payment of dividends and the distribution of assets upon liquidation), unless:

- the Fund has declared and paid (or provided to the relevant dividend paying agent) all cumulative dividends on the Fund’s preferred shares, including the Series A Preferred and/or the AMPS, due on or prior to the date of such common share dividend or distribution;
- the Fund has redeemed the full number of shares of Series A Preferred and/or AMPS to be redeemed pursuant to any mandatory redemption provision in the Fund’s Governing Documents; and
- after paying the dividend, the Fund meets applicable asset coverage requirements described under “ — Rating Agency Guidelines” and “ — Asset Maintenance Requirements.”

No full dividend will be declared or paid on the Series A Preferred or the AMPS for any dividend period, or part thereof, unless full cumulative dividends due through the most recent dividend payment dates therefor for all outstanding series of preferred shares of the Fund ranking on a parity with the Series A Preferred and AMPS as to the payment of dividends have been or contemporaneously are declared and paid. If full cumulative dividends due have not been paid on all outstanding preferred shares of the Fund ranking on a parity with the Series A Preferred and/or the AMPS as to the payment of dividends, any dividends being paid on the preferred shares (including the Series A Preferred and/or the AMPS) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends accumulated but unpaid on each such series of preferred shares on the relevant dividend payment date. The Fund’s obligation to pay dividends on the Series A Preferred and/or the AMPS will be subordinate to its obligations to pay interest and principal, when due, on any of the Fund’s senior securities representing debt.

## **Redemption**

*Mandatory Redemption Relating to Asset Coverage Requirements.* The Fund may, at its option, consistent with its Governing Documents and the 1940 Act, and in certain circumstances will be required to, mandatorily redeem preferred shares (including, at its discretion, the Series A Preferred or AMPS) in the event that:

- the Fund fails to maintain the asset coverage requirements specified under the 1940 Act on a quarterly valuation date and such failure is not cured on or before 60 days, in the case of the Series A Preferred, or 10 business days in the case of the AMPS following such failure; or
- the Fund fails to maintain the asset coverage requirements as calculated in accordance with the applicable rating agency guidelines as of any monthly valuation date, and such failure is not cured on or before 10 business days after such valuation date.

The redemption price for shares of each of the Series A Preferred and each series of AMPS subject to mandatory redemption will be, respectively, \$25 per share and \$25,000 per share, in each case plus an amount equal to any accumulated but unpaid dividends (whether or not earned or declared) to the date fixed for redemption, plus (in the case of a series of AMPS having a dividend period of more than one year) any applicable redemption premium determined by the Board of Trustees.

The number of preferred shares that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding preferred shares, the redemption of which, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, would have resulted in the relevant asset coverage requirement having been met or, if the required asset coverage cannot be so restored, all of the preferred shares. In the event that preferred shares are redeemed due to a

failure to satisfy the 1940 Act asset coverage requirements, the Fund may, but is not required to, redeem a sufficient number of preferred shares so that the Fund's assets exceed the asset coverage requirements under the 1940 Act after the redemption by 10% (that is, 220% asset coverage). In the event that preferred shares are redeemed due to a failure to satisfy applicable rating agency guidelines, the Fund may, but is not required to, redeem a sufficient number of preferred shares so that the Fund's discounted portfolio value (as determined in accordance with the applicable rating agency guidelines) after redemption exceeds the asset coverage requirements of each applicable rating agency by up to 10% (that is, 110% rating agency asset coverage). In addition, as discussed under " — Optional Redemption of the AMPS" below, the Fund generally may exercise its optional redemption rights with respect to the AMPS at any time.

If the Fund does not have funds legally available for the redemption of, or is otherwise unable to redeem, all the preferred shares to be redeemed on any redemption date, the Fund will redeem on such redemption date that number of shares for which it has legally available funds, or is otherwise able to redeem, from the holders whose shares are to be redeemed ratably on the basis of the redemption price of such shares, and the remainder of those shares to be redeemed will be redeemed on the earliest practicable date on which the Fund will have funds legally available for the redemption of, or is otherwise able to redeem, such shares upon written notice of redemption.

If fewer than all of the Fund's outstanding preferred shares are to be redeemed, the Fund, at its discretion and subject to the limitations of the 1940 Act and Delaware law, will select the one or more series of preferred shares from which shares will be redeemed and the amount of preferred shares to be redeemed from each such series. If less than all preferred shares of a series are to be redeemed, such redemption will be made as among the holders of that series pro rata in accordance with the respective number of shares of such series held by each such holder on the record date for such redemption (or by such other equitable method as the Fund may determine). If fewer than all the preferred shares held by any holder are to be redeemed, the notice of redemption mailed to such holder will specify the number of shares to be redeemed from such holder, which may be expressed as a percentage of shares held on the applicable record date.

*Optional Redemption of the Series A Preferred.* Prior to October 12, 2009 the shares of Series A Preferred are not subject to optional redemption by the Fund unless such redemption is necessary, in the judgment of the Fund, to maintain the Fund's status as a regulated investment company under the Code. Commencing on October 12, 2004, and thereafter, the Fund may at any time redeem shares of Series A Preferred in whole or in part for cash at a redemption price per share equal to \$25 per share plus accumulated and unpaid dividends (whether or not earned or declared) to the redemption date. Such redemptions are subject to the notice requirements set forth under " — Redemption Procedures" and the limitations of the 1940 Act and Delaware law.

*Optional Redemption of the AMPS.* The Fund may, at its option, redeem each series of AMPS, in whole or in part, at any time following the initial dividend period so long as the Fund has not designated a non-call period. The Fund may designate a non-call period during a dividend period of more than seven days. In the case of a series of AMPS having a dividend period of one year or less, the redemption price per share will equal \$25,000 plus an amount equal to any accumulated but unpaid dividends thereon (whether or not earned or declared) to the redemption date, and in the case of a series of AMPS having a dividend period of more than one year, for the redemption price plus any redemption premium applicable during such dividend period. Such redemptions are subject to the notice requirements set forth under " — Redemption Procedures" and the limitations of the 1940 Act and Delaware law.

