

GABELLI EQUITY TRUST INC

Form N-2

August 29, 2017

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As filed with the Securities and Exchange Commission on August 29, 2017

Securities Act File No. 333-[ ]

Investment Company Act File No. 811-04700

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

(Check Appropriate Box or Boxes)

Registration Statement

*under*

*the Securities Act of 1933*

Pre-Effective Amendment No.

Post-Effective Amendment No.

and/or

Registration Statement

*under*

*the Investment Company Act of 1940*  
**Amendment No. 60**

**THE GABELLI EQUITY TRUST INC.**

**(Exact Name of Registrant as Specified in Charter)**

**One Corporate Center, Rye, New York 10580-1422**

**(Address of Principal Executive Offices)**

**Registrant's Telephone Number, Including Area Code: (800) 422-3554**

**Bruce N. Alpert**

**The Gabelli Equity Trust Inc.**

**One Corporate Center**

**Rye, New York 10580-1422**

**(914) 921-5100**

**(Name and Address of Agent for Service)**

*Copies to:*

**Andrea R. Mango, Esq.**  
**The Gabelli Equity Trust Inc.**  
**One Corporate Center**  
**Rye, New York 10580-1422**  
**(914) 921-5100**

**Rose F. DiMartino, Esq.**  
**Willkie Farr & Gallagher LLP**  
**787 Seventh Avenue New York,**  
**New York 10019-6099**  
**(212) 728-8000**

Approximate date of proposed public offering: From time to time after the effective date of this Registration Statement.

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

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

When declared effective pursuant to section 8(c).

If appropriate, check the following box:

This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is [ ].

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

Title of Securities	Amount	Proposed Maximum	Proposed Maximum	Amount of Registration Fee
	Being Registered	Offering Price Per Share	Aggregate Offering Price(1)	
Common Stock (2)	Shares	\$	\$	\$
Preferred Stock (2)	Shares	\$	\$	\$
Subscription Rights to Purchase Common Stock (2)			\$	\$
Subscription Rights to Purchase Preferred Stock (2)			\$	\$
Subscription Rights to Purchase Common Stock and Preferred Stock (2)			\$	\$
Total	Shares	\$	\$1,000,000	\$115.90

- (1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) There is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time, including subscription rights to purchase common stock and/or preferred stock.
- (3) The Registrant claims a credit of \$115.90 for fees attributable to \$1,000,000 of securities previously registered and unsold under the Registrant's registration statement filed on April 14, 2014 (File No. 333-195247) pursuant to the offset provision of Rule 457(p).

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

**Subject to Completion,**

**Preliminary Base Prospectus dated August 29, 2017**

**PRELIMINARY PROSPECTUS**

**[\$ ]**

**The Gabelli Equity Trust Inc.**

**Common Stock**

**Preferred Stock**

**Subscription Rights to Purchase Common Stock**

**Subscription Rights to Purchase Preferred Stock**

**Subscription Rights to Purchase Common Stock and Preferred Stock**

*Investment Objectives.* The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to achieve long term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities. Income is a secondary investment objective. Gabelli Funds, LLC (the Investment Adviser) serves as investment adviser to the Fund. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The Fund was organized as a Maryland corporation on May 20, 1986, and commenced its investment operations on August 21, 1986. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's objectives will be achieved.

We may offer, from time to time, in one or more offerings, shares of our common stock or preferred stock, each having a par value of \$0.001 per share, or our subscription rights to purchase our common stock or preferred stock. Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares.

Our shares may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission, or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of shares of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period, and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of shares (preferred or common) issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering. Shares of our common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol GAB. Currently, the Fund's Series D Cumulative Preferred Stock, Series G Cumulative Preferred Stock, Series H Cumulative Preferred Stock and Series J Cumulative Preferred Stock are listed on the NYSE under the symbol GAB PrD, GAB PrG, GAB PrH and GAB PrJ, respectively. Any future series of fixed rate preferred stock would also likely be listed on a stock exchange. On August 28, 2017, the last reported NYSE sale price of shares of our common stock was \$6.20 per share. The net asset value of shares of the Fund's common stock at the close of business on August 28, 2017 was \$6.28 per share.

**Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.**

**Investing in the Fund's shares involves risks. See Risk Factors and Special Considerations on page 33 for factors that should be considered before investing in shares of the Fund, including Leverage Risk on page 34.**

**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.**

This Prospectus may not be used to consummate sales of shares by us through agents, underwriters, or dealers unless accompanied by a Prospectus Supplement.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest in the shares, and retain it for future reference. A Statement of Additional Information, dated [ ], 2017, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semiannual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 73 of this Prospectus, request other information about us and make stockholder inquiries by calling (800) GABELLI (422-3554) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

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

**You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell**

**these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.**

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**PROSPECTUS SUMMARY**

*This is only a summary. This summary may not contain all of the information that you should consider before investing in our shares. You should review the more detailed information contained in this Prospectus and the Statement of Additional Information dated [ ], 2017 (the SAI ).*

**The Fund**

The Gabelli Equity Trust Inc. is a closed-end, non-diversified management investment company organized as a Maryland corporation on May 20, 1986. Throughout this Prospectus, we refer to The Gabelli Equity Trust Inc. as the Fund or as we. See The Fund.

The Fund's outstanding shares of common stock, par value \$0.001 per share, are listed on the New York Stock Exchange under the symbol GAB. As of June 30, 2017, the net assets of the Fund attributable to its common stock were \$1,359,252,625. As of June 30, 2017, the Fund had outstanding 219,808,898 shares of common stock; 2,880 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series C Auction Rate Preferred ); 2,363,860 shares of 5.875% Series D Cumulative Preferred Stock, liquidation preference \$25 per share (the Series D Preferred ); 1,120 shares of Series E Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series E Auction Rate Preferred ); 2,779,796 shares of Series G Cumulative Preferred Stock, liquidation preference \$25 per share (the Series G Preferred ); 4,172,873 shares of 5.00% Series H Cumulative Preferred Stock, liquidation preference \$25 per share (the Series H Preferred ) and 3,200,000 shares of 5.45% Series J Cumulative Preferred Stock, liquidation preference \$25 per share (the Series J Preferred ). The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, Series G Preferred, Series H Preferred and Series J Preferred have the same seniority with respect to distributions and liquidation preference.

**The Offering**

We may offer, from time to time, in one or more offerings, our common stock, \$0.001 par value per share and our preferred stock, \$0.001 par value per share. The shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement ). We may also offer subscription rights to purchase our common stock or preferred stock. The offering price per share of our common stock will not be less than the net asset value per share of our common stock at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that transferable rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See Rights Offerings. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares. Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of shares (preferred or common) issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering. Shares of our common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol GAB. Currently, the Fund's Series D Preferred, Series G Preferred, Series H Preferred and Series J Preferred are listed on the NYSE under the symbol GAB PrD, GAB PrG, GAB PrH and GAB PrJ, respectively. Any future series of fixed rate preferred stock would also likely be listed on a stock exchange.

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On August 28, 2017 the last reported NYSE sale price of shares of our common stock was \$6.20 per share. The net asset value of shares of the Fund's common stock at the close of business on August 28, 2017 was \$6.28 per share.

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### **Investment Objectives and Policies**

The Fund's primary investment objective is to achieve long term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities (the 80% Policy). The 80% Policy may be changed without stockholder approval. The Fund will provide stockholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in a portfolio consisting primarily of high yielding, fixed income securities, such as corporate bonds, debentures, notes, convertible securities, preferred stock, and domestic and foreign government obligations. Fixed income securities purchased by the Fund may be rated as low as C by Moody's Investors Service, Inc. (Moody's) or D by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. (S&P), or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

The Fund invests in equity securities across all market capitalization ranges. The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in emerging markets.

No assurance can be given that the Fund's investment objectives will be achieved. See Investment Objectives and Policies.