*Redemption Procedures.* A notice of redemption with respect to an optional redemption will be given to the holders of record of preferred shares selected for redemption not less than 15 days (subject to

NYSE requirements), in the case of the Series A Preferred, and not less than seven days in the case of the AMPS, nor, in both cases, more than 40 days prior to the date fixed for redemption. Preferred shareholders may receive shorter notice in the event of a mandatory redemption. Each notice of redemption will state (i) the redemption date, (ii) the number or percentage of preferred shares to be redeemed (which may be expressed as a percentage of such shares outstanding), (iii) the CUSIP number(s) of such shares, (iv) the redemption price (specifying the amount of accumulated dividends to be included therein), (v) the place or places where such shares are to be redeemed, (vi) that dividends on the shares to be redeemed will cease to accumulate on such redemption date, (vii) the provision of the Series A Statement of Preferences or Statement of Preferences of each of the series of AMPS, as applicable, under which the redemption is being made and (viii) any conditions precedent to such redemption. No defect in the notice of redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law.

The holders of Series A Preferred or AMPS will not have the right to redeem any of their shares at their option.

### **Liquidation Rights**

Upon a liquidation, dissolution or winding up of the affairs of the Fund (whether voluntary or involuntary), holders of Series A Preferred or AMPS then outstanding will be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment of assets is made to holders of the common shares or any other class of shares of the Fund ranking junior to the Series A Preferred or the AMPS as to liquidation payments, a liquidation distribution in the amount of \$25 per share, in the case of the Series A Preferred, or \$25,000 per share, in the case of the AMPS, in either case plus an amount equal to all unpaid dividends accumulated to and including the date fixed for such distribution or payment (whether or not earned or declared by the Fund but excluding interest thereon), and such holders will be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up. If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all outstanding preferred shares of the Fund ranking on a parity with the Series A Preferred and/or the AMPS as to payment upon liquidation will be insufficient to permit the payment in full to such holders of the Series A Preferred and/or the AMPS and other parity preferred shares of the amounts due upon liquidation with respect to such shares, then such available assets will be distributed among the holders of the Series A Preferred, the AMPS and such other parity preferred shares ratably in proportion to the respective preferential amounts to which they are entitled. Unless and until the liquidation payments due to holders of the Series A Preferred and/or the AMPS and such other parity preferred shares have been paid in full, no dividends or distributions will be made to holders of the common shares or any other shares of the Fund ranking junior to the Series A Preferred and/or the AMPS and other parity preferred shares as to liquidation and junior to any senior securities representing debt.

### **Voting Rights**

Except as otherwise stated in this prospectus, specified in the Fund's Governing Documents or resolved by the Board of Trustees or as otherwise required by applicable law, holders of the Series A Preferred and/or the AMPS shall be entitled to one vote per share held on each matter submitted to a vote of the shareholders of the Fund and will vote together with holders of common shares and of any other preferred shares then outstanding as a single class.

In connection with the election of the Fund's trustees, holders of the outstanding Series A Preferred, AMPS and the other series of preferred shares, voting together as a single class, will be entitled

at all times to elect two of the Fund's trustees, and the remaining trustees will be elected by holders of common shares and holders of the Series A Preferred, AMPS and other series of preferred shares, voting together as a single class. In addition, if (i) at any time dividends on the outstanding Series A Preferred, AMPS and/or any other preferred shares are unpaid in an amount equal to at least two full years dividends thereon and sufficient cash or specified securities have not been deposited with the applicable paying agent for the payment of such accumulated dividends or (ii) at any time holders of any other series of preferred shares are entitled to elect a majority of the trustees of the Fund under the 1940 Act or the Statements of Preferences creating such shares, then the number of trustees constituting the Board of Trustees will be increased such that, when added to the two trustees elected exclusively by the holders of the Series A Preferred, AMPS and other series of preferred shares as described above, would then constitute a simple majority of the Board as so adjusted. Such additional trustees will be elected by the holders of the Series A Preferred, AMPS and the other series of preferred shares, voting together as a single class, at a special meeting of shareholders which will be called as soon as practicable and will be held not less than 10 nor more than 20 days after the mailing date of the meeting notice. If the Fund fails to send such meeting notice or to call such a special meeting, the meeting may be called by any preferred shareholder on like notice. The terms of office of the persons who are trustees at the time of that election will continue. If the Fund thereafter pays or declares and sets apart for payment in full all dividends payable on all outstanding preferred shares for all past dividend periods or the holders of other series of preferred shares are no longer entitled to elect such additional trustees, the additional voting rights of the holders of the preferred shares as described above will cease, and the terms of office of all of the additional trustees elected by the holders of the preferred shares (but not of the trustees with respect to whose election the holders of common shares were entitled to vote or the two trustees the holders of preferred shares have the right to elect as a separate class in any event) will terminate.

In the event the Fund issues senior securities representing debt, preferred shareholders may not be able to exercise certain of their special voting rights under certain circumstances when they would otherwise be entitled to do so. Under the 1940 Act, the holders of senior securities representing debt are entitled to special voting rights under certain circumstances and these special voting rights would take precedence over the special voting rights of the preferred shares. Specifically, under the 1940 Act the terms of any senior securities representing debt that is not privately placed must provide either (i) for an event of default to be deemed to have occurred with respect to such senior debt in the event the issuer has had asset coverage of less than 100% for 24 consecutive months or (ii) for the senior debt holders to be entitled to elect a majority of the issuer's board in the event such senior debt has had asset coverage of less than 100% for 12 consecutive calendar months, with such voting right to continue until the senior debt has had asset coverage of 110% or more for three consecutive calendar months.

In the event the Fund were to issue senior securities representing debt with the special voting rights described in (ii) above, it is possible that preferred shareholders would not be entitled to exercise their right to elect a majority of the board despite all predicate events for such rights having occurred.

So long as shares of Series A Preferred or AMPS are outstanding, the Fund will not, without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the preferred shares outstanding at the time (including the Series A Preferred or AMPS, as applicable) and present and voting on such matter, voting separately as one class, amend, alter or repeal the provisions of the Fund's Governing Documents, whether by merger, consolidation or otherwise, so as to materially adversely affect in the aggregate the contract rights expressly set forth in the Governing Documents with respect to such preferred shares. Also, to the extent permitted under the 1940 Act, in the event preferred shares of more than one series are outstanding, the Fund will not approve any of the actions set forth in the preceding sentence which materially adversely affect the contract rights expressly set forth in the Governing Documents with respect to such shares of a series of preferred shares (such as the Series A Preferred or AMPS) differently than those of a holder of any other series of preferred shares without the

affirmative vote of the holders of at least a majority of the preferred shares of each series materially adversely affected and outstanding at such time (each such adversely affected series voting separately as a class to the extent its rights are affected differently). The Fund's issuance of senior securities representing debt or additional shares of preferred stock will not be deemed to materially adversely affect the contract rights of any series of preferred shares.

Under the Governing Documents, and applicable provisions of the Delaware Statutory Trust Act or the 1940 Act, the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding preferred shares (including the Series A Preferred and/or the AMPS), voting together as a single class, will be required to approve any plan of reorganization adversely affecting the preferred shares. The approval of 75% of all classes voting together and a majority (as that term is defined in the 1940 Act) of each class, voting separately, of the Fund's outstanding voting shares must approve the conversion of the Fund from a closed-end to an open-end investment company. The approval of a majority (as that term is defined in the 1940 Act) of the Fund's outstanding preferred shares and a majority (as that term is defined in the 1940 Act) of the Fund's outstanding voting securities are required to approve any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund's investment objective or changes in the investment restrictions described as fundamental policies under "Investment Objective and Policies" in this prospectus and "Investment Restrictions" in the SAI.

The calculation of the elements and definitions of certain terms of the rating agency guidelines may be modified by action of the Board of Trustees without further action by the shareholders if the Board determines that such modification is necessary to prevent a reduction in rating of the preferred shares by Moody's and S&P (or any other rating agency then rating the Series A Preferred or the AMPS at the request of the Fund), as the case may be, or is in the best interests of the holders of common shares and is not adverse to the holders of preferred shares in view of advice to the Fund by the relevant rating agencies that such modification would not adversely affect its then-current rating of the preferred shares.

The foregoing voting provisions will not apply to any Series A Preferred or a series of AMPS if, at or prior to the time when the act with respect to which such vote otherwise would be required will be effected, such shares have been redeemed or called for redemption and sufficient cash or cash equivalents provided to the applicable paying agent to effect such redemption. The holders of Series A Preferred and/or AMPS will have no preemptive rights or rights to cumulative voting.

### **Limitation on Issuance of Preferred Shares**

So long as the Fund has preferred shares outstanding, subject to receipt of approval from the rating agencies of each series of preferred shares outstanding, and subject to compliance with the Fund's investment objective, policies and restrictions, the Fund may issue and sell shares of one or more other series of preferred shares or senior debt, provided that the Fund will, immediately after giving effect to the issuance of such additional preferred shares or senior debt and to its receipt and application of the proceeds thereof (including, without limitation, to the redemption of preferred shares to be redeemed out of such proceeds) have an "asset coverage" for all senior debt outstanding of at least 300% and an "asset coverage" for senior securities of the Fund which are stock and debt, as defined in the 1940 Act, of at least 200% of the sum of the liquidation preference of the preferred shares of the Fund then outstanding and all indebtedness of the Fund constituting senior securities and no such additional preferred shares will have any preference or priority over any other preferred shares of the Fund upon the distribution of the assets of the Fund or in respect of the payment of dividends. Any issued senior securities representing debt, however, may have certain voting preferences and dividend and liquidation priority over any preferred shares outstanding.

The Fund anticipates that, depending on interest rates and available investment opportunities, it will offer additional preferred shares or senior securities representing indebtedness. However, the Fund will monitor market conditions, including, among other things, interest rates and the asset levels of the Fund, and will consider from time to time whether to offer additional preferred shares or securities representing indebtedness and may issue such additional securities if the Board of Trustees concludes that such an offering would be consistent with the Fund's Governing Documents and applicable law and in the best interest of existing common shareholders.

### **Repurchase of Series A Preferred and the AMPS**

The Fund is a closed-end investment company and, as such, holders of the Series A Preferred or AMPS do not and will not have the right to require the Fund to repurchase their shares. The Fund, however, may repurchase Series A Preferred or, outside of an auction, AMPS when it is deemed advisable by the Board of Trustees in compliance with the requirements of the 1940 Act and regulations thereunder and other applicable requirements. Unlike a redemption of the Series A Preferred and/or the AMPS, where shareholders are subject to the redemption terms, in a repurchase offer the Fund is purchasing shares on an exchange (with respect to the Series A Preferred only) or otherwise (through private transactions or tender offers) soliciting repurchases, and shareholders may choose whether or not to sell. The Fund will not repurchase AMPS at Auction. See "The Auction of AMPS."

This Prospectus will serve as notice that the Fund may from time to time purchase Series A Preferred shares when such shares are trading below the \$25 per share liquidation preference.

### **Book-Entry**

Shares of Series A Preferred will initially be held in the name of Cede & Co. as nominee for DTC. The Fund will treat Cede & Co. as the holder of record of the Series A Preferred for all purposes. In accordance with the procedures of DTC, however, purchasers of Series A Preferred will be deemed the beneficial owners of shares purchased for purposes of dividends, voting and liquidation rights. Purchasers of Series A Preferred may obtain registered certificates by contacting the Transfer Agent.

Shares of each series of AMPS will initially be held by the auction agent as custodian for Cede & Co., in whose name the shares of each series of AMPS shall be registered. The Fund will treat Cede & Co. as the holder of record of each of the series of AMPS for all purposes.

## **THE AUCTION OF THE AMPS**

### **Summary of Auction Procedures**

The following is a brief summary of the auction procedures for the AMPS, which are described in more detail in the SAI. These auction procedures are complicated, and there are exceptions to these procedures. Many of the terms in this section have a special meaning. Accordingly, this description does not purport to be complete and is qualified, in its entirety, by reference to the Fund's Governing Documents, including the provisions of the Statement of Preferences of each of the series of AMPS.

The auctions determine the dividend rate for each series of AMPS, but each dividend rate will not be higher than the maximum rate. See "Description of the Series A Preferred and the AMPS — Dividends on the AMPS." If you own shares of AMPS, you may instruct your broker-dealer to enter one of three kinds of order in the auction with respect to your shares: sell, bid and hold.

- If you enter a sell order, you indicate that you want to sell AMPS at \$25,000 per share, no matter what the next dividend period's rate will be.