### **Common Stock**

Currently, 237,024,900 shares of the Fund's capital stock, which includes the common stock being registered with this registration statement, are classified as common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Fund's Board of Directors (the Board) payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund. As of June 30, 2017, 219,808,898 shares of common stock of the Fund were outstanding.

### **Preferred Stock**

Currently, 32,975,100 shares of the Fund's capital stock, which includes the preferred stock being registered with this registration statement, have been classified by the Board of the Fund or any duly authorized committee thereof as

preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The number of shares and terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund's common stock. If the Fund's Board determines that it may be

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advantageous to the holders of the Fund's common stock for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred stock ( Fixed Rate Preferred Stock ). Any Fixed Rate Preferred Stock issued by the Fund will pay distributions at a fixed rate, which may be reset after an initial period. As of June 30, 2017, 2,880 shares of Series C Auction Rate Preferred, 2,363,860 shares of Series D Preferred, 1,120 shares of Series E Auction Rate Preferred, 2,779,796 shares of Series G Preferred, 4,172,873 shares of Series H Preferred and 3,200,000 shares of Series J Preferred were outstanding. Leverage creates a greater risk of loss as well as a potential for more gains for the common stock than if leverage were not used. See Risk Factors and Special Considerations Leverage Risk and Certain Investment Practices Leveraging. The Fund may also engage in investment management techniques which will not be considered senior securities if the Fund establishes in a segregated account cash or other liquid securities equal to the Fund's obligations in respect of such techniques. The Fund may borrow money in accordance with its investment restrictions, including as a temporary measure for extraordinary or emergency purposes. The Fund will not borrow for investment purposes.

**Dividends and Distributions**

*Preferred Stock Distributions.* In accordance with the Fund's Articles of Incorporation (together with any amendments or supplements thereto, including any articles supplementary of the Fund establishing a series of preferred stock (the Articles Supplementary )) and together with the Articles of Incorporation, the Charter )) and as required by the 1940 Act, all preferred stock of the Fund must have the same seniority with respect to distributions. Accordingly, no full distribution will be declared or paid on any series of preferred stock of the Fund for any dividend period, or part thereof, unless full cumulative dividends and distributions due through the most recent dividend payment dates for all series of outstanding preferred stock of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred stock of the Fund. Any partial distributions on such preferred stock will be made as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date.

The Fund did not make return of capital distributions to its preferred stockholders during the year ended December 31, 2016. See Composition of Distributions.

*Common Stock Distributions.* In order to allow its common stockholders 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 managed distribution policy, which may be modified at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common stockholders during eighteen of the thirty fiscal years that distributions were paid since the Fund's inception has constituted a return of capital. Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings or accumulated earnings and profits, they are considered ordinary income or long term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to stockholders all of its net realized long term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 20% (plus an additional 3.8% Medicare contribution surcharge on income and net gain from investments), and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6% plus the 3.8% Medicare contribution surcharge.

For the fiscal year ended December 31, 2016, the Fund made distributions of \$0.60 per share of common stock, approximately 0.73% of which was deemed a return of capital. See Composition of Distributions.

*Composition of Distributions. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund's preferred or common stock. Stockholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Stockholders should not assume that the source of a distribution from the Fund is net profit.* In the event that for any calendar year Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of

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the total distributions on shares of the Fund's common stock or preferred stock in such year, as applicable, the excess distributions will generally be treated as a tax free return of capital (to the extent of the shareholder's tax basis in the shares). The amount treated as a tax free return of capital will reduce the net asset value of the shares of the Fund's stock and a shareholder's adjusted tax basis in the shares of the common stock or preferred stock, as applicable, which may negatively affect the price a stockholder receives upon the sale of its shares by increasing the stockholder's potential taxable gain or reducing the potential taxable loss on the sale of the shares of the stock. Any amount in excess of a stockholder's remaining outstanding basis will constitute gain to such stockholder. Return of capital as part of a distribution may have the effect of decreasing the asset coverage per share with respect to the shares of the Fund's preferred stock.

The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through December 31, 2017. The actual composition of each distribution may change based on the Fund's investment activity through the end of the calendar year. The Board monitors and reviews the Fund's preferred stock and common stock distribution policies on a regular basis.