- If you enter a bid order, which must specify a dividend rate, you indicate that you want to purchase or hold the indicated number of AMPS at \$25,000 per share if the dividend rate for the AMPS for the next dividend period is not less than the rate specified on the bid. A bid order will be deemed an irrevocable offer to sell AMPS only if the next dividend period's rate is less than the rate you specify.
- If you enter a hold order you indicate that you want to continue to own AMPS, no matter what the next dividend period's rate will be.

You may enter different types of orders for different portions of your AMPS. You may also enter an order to buy additional AMPS. All orders must be for whole shares. All orders you submit are irrevocable. There is a fixed number of each series of AMPS, and the dividend rate likely will vary from auction to auction depending on the number of bidders, the number of shares the bidders seek to buy, the rating of the AMPS and general economic conditions including current interest rates. If you own AMPS and submit a bid for them higher than the then-maximum rate, your bid will be treated as a sell order. If you do not enter an order, the broker-dealer will assume that you want to continue to hold AMPS, but if you fail to submit an order and the dividend period is longer than 28 days, the broker-dealer will treat your failure to submit a bid as a sell order.

If you do not then own AMPS, or want to buy more shares, you may instruct a broker-dealer to enter a bid order to buy shares in an auction at \$25,000 per share at or above the dividend rate you specify. If your bid for shares you do not own specifies a rate higher than the then-maximum rate, your bid will not be considered.

Broker-dealers will submit orders from existing and potential holders of AMPS to the auction agent. Neither the Fund nor the auction agent will be responsible for a broker-dealer's failure to submit orders from existing or potential holders of AMPS. A broker-dealer's failure to submit orders for AMPS held by it or its customers will be treated in the same manner as a holder's failure to submit an order to the broker-dealer. A broker-dealer may submit orders to the auction agent for its own account provided that the broker-dealer is not an affiliate of the Fund. If a broker-dealer submits an order for its own account in any auction, it may have knowledge of orders placed through it in that auction and therefore have an advantage over other bidders, but such broker-dealer would not have knowledge of orders submitted by other broker-dealers in that auction. As a result of bidding by the broker-dealer in an auction, the Auction Rate may be higher or lower than the rate that would have prevailed had the broker-dealer not bid. The Fund may not submit an order in any auction.

The auction agent after each auction for a series of AMPS will pay to each broker-dealer, from funds provided by the Fund, a service charge equal to, in the case of any auction immediately preceding a dividend period of less than 365 days, the product of (i) a fraction, the numerator of which is the number of days in such dividend period and the denominator of which is 360, times (ii)  $\frac{1}{4}$  of 1%, times (iii) \$25,000, times (iv) the aggregate number of that series AMPS placed by such broker-dealer at such auction. In the case of any auction immediately preceding a dividend period of one year or longer, the service charge shall be determined by mutual consent of the Fund and any such broker-dealer and shall be based upon a selling concession that would be applicable to an underwriting of fixed or variable rate preferred shares with a similar final maturity or variable rate dividend period, respectively, at the commencement of the dividend period with respect to such action. A broker-dealer may share a portion of any such fees with non-participating broker-dealers that submit orders to the broker-dealer for an auction that are placed by that broker-dealer in such auction.

There are sufficient clearing bids for shares of a series of AMPS in an auction if the number of AMPS of that series subject to bid orders by broker-dealers for potential holders with a dividend rate equal to or lower than the then-maximum rate is at least equal to the number of AMPS of that series

subject to sell orders and the number of AMPS of that series subject to bids specifying rates higher than the then-maximum rate for the AMPS of that series submitted or deemed submitted to the auction agent by broker-dealers for existing holders, then the dividend rate for the next dividend period will be the lowest rate submitted which, taking into account that rate and all lower rate bids submitted from existing and potential holders, would result in existing and potential holders owning all the AMPS of that series available for purchase in the auction.

If there are not sufficient clearing bids for AMPS of that series, then the auction is considered to be a failed auction, and the dividend rate will be the maximum rate. If the Fund has declared a special dividend period and there are not sufficient clearing bids, then the special dividend rate will not be effective and the dividend rate for the next period will be the same as during the current rate period. In that event, existing holders that have submitted sell orders (or are treated as having submitted sell orders) may not be able to sell any or all of the AMPS of that series for which they submitted sell orders.

The auction agent will not consider a bid above the then-maximum rate. The purpose of the maximum rate is to place an upper limit on dividends with respect to the AMPS and in so doing to help protect the earnings available to pay dividends on common shares, and to serve as the dividend rate in the event of a failed auction (that is, an auction where there are more AMPS offered for sale than there are buyers for those shares).

If broker-dealers submit or are deemed to submit hold orders for all outstanding AMPS of a series, the auction is considered an “all hold” auction and the dividend rate for the next dividend period will be the “all hold rate,” which is 90% of the reference rate, as determined in accordance with procedures set forth in the Statement of Preferences of that series of AMPS. This rate may be less than the rate that would have been determined if an auction had occurred. See “Description of the Series A Preferred and the AMPS — Dividends on the AMPS — Maximum Rate.”

A broker-dealer may bid in an auction for a series of the AMPS in order to prevent what would otherwise be (i) a failed auction, (ii) an “all-hold” auction, or (iii) a dividend rate that the broker-dealer believes, in its sole discretion, does not reflect the market for that series of the AMPS at the time of the auction. A broker-dealer may, but is not obligated to, advise owners of that series of the AMPS that the dividend rate that would apply in an “all-hold” auction may be lower than would apply if owners of that series of the AMPS submit bids, and such advice, if given, may facilitate the submission of bids by such owners that would avoid the occurrence of an “all-hold” auction.

The auction procedures include a pro rata allocation of AMPS for purchase and sale. This allocation process may result in an existing holder continuing to hold or selling, or a potential holder buying, fewer shares than the number of AMPS in its order. If this happens, broker-dealers will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next business day (which also is a dividend payment date) after the auction date through DTC. Purchasers will pay for their AMPS through broker-dealers in same-day funds to DTC against delivery to the broker-dealers. DTC will make payment to the sellers’ broker-dealers in accordance with its normal procedures, which require broker-dealers to make payment against delivery in same-day funds. As used in this prospectus, a business day is a day on which the NYSE is open for trading, and which is not a Saturday, Sunday or any other day on which banks in New York City are authorized or obligated by law to close.

The first auction each series of AMPS will be held on the business day preceding the dividend payment date for the initial dividend period for that series of AMPS. Thereafter, except during special dividend periods, auctions for the Series B AMPS normally will be held every Tuesday (or the next

preceding business day if Tuesday is a holiday), and each subsequent dividend period for the Series B AMPS normally will begin on the following Wednesday. Following the initial dividend period, auctions for the Series C AMPS normally will be held every Thursday (or the next preceding business day if Thursday is a holiday), and each subsequent dividend period for the Series C AMPS normally will begin on the following Friday

If an auction is not held because an unforeseen event or unforeseen events cause a day that otherwise would have been an auction date not to be a business day, then the length of the then-current dividend period will be extended by seven days (or a multiple thereof if necessary because of such unforeseen event or events), the applicable rate for such period will be the applicable rate for the then-current dividend period so extended and the dividend payment date for such dividend period will be the first business day immediately succeeding the end of such period.

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

Current Holder A	Owns 500 shares, wants to sell all 500 shares if auction rate is less than 1.6%	Bid order at 1.6% rate for all 500 shares
Current Holder B	Owns 300 shares, wants to hold	Hold order – will take the auction rate
Current Holder C	Owns 200 shares, wants to sell all 200 shares if auction rate is less than 1.4%	Bid order at 1.4% rate for all 200 shares
Potential Holder D	Wants to buy 200 shares	Places order to buy at or above 1.5%
Potential Holder E	Wants to buy 300 shares	Places order to buy at or above 1.4%
Potential Holder F	Wants to buy 200 shares	Places order to buy at or above 1.6%

The lowest dividend rate that will result in all 1,000 AMPS continuing to be held is 1.5% (the offer by D). Therefore, the dividend rate will be 1.5%. Current holders B and C will continue to own their shares. Current holder A will sell its shares because A's dividend rate bid was higher than the dividend rate. Potential holder D will buy 200 shares and potential holder E will buy 300 shares because their bid rates were at or below the dividend rate. Potential holder F will not buy any shares because its bid rate was above the dividend rate.

### **Secondary Market Trading and Transfer of AMPS**

The underwriters are not required to make a market in the AMPS. The broker-dealers (including the underwriters) may maintain a secondary trading market for AMPS outside of auctions, but they are not required to do so. There can be no assurance that a secondary trading market for the AMPS will develop or, if it does develop, that it will provide owners with liquidity of investment. The AMPS will not be registered on any stock exchange or on the NASDAQ market. Investors who purchase AMPS in an auction for a special dividend period should note that because the dividend rate on such shares will be fixed for the length of that dividend period, the value of such shares may fluctuate in response to the changes in interest rates, and may be more or less than their original cost if sold on the open market in advance of the next auction thereof, depending on market conditions. In addition, a broker-dealer may, in

its own discretion, decide to sell AMPS in the secondary market to investors at any time and at any price, including at prices equivalent to, below or above the par value of the AMPS.

You may sell, transfer, or otherwise dispose of the AMPS only in whole shares and only pursuant to a bid or sell order placed with the auction agent in accordance with the auction procedures, to the Fund or its affiliates or to or through a broker-dealer that has been selected by the Fund or to such other persons as may be permitted by the Fund. However, if you hold your AMPS in the name of a broker-dealer, a sale or transfer of your AMPS to that broker-dealer, or to another customer of that broker-dealer, will not be considered a sale or transfer for purposes of the foregoing if the shares remain in the name of the broker-dealer immediately after your transaction. In addition, in the case of all transfers other than through an auction, the broker-dealer (or other person, if the Fund permits) receiving the transfer must advise the auction agent of the transfer.

Further description of the auction procedures can be found in the SAI.

## **AUTHORIZED AND OUTSTANDING SHARES**

### **Common Shares**

The Funds is a statutory trust organized under the laws of Delaware pursuant to a Certificate of Trust dated as of August 20, 2003. The Fund is authorized to issue an unlimited number of shares of beneficial interest, par value \$.001 per share, in multiple classes and series thereof as determined from time to time by the Board of Trustees. The Board of Trustees of the Fund has authorized the issuance of an unlimited number of shares of two classes, the common shares and preferred shares. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. Common shares are not redeemable and have no preemptive, conversion or cumulative voting rights.

The common shares are listed and traded on the NYSE under the symbol "GDV." The average weekly trading volume of the common shares on the NYSE for the period commencing November 25, 2003 and ending December 31, 2003 was 174,284 shares. The average weekly trading volume of the common shares on the NYSE for the period commencing January 1, 2004 and ending September 20, 2004 was 157,157 shares. The Fund's common shares have traded in the market at both a premium to and a discount from net asset value.

The Fund is authorized, subject to maintaining required asset coverage on its preferred shares, to repurchase its common shares in the open market when the common shares are trading at a discount of 7.5% or more (or such other percentage as the Fund's Board of Trustees may determine from time to time) from net asset value.

Shareholders whose common shares are registered in their own name will have all distributions reinvested pursuant to the Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan. For a more detailed discussion of the Fund's reinvestment plan, see "Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan" in the SAI.

### **Preferred Shares**

Currently, an unlimited amount of the Fund's shares have been classified by the Board of Trustees as preferred shares, par value \$.001 per share. The terms of such preferred shares may be fixed by the Board and would materially limit and/or qualify the rights of the holders of the Fund's common shares. For a description of these terms and limitations, with respect to liquidation rights, dividends, the rights of holders of the Fund's preferred shares to receive distributions, and selection of trustees to the

Fund's Board of Trustees, see "Description of the Series A Preferred and the AMPS." As of June 30, 2004, the Fund had no preferred shares outstanding.

## **TAXATION**

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Fund and its shareholders. The discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal, state, local and foreign tax concerns affecting the Fund and its shareholders (including shareholders owning large positions in the Fund), and the discussion set forth herein does not constitute tax advice. Investors are urged to consult their own tax advisers to determine the tax consequences to them of investing in the Fund.

### **Taxation of the Fund**

The Fund has elected to be treated and has qualified as, and intends to continue to qualify as, a regulated investment company under Subchapter M of the Code. Accordingly, the Fund must, among other things, (i) derive in each taxable year at least 90% of its gross income (including tax-exempt interest) from dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies; and (ii) diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the market value of the Fund's total assets is represented by cash and cash items, U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the market value of the Fund's total assets is invested in the securities of any issuer (other than U.S. government securities and the securities of other regulated investment companies) or of any two or more issuers that the Fund controls and that are determined to be engaged in the same business or similar or related trades or businesses.