## **Use of Proceeds**

The Fund will use the net proceeds from the offering to purchase portfolio securities in accordance with its investment objectives 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. Depending on market conditions and operations, a portion of the cash held by the Fund, including any proceeds raised from the offering, may be used to pay distributions in accordance with the Fund's distribution policy. The Fund may also use the proceeds to call existing series of preferred stock. See "Use of Proceeds" in the Prospectus Supplement for a discussion of whether the Fund expects to use the proceeds from the offering to call existing series of preferred stock.

## **Exchange Listing**

The Fund's outstanding shares of common stock are listed on the NYSE, under the trading or "ticker" symbol GAB. Currently, the Series D Preferred, Series G Preferred, Series H Preferred and Series J Preferred are listed on the NYSE under the symbol GAB PrD, GAB PrG, GAB PrH and GAB PrJ, respectively. See "Description of Capital Stock" for a description of the additional series of Fixed Rate Preferred Stock issued by the Fund would also likely be listed on the NYSE. Subscription rights issued by the Fund may also be listed on a securities exchange.

## **Market Price of Shares**

Common shares of closed-end investment companies often trade at prices lower than their net asset value. Common shares of closed-end investment companies may trade during some periods at prices higher than their net asset value and during other periods at prices lower than their net asset value. The Fund cannot assure you that its common stock will trade at a price higher than, equal to, or below net asset value. The Fund's net asset value will be reduced immediately following an offering by the sales load and the amount of the offering expenses paid by the Fund.

In addition to net asset value, the market price of the Fund's common stock may be affected by such factors as the Fund's dividend and distribution levels and stability, market liquidity, market supply and demand, unrealized gains, general market and economic conditions, and other factors. See "Risk Factors and Special Considerations," "Description of the Capital Stock" and "Repurchase of Common Stock."



The Fund's common stock is designed primarily for long term investors, and you should not purchase shares of common stock of the Fund if you intend to sell them shortly after purchase.

Fixed rate preferred stock, if issued, may also trade at premiums to or discounts from its liquidation preference for a variety of reasons, including changes in interest rates.

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Risk is inherent in all investing. Therefore, before investing in shares of the Fund, you should consider the following risks carefully.

*Leverage Risk.* The Fund currently uses, and intends to continue to use, leverage for investment purposes by issuing preferred stock. Leverage for these purposes means the ratio by which the aggregate amount of senior securities representing indebtedness of the Fund plus the aggregate involuntary liquidation preference of the Fund's preferred stock bears to the Fund's total assets. As of June 30, 2017, the amount of leverage represented approximately 23% of the Fund's net assets. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. To the extent that the Fund determines to employ additional leverage in its investment operations, the Fund is subject to additional substantial risk of loss. The Fund cannot assure you that the issuance of preferred stock will result in a higher yield or return to the holders of shares of common stock. Also, as the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions 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 Internal Revenue Code of 1986, as amended (the Code). See Taxation.

*Special Risks to Holders of Fixed Rate Preferred Stock.* Prior to any offering, there will be no public market for any additional series of Fixed Rate Preferred Stock. In the event any additional series of Fixed Rate Preferred Stock are issued, prior application will have been made to list such shares on a national securities exchange, which will likely be the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its initial issuance, such shares may not be listed on any securities exchange. Before an additional series of Fixed Rate Preferred Stock is listed on a securities exchange, the underwriters may, but will not be obligated to, make a market in such shares. Consequently, an investment in such shares may be illiquid during such period. Shares of Fixed Rate Preferred Stock may trade at a premium to or discount from liquidation value for various reasons, including changes in interest rates.

*Special Risks of Preferred Stock to Holders of Common Stock.* The issuance of preferred stock causes the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock plus the management fee annual rate of 1.00% (as applicable) exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to the holders of common stock than if the Fund had not issued preferred stock. Any decline in the net asset value of the Fund's investments would be borne entirely by the holders of common stock. In addition, the Fund would pay (and the holders of common stock will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including the advisory fees on the incremental assets attributable to such stock. See Risk Factors and Special Considerations Leverage Risk Preferred Stock Risk.