As a regulated investment company, the Fund generally is not subject to U.S. federal income tax on income and gains that it distributes each taxable year to shareholders, if it distributes at least 90% of the sum of the Fund's (i) investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses and other taxable income other than any net capital gain (as defined below) reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) its net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). The Fund intends to distribute at least annually substantially all of such income.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax at the Fund level. To avoid the tax, the Fund must distribute during each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (ii) 98% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the Fund's fiscal year), and (iii) certain undistributed amounts from previous years on which the Fund paid no U.S. federal income tax. While the Fund intends to distribute any income and capital gains in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gains will be distributed to avoid entirely the imposition of the tax. In that event, the

Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirement.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders.

### **Taxation of Shareholders**

Based in part on a lack of present intention on the part of the Fund to voluntarily redeem the AMPS at any time in the future and the Fund's inability to voluntarily redeem the Series A Preferred until 2009, the Fund intends to take the position that under present law both the Series A Preferred and the AMPS will constitute equity, rather than debt of the Fund for Federal income tax purposes. It is possible, however, that the Internal Revenue Service (the "IRS") could take a contrary position asserting, for example, that the Series A Preferred and the AMPS constitute debt of the Fund. The Fund believes this position, if asserted, would be unlikely to prevail. If that position were upheld, distributions on the Series A Preferred and the AMPS would be considered interest, taxable as ordinary income regardless of the taxable income of the Fund. The following discussion assumes the Series A Preferred and the AMPS are treated as equity.

Distributions paid to you by the Fund from its investment company taxable income which includes the excess of net short-term capital gains over net long-term capital losses (together referred to hereinafter as "ordinary income dividends") are generally taxable to you as ordinary income to the extent of the Fund's earning and profits. Such distributions (if designated by the Fund) may, however, qualify (provided holding periods and other requirements are met) (i) for the dividends received deduction in the case of corporate shareholders to the extent that the Fund's income consists of dividend income from U.S. corporations, and (ii) under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (effective for taxable years after December 31, 2002 through December 31, 2008) ("2003 Tax Act"), as qualified dividend income eligible for the reduced maximum rate to individuals of generally 15% (5% for individuals in lower tax brackets) to the extent that the Fund receives qualified dividend income. Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain foreign corporations (e.g., generally, foreign corporations incorporated in a possession of the United States or in certain countries with a qualified comprehensive tax treaty with the United States, or whose stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States). Distributions made to you from an excess of net long-term capital gains over net short-term capital losses ("capital gain dividends"), including capital gain dividends credited to you but retained by the Fund, are taxable to you as long-term capital gains if they have been properly designated by the Fund, regardless of the length of time you have owned Fund shares. Under the 2003 Tax Act, the maximum tax rate on net long-term capital gain of individuals is reduced generally from 20% to 15% (5% for individuals in lower brackets) for such gain realized on or after May 6, 2003 and before January 1, 2009. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of your shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to you (assuming the shares are held as a capital asset). Generally, not later than 60 days after the close of its taxable year, the Fund will provide you with a written notice designating the amount of any qualified dividend income or capital gain dividends and other distributions.

The sale or other disposition of shares of the Fund will generally result in capital gain or loss to you, and will be long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss upon the sale or exchange of Fund shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you. A loss realized on a sale or exchange of shares of the

Fund will be disallowed if other substantially identical shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Present law taxes both long-term and short-term capital gains of corporations at the rates applicable to ordinary income.

If the Fund pays you a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by you on December 31 of the year in which the dividend was declared.

The Fund is required in certain circumstances to backup withhold on taxable dividends and certain other payments paid to non-corporate holders of the Fund's shares who do not furnish the Fund with their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

**The foregoing is a general and abbreviated summary of the provisions of the Code and the Treasury regulations in effect as they directly govern the taxation of the Fund and its shareholders. These provisions are subject to change by legislative or administrative action, and any such change may be retroactive. A more complete discussion of the tax rules applicable to the Fund and its shareholders can be found in the Statement of Additional Information that is incorporated by reference into this prospectus. Shareholders are urged to consult their tax advisers regarding specific questions as to U.S. federal, foreign, state, local income or other taxes.**

#### **ANTI-TAKEOVER PROVISIONS OF THE FUND'S GOVERNING DOCUMENTS**

The Fund presently has provisions in its Agreement and Declaration of Trust and By-Laws (together, its "Governing Documents") which could have the effect of limiting, in each case:

- the ability of other entities or persons to acquire control of the Fund;
- the Fund's freedom to engage in certain transactions; or
- the ability of the Fund's trustees or shareholders to amend the Governing Documents or effectuate changes in the Fund's management.

These provisions of the Governing Documents of the Fund may be regarded as "anti-takeover" provisions. The Board of Trustees of the Fund is divided into three classes, each having a term of no more than three years (except, to ensure that the term of a class of the Fund's trustees expires each year, one class of the Fund's trustees will serve an initial one-year term and three-year terms thereafter and another class of its trustees will serve an initial two-year term and three-year terms thereafter). Each year the term of one class of trustees will expire. Accordingly, only those trustees in one class may be changed in any one year, and it would require a minimum of two years to change a majority of the Board. Such system of electing trustees may have the effect of maintaining the continuity of management and, thus, make it more difficult for the shareholders of the Fund to change the majority of trustees. See "Management of the Fund — Trustees and Officers" in the SAI. A trustee of the Fund may be removed with cause by a majority of the remaining trustees and, without cause, by two-thirds of the remaining trustees or by two-thirds of the votes entitled to be cast for the election of such trustees.