*Credit Quality Ratings.* The Fund may obtain credit quality ratings for its preferred stock; however, it is not required to do so and may issue preferred stock without any rating. If rated, the Fund does not impose any minimum rating necessary to issue such preferred stock. In order to obtain and maintain attractive credit quality ratings for preferred stock, if desired, the Fund's portfolio must satisfy over-collateralization tests established by the relevant rating agencies. These tests are more difficult to satisfy to the extent the Fund's portfolio securities are of lower credit quality, longer maturity or not diversified by issuer and industry. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act. A rating (if any) by a rating agency does not eliminate or

necessarily mitigate the risks of investing in our preferred stock, and a rating may not fully or accurately reflect all of the securities' credit risks. A rating (if any) does not address liquidity or any other market risks of the securities being rated. A rating agency could downgrade the rating of our preferred stock, which may make such securities less liquid in the secondary market. If a rating agency downgrades the rating assigned to preferred stock, we may alter our portfolio or redeem the preferred stock under certain circumstances. See Risk Factors and Special Considerations Leverage Risk Special Risks to Holders of Fixed Rate Preferred Stock Credit Quality Ratings.

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*Our Subscription Rights.* There is a risk that changes in yield or changes in the credit quality of the Fund may result in the underlying shares of preferred stock purchasable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of shares of preferred stock or shares of common stock issued may be reduced, and the preferred stock or common stock may trade at less favorable prices than larger offerings for similar securities.

*Common Stock Distribution Policy Risk.* The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the preferred stock. A portion of the distributions to holders of common stock during eighteen of the thirty fiscal years that distributions were paid since the Fund's inception has constituted a return of capital. Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current or accumulated earnings and profits, they are considered ordinary income or long term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to stockholders all of its net realized long term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 20% (plus an additional 3.8% Medicare contribution surcharge on income and net gain from investments), and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6% plus the 3.8% Medicare contribution surcharge. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund.

*Market Discount Risk.* Common shares of closed-end investment companies often trade at a discount from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value may decrease. The Investment Adviser cannot predict whether the Fund's shares will trade at, below or above net asset value. The risk of holding shares of a closed-end fund that might trade at a discount is more pronounced for stockholders who wish to sell their shares in a relatively short period of time after acquiring them, because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's common shares are not subject to redemption. Stockholders desiring liquidity may, subject to applicable securities laws, trade their shares in the Fund on the NYSE or other markets on which such shares may trade at the then-current market value, which may differ from the then current net asset value.

*Non-Diversified Status.* As a non-diversified, closed-end management 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 Non-Diversified Status.

To qualify as a regulated investment company, or RIC for purposes of the Code, the Fund intends to conduct its operations in a manner that will relieve it of any liability for federal income tax to the extent its earnings are distributed to stockholders. To so qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year:

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, any two or more issuers in which the Fund owns 20% or more of the voting securities and which are determined to be engaged in the same, similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (as defined in the Code); and

at least 50% of the market value of the Fund's assets will be represented by cash, securities of other RICs, 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 total assets and not more than 10% of the outstanding voting securities of such issuer.

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See Taxation.

*Equity Risk.* Investing in the Fund involves equity risk, which is the risk that the securities held by the Fund will fall in market value due to adverse market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate and the particular circumstances and performance of particular companies whose securities the Fund holds. An investment in the Fund represents an indirect economic stake in the securities owned by the Fund, which are for the most part traded on securities exchanges or in the over-the-counter markets. The market value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The net asset value of the Fund may at any point in time be worth less than the amount at the time the shareholder invested in the Fund, even after taking into account any reinvestment of distributions.

*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 Industry Concentration Risk.

*Interest Rate Transactions.* The Fund may enter into swap transactions. 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.