In addition, the affirmative vote of the holders of 75% of the outstanding voting shares (in addition to any required class votes) apply to mergers into or a sale of all or substantially all of the Fund's assets, liquidation, conversion of the Fund into an open-end fund or interval fund and amendments to several provisions of the Declaration of Trust, including the foregoing provisions. In addition, 80% of the holders of the outstanding voting securities of the Fund voting as a class is generally required in order to authorize any of the following transactions:

- merger or consolidation of the Fund with or into any other entity;
- issuance of any securities of the Fund to any person or entity for cash, other than pursuant to the Dividend and Reinvestment Plan or any offering if such person or entity acquires no greater percentage of the securities offered than the percentage beneficially owned by such person or entity immediately prior to such offering or, in the case of a class or series not then beneficially owned by such person or entity, the percentage of common shares beneficially owned by such person or entity immediately prior to such offering;
- sale, lease or exchange of all or any substantial part of the assets of the Fund to any entity or person (except assets having an aggregate fair market value of less than \$5,000,000);
- sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any entity or person (except assets having an aggregate fair market value of less than \$5,000,000); or
- the purchase of the Fund's common shares by the Fund from any person or entity other than pursuant to a tender offer equally available to other shareholders in which such person or entity tenders no greater percentage of common shares than are tendered by all other shareholders;

if such person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of the Fund. However, such vote would not be required when, under certain conditions, the Board of Trustees approves the transaction. In addition, shareholders have no authority to adopt, amend or repeal By-Laws. The trustees have authority to adopt, amend and repeal By-Laws consistent with the Declaration of Trust (including to require approval by the holders of a majority of the outstanding shares for the election of trustees). Reference is made to the Governing Documents of the Fund, on file with the Securities and Exchange Commission, for the full text of these provisions.

The provisions of the Governing Documents described above could have the effect of depriving the owners of shares in the Fund of opportunities to sell their shares at a premium over prevailing market prices, by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a principal shareholder.

The Governing Documents of the Fund are on file with the Securities and Exchange Commission. For the full text of these provisions see "Additional Information."

#### **CUSTODIAN, TRANSFER AGENT, AUCTION AGENT AND DIVIDEND-DISBURSING AGENT**

State Street Bank and Trust Company (the "Custodian"), located at 150 Royall Street, Canton, Massachusetts 02021, serves as the custodian of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian will receive a monthly fee based upon, among other things, the average value of the total assets of the Fund, plus certain charges for securities transactions.

EquiServe Trust Company, N.A., located at P.O. Box 43025, Providence, Rhode Island 02940-3025, serves as the Fund's dividend disbursing agent, as agent under the Fund's automatic dividend reinvestment and voluntary cash purchase plan and as transfer agent and registrar for the common shares of the Fund.

Series A Preferred. EquiServe will also serve as the Fund's transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series A Preferred.

AMPS. The Bank of New York, located at 100 Church Street, New York, New York 10286, will serve as the Fund's auction agent, transfer agent, registrar, dividend paying agent and redemption agent with respect to each of the series of AMPS.

## UNDERWRITING

Subject to the terms and conditions of a purchase agreement dated October 7, 2004, each underwriter named below for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative, has severally agreed to purchase, and the Fund has agreed to sell to such underwriters, the number of preferred shares set forth opposite the name of such underwriter.

<u>Underwriter</u>	<u>Number of Series A Preferred Shares</u>	<u>Number of Series B AMPS</u>	<u>Number of Series C AMPS</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	1,250,000	2,000	2,400
Citigroup Global Markets Inc.....	1,250,000	1,200	1,440
A.G. Edwards & Sons, Inc.....	275,000	400	480
Gabelli & Company, Inc. ....	275,000	400	480
H&R Block Financial Advisors, Inc.....	25,000		
Legg Mason Wood Walker, Incorporated.....	25,000		
Oppenheimer & Co. Inc. ....	25,000		
RBC Dain Rauscher Inc.....	25,000		
Raymond James & Associates, Inc.....	25,000		
TD Waterhouse Investor Services, Inc.....	25,000		
Total.....	3,200,000	4,000	4,800

The purchase agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to the approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all of the Series A Preferred and the AMPS, as applicable, if they purchase any such shares. In the purchase agreement, the Fund and the Investment Adviser have agreed to indemnify the underwriters against certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make for any of those liabilities.

### Offering of the Series A Preferred

If offered, the underwriters propose to initially offer some of the Series A Preferred shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Series A Preferred shares to certain dealers at the public offering price less a concession not in excess of \$.50 per share. The underwriting discount the Fund will pay of \$.7875 per share of the Series A Preferred is equal to 3.15% of the initial offering price. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$.45 per share on sales to other dealers. After the initial public offering, the underwriters may change the public offering price, concession and discount. Investors must pay for any Series A Preferred Shares purchased in the initial public offering on or before October 12, 2004.

Prior to the offering, there has been no public market for the Series A Preferred. Application has been made to list the Series A Preferred on the New York Stock Exchange. However, during an initial period that is not expected to exceed 30 days after the date of this prospectus, the Series A Preferred will not be listed on any securities exchange. During such period, the underwriters intend to make a market in the Series A Preferred; however, they have no obligation to do so. Consequently, an investment in the Series A Preferred may be illiquid during such period.

The underwriters may purchase and sell the Series A Preferred in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the shares or preventing or retarding a decline in the market price of the Series A Preferred. As a result, the price of the Series A Preferred may be higher than the price that might otherwise exist in the open market.

Neither the Fund nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series A Preferred. The underwriters do not make any representation that they will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Offering of the AMPS**

The underwriters propose to initially offer some of each series of the AMPS directly to the public at the public offering price set forth on the cover page of this prospectus and some of each series of the AMPS to certain dealers at the public offering price less a concession not in excess of \$137.50 per share. The sales load the Fund will pay of \$250 per share of the AMPS is equal to 1% of the initial offering price. After the initial public offering, the underwriters may change the public offering price and concession. Investors must pay for any AMPS purchased in the initial public offering on or before October 12, 2004.

Merrill Lynch and Citigroup Global Markets Inc. have advised the Fund that they and certain Broker-Dealers and other participants in the auction rate securities markets, including both taxable and tax exempt markets, have received letters from the Securities and Exchange Commission requesting that each of them voluntarily conduct an investigation regarding their respective practices and procedures in those markets. Merrill Lynch and Citigroup Global Markets Inc. are cooperating fully with the Securities and Exchange Commission in this process. No assurance can be given as to whether the results of this process will affect the market for the AMPS or the auctions.