*Foreign Securities.* The Fund may invest up to 35% of its total assets in securities of foreign issuers, including issuers in emerging markets. 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. Also, 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. Dividend income the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

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 losses. 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 also may purchase sponsored American Depositary Receipts ( ADRs ) or United States dollar denominated securities of foreign issuers, including emerging market 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 stockholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

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*Fixed Income Securities Risks.* Fixed income securities in which the Fund may invest are generally subject to the following risks:

*Interest Rate Risk.* The market value of bonds and other fixed-income or dividend paying securities changes in response to interest rate changes and other factors. Interest rate risk is the risk that prices of bonds and other income or dividend paying securities will increase as interest rates fall and decrease as interest rates rise. The Fund may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates and the Federal Reserve's indication that it may raise the federal funds rate in the near future.

*Issuer Risk.* Issuer risk is the risk that the value of an income or dividend paying security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer's goods and services, historical and prospective earnings of the issuer, and the value of the assets of the issuer.

*Credit Risk.* Credit risk is the risk that one or more income or dividend paying securities in the Fund's portfolio will decline in price or fail to pay interest/distributions or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates.

*Prepayment Risk.* Prepayment risk is the risk that during periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For income or dividend paying securities, such payments often occur during periods of declining interest rates, forcing the Fund to reinvest in lower yielding securities, resulting in a possible decline in the Fund's income and distributions to stockholders.

*Reinvestment Risk.* Reinvestment risk is the risk that income from the Fund's portfolio will decline if the Fund invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Fund portfolio's current earnings rate.

*Duration and Maturity Risk.* The Fund may incur costs in seeking to adjust the portfolio average duration or maturity. In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Specifically, duration measures the anticipated percentage change in net asset value that is expected for every percentage point change in interest rates. The two have an inverse relationship. Duration can be a useful tool to estimate anticipated price changes to a fixed pool of income securities associated with changes in interest rates. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in addition to the amount of time until the security matures. As the value of a security changes over time, so will its duration. There can be no assurance that the Investment Adviser's assessment of current and projected market conditions will be correct or that any strategy to adjust duration or maturity will be successful at any given time.



*Liquidity Risk.* Certain fixed income securities in which the Fund invests may be or become illiquid. See Risk Factors and Special Considerations Restricted and Illiquid Securities.

*Non-Investment 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. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's 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 securities. In addition, such 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

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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. These 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 in response to changes in the economy or the financial markets.

Lower grade securities 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 regular income streams.

As part of its investment in non-investment 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 under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. 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 securities of issuers 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 issuer of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies may change their ratings of a particular issuer to reflect subsequent events. 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 several periods of significantly adverse price and liquidity, 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.

*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, futures or swaps 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 it in a worse position than if such strategies were not used. Risks inherent in the use of options, foreign

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currency, swaps contracts, futures contracts and options on futures contracts, swaps 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; and

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 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.

See Risk Factors and Special Considerations Special Risks of Derivative Transactions.

*Futures Transactions.* The Fund may make investments in futures and options on futures. Risks include, but are not limited to, the following:

no assurance that futures contracts or options on futures can be offset at favorable prices;

possible reduction of the yield 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.

*Swap Agreements.* The Fund may enter into total rate of return, credit default, interest rate or other types of swaps and related derivatives for various purposes, including to gain economic exposure to an asset or group of assets that may be difficult or impractical to acquire or for hedging and risk management. Swap agreements involve the risk that the party with whom the Fund has entered into the swap will default on its obligation to pay the Fund and the risk that the Fund will not be able to meet its obligations to pay the other party to the agreement.

*Forward Currency Exchange Contracts.* The use of forward currency exchange 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.

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*Asset Segregation Risk.* The Fund will comply with guidelines established by the Securities and Exchange Commission (the "SEC") with respect to coverage of derivative instruments. These guidelines may, in certain instances, require segregation by the Fund of cash or liquid securities with its custodian or a designated sub-custodian to the extent the Fund's obligations with respect to these strategies are not otherwise covered through ownership of the underlying security, financial instrument, or currency, or by other portfolio positions, or by other means consistent with applicable regulatory policies. Segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate them. Assets segregated by the Fund for these purposes are identified on the books of its custodian or a designated sub-custodian, but are not physically separate from other assets of the Fund.

*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" 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" Dependence on Key Personnel.

*Market Disruption and Geopolitical Risk.* The occurrence of events similar to those in recent years, such as the aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Libya, Syria and other countries in the Middle East and North Africa, terrorist attacks in the U.S., Europe and elsewhere around the world, social and political discord and uncertainty, debt crises (such as the recent Greek crisis), sovereign debt downgrades, or the exit or potential exit of one or more countries from the EMU or the European Union (such as the United Kingdom), among others, may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide. Any such event(s) could have a significant adverse impact on the value and risk profile of the Fund's portfolio. The Fund does not know how long the securities markets may be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. There can be no assurance that similar events and other market disruptions will not have other material and adverse implications.

*Economic Events and Market Risk.* Periods of market volatility remain, and may continue to occur in the future, in response to various political, social and economic events both within and outside of the United States. These conditions have resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Fund's securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings. If there is a significant decline in the value of the Fund's portfolio, this may impact the asset coverage levels for the Fund's outstanding leverage.

Risks resulting from any future debt or other economic crisis could also have a detrimental impact on the global economic recovery, the financial condition of financial institutions and our business, financial condition and results of operation. Downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, Federal Reserve policy, including with respect to certain interest rates and the decision to end its quantitative easing policy, may also adversely affect the value, volatility and liquidity of dividend- and interest-paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could impair the Fund's ability to achieve its investment objective.

See Risk Factors and Special Considerations General Risks Economic Events and Market Risk.

*Government Intervention in Financial Markets Risk.* The U.S. government and certain foreign governments have in the past taken actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity, including through direct purchases of equity and debt securities. Federal, state, and other governments, their regulatory agencies or self-regulatory

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organizations may take actions that affect the regulation of the issuers in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable. Legislation or regulation may also change the way in which the Fund is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objective. See **Risk Factors and Special Considerations** **General Risks** **Government Intervention in Financial Markets Risk**.

*Anti-Takeover Provisions.* The Charter and the by-laws of the Fund, as amended from time to time (the **By-Laws** and together with the Charter, the **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.

*Taxation.* The Fund 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 stock 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 stock 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.

*Temporary Investments.* During temporary defensive periods and during inopportune periods to be fully invested, the Fund may invest in U.S. government securities, including U.S. Treasury securities, and in money market mutual funds that invest in those securities. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the full faith and credit of the U.S. government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government-sponsored instrumentalities if it is not obligated to do so by law.

*Emerging Markets Risk.* The Fund may invest up to 35% of its total assets in foreign securities, including securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the **World Bank** ). Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investor perception, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Other risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; overdependence on exports, including gold and natural resources exports, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; potential for sanctions; less developed legal systems; and less reliable securities custodial services and settlement practices.

## **Management and Fees**



Gabelli Funds, LLC serves as the Fund's investment adviser. The Investment Adviser's fee is computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets. The Fund's average weekly net assets will be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities (such liabilities exclude (i) the aggregate liquidation preference of outstanding shares of preferred stock and accumulated dividends, if any, on those shares and (ii) the liabilities for any money borrowed). The fee paid by the Fund may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an

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incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the currently outstanding Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of those particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder's total return. This fee waiver was voluntarily undertaken by the Investment Adviser and will remain in effect as long as the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred are outstanding. This fee waiver does not apply to the Fund's Series G Preferred, Series H Preferred or Series J Preferred and will not apply to any preferred stock issued from this offering. The Fund's total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets. See Management of the Fund.

For the year ended December 31, 2016, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate of the outstanding shares of Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred. Thus, management fees with respect to the liquidation value of the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred were not reduced.

A discussion regarding the basis for the Board's approval of the continuation of the investment advisory contract of the Fund is available in the Fund's semiannual report to stockholders dated June 30, 2017.

## **Repurchase of Common Stock**

The Fund's Board has authorized the Fund (and the Fund accordingly reserves freedom of action) to repurchase shares of its common stock in the open market when the shares are trading at a discount of 10% or more from net asset value. Although the Board has authorized such repurchases, the Fund is not required to repurchase its shares. The Board has not established a limit on the amount of common stock that could be repurchased. Such repurchases are subject to certain notice and other requirements under the 1940 Act. The Fund has repurchased shares of its common stock under this authorization. See Repurchase of Common Stock.

## **Anti-Takeover Provisions**

Certain provisions of the Governing Documents may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of the three classes of directors is elected each year, and the affirmative vote of the holders of 66 2/3% of the Fund's outstanding shares of each class (voting separately) is required 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 stockholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium above the prevailing market price. See Anti-Takeover Provisions of the Fund's Governing Documents.

## **Custodian, Transfer Agent and Dividend Disbursing Agent**

The Bank of New York Mellon Corporation ( BNY Mellon ), located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian (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 paid by the Fund based upon, among other things, the average value of the total assets of the Fund, plus certain charges for securities transactions and out-of-pocket expenses.

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Rules adopted under the 1940 Act permit the Fund to maintain its foreign securities in the custody of certain eligible foreign banks and securities depositories. Pursuant to those rules, any foreign securities in the portfolio of the Fund may be held by sub-custodians approved by the Board in accordance with the regulations of the SEC. Selection of any such sub-custodians will be made by the Board following a consideration of a number of factors, including but not limited to the reliability and financial stability of the institution, the ability of the institution to perform capably custodial services for the Fund, the reputation of the institution in its national market, the political and economic stability of the country or countries in which the sub-custodians are located, and risks of potential nationalization or expropriation of assets of the Fund.

Computershare Trust Company, N.A. ( Computershare ), located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund's dividend disbursing agent, as agent under the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the Plan ) and as transfer agent and registrar with respect to the Fund's common stock.

Computershare also serves as the transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series D Preferred, Series G Preferred, Series H Preferred and Series J Preferred.

BNY Mellon, located at 100 Church Street, New York, New York 10286, serves as the auction agent, transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series C Auction Rate Preferred and the Series E Auction Rate Preferred. See Custodian, Transfer Agent and Dividend Disbursing Agent.

**SUMMARY OF FUND EXPENSES**

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in shares of our common stock, as a percentage of net assets attributable to common stock. All expenses of the Fund will be borne, directly or indirectly, by the common stockholders. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, including the offering expenses of preferred stock.

<b>Stockholder Transaction Expenses</b>		
Sales Load (as a percentage of offering price)		1.53%(1)
Offering Expenses (excluding Preferred Stock Offering Expenses) (as a percentage of offering price)		0.36%(1)
Dividend Reinvestment Plan Fees		None(2)
Voluntary Cash Purchase Plan Purchase Transaction Fee	\$	0.75(2)
Voluntary Cash Purchase Plan Sale Transaction Fee	\$	2.50(2)
Preferred Stock Offering Expenses (as a percentage of net assets attributable to common stock)		0.02%(3)

**Percentage of Net**

**Assets**

	<b>Attributable to Common Stock</b>
<b>Annual Expenses</b>	
Management Fees	1.32%(4)
Interest on Borrowed Funds	None
Other Expenses	0.11%(5)
<b>Total Annual Expenses</b>	<b>1.43%</b>
Dividends on Preferred Stock	1.49%(6)
<b>Total Annual Expenses and Dividends on Preferred Stock</b>	<b>2.92%</b>

- (1) Estimated maximum amount based on offering of \$376 million in shares of common stock and \$124 million in shares of preferred stock. The estimates assume a 1% sales load on common stock and \$1,360,000 in common offering expenses, and 3.15% sales load on preferred stock and \$316,000 in preferred offering expenses. Actual sales loads and offering expenses may be higher or lower than these estimates and will be set forth in the Prospectus Supplement if applicable.

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- (2) There are no fees charged to stockholders for participating in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan. However, stockholders participating in the Plan that elect to make additional cash purchases under the Plan would pay \$0.75 plus their pro rata share of brokerage commissions per transaction to purchase shares and \$2.50 plus their pro rata share of brokerage commissions per transaction to sell shares. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan.