### **Provisions of Other Services to the Fund**

The Fund anticipates that the underwriters may from time to time act as brokers or, after they have ceased to be underwriters, dealers in executing the Fund's portfolio transactions and that the underwriters, or their affiliates, may act as a counterparty in connection with the interest rate transactions described under "How the Fund Manages Risk -- Interest Rate Transactions" after they have ceased to be underwriters. The underwriters are active underwriters of, and dealers in, securities and act as market makers in a number of such securities, and therefore can be expected to engage in portfolio transactions with, and perform services for, the Fund. The Fund anticipates that the underwriters or their respective affiliates may, from time to time, act in auctions as broker-dealers and receive fees as set forth under "The Auction of AMPS" and in the SAI.

The principal business address of Merrill Lynch, Pierce, Fenner & Smith Incorporated is 4 World Financial Center, New York, New York 10080. The principal address of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, New York 10013. The principal business address of A.G. Edwards & Sons, Inc. is One North Jefferson Avenue, St. Louis, Missouri 63103. The principal business address of Gabelli & Company, Inc. is One Corporate Center, Rye, New York 10580.

Gabelli & Company, Inc. is a wholly-owned subsidiary of Gabelli Securities, Inc., which is a majority-owned subsidiary of the parent company of the Investment Adviser which is, in turn, indirectly majority-owned by Mario J. Gabelli. As a result of these relationships, Mr. Gabelli, the Fund's Chief Investment Officer, may be deemed to be a "controlling person" of Gabelli & Company, Inc.

The settlement date for the purchase of the Series A Preferred and the AMPS will be October 12, 2004 as agreed upon by the underwriters, the Fund and the Investment Advisor pursuant to Rule 15cb-1 under the Securities Exchange Act of 1934.

### **LEGAL MATTERS**

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, counsel to the Fund in connection with the offering of the common shares, and by Clifford Chance US LLP, New York, New York, counsel to the underwriters. Clifford Chance US LLP may rely on the opinion of Skadden, Arps, Slate, Meagher & Flom LLP as to matters of Delaware law.

### **EXPERTS**

The audited financial statements of the Fund as of December 31, 2003 have been incorporated by reference into the SAI in reliance on the report of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm, given on the authority of that firm as experts in accounting and auditing. The report of PricewaterhouseCoopers LLP is incorporated by reference into the SAI. PricewaterhouseCoopers LLP is located at 1177 Avenue of the Americas, New York, New York 10036.

### **ADDITIONAL INFORMATION**

The Fund is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act and in accordance therewith files reports and other information with the Securities and Exchange Commission. Reports, proxy statements and other information filed by the Fund with the Securities and Exchange Commission pursuant to the informational requirements of such Acts can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. The Securities and Exchange Commission maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the Securities and Exchange Commission.

The Fund's common shares are listed on the New York Stock Exchange under the symbol "GDV." Reports, proxy statements and other information concerning the Fund and filed with the Securities and Exchange Commission by the Fund will be available for inspection at the New York Stock Exchange, 20 Broad Street, New York, New York 10005, as the case may be.

This prospectus constitutes part of a Registration Statement filed by the Fund with the Securities and Exchange Commission under the Securities Act of 1933 and the 1940 Act. This prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Fund and the

common shares offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Securities and Exchange Commission. Each such statement is qualified in its entirety by such reference. The complete Registration Statement may be obtained from the Securities and Exchange Commission upon payment of the fee prescribed by its rules and regulations or free of charge through the Security and Exchange Commission's web site (<http://www.sec.gov>).

### **PRIVACY PRINCIPLES OF THE FUND**

The Fund is committed to maintaining the privacy of its shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Fund collects, how the Fund protects that information and why, in certain cases, the Fund may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

The Fund restricts access to non-public personal information about its shareholders to employees of the Fund's investment adviser and its affiliates with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders.

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Fund to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under "Risk Factors and Special Considerations" and elsewhere in this prospectus. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity or achievements, and neither the Fund nor any other person assumes responsibility for the accuracy and completeness of such statements.

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No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this prospectus in connection with the offer contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund, the Investment Adviser or the underwriters. Neither the delivery of this prospectus nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Fund since the date hereof or that the information contained herein is correct as of any time subsequent to its date. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities to which it relates. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy such securities in any circumstance in which such an offer or solicitation is unlawful.

## CORPORATE BOND RATINGS

## MOODY'S INVESTORS SERVICE, INC.

Aaa	Bonds that are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
Aa	Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present that make the long-term risk appear somewhat larger than in Aaa Securities.
A	Bonds that are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment some time in the future.
Baa	Bonds that are rated Baa are considered as medium-grade obligations <i>i.e.</i> , they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
B	Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Moody's applies numerical modifiers (1, 2, and 3) with respect to the bonds rated Aa through B. The modifier 1 indicates that the company ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the company ranks in the lower end of its generic rating category.
Caa	Bonds that are rated Caa are of poor standing. These issues may be in default or there may be present elements of danger with respect to principal or interest.
Ca	Bonds that are rated Ca represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.
C	Bonds that are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

## STANDARD & POOR'S RATINGS SERVICES

AAA	This is the highest rating assigned by S&P to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.
AA	Debt rated AA has a very strong capacity to pay interest and repay principal and differs from AAA issues only in small degree.
A	Principal and interest payments on bonds in this category are regarded as safe. Debt rated A has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	This is the lowest investment grade. Debt rated BBB has an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

### Speculative Grade

Debt rated BB, CCC, CC and C are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation, and C the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions. Debt rated C 1 is reserved for income bonds on which no interest is being paid and debt rated D is in payment default.

In July 1994, S&P initiated an “r” symbol to its ratings. The “r” symbol is attached to derivatives, hybrids and certain other obligations that S&P believes may experience high variability in expected returns due to noncredit risks created by the terms of the obligations.

AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major categories.

“NR” indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.



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**\$300,000,000**



**The Gabelli Dividend & Income Trust**

**3,200,000 Shares, 5.875% Series A Cumulative Preferred Shares  
(Liquidation Preference \$25 per Share)**

**Auction Market Preferred Shares (“AMPS”)  
4,000 Shares, Series B  
4,800 Shares, Series C  
(Liquidation Preference \$25,000 per Share)**

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**PROSPECTUS**

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**Merrill Lynch & Co.  
Citigroup  
A.G. Edwards  
Gabelli & Company, Inc.**

**October 7, 2004**

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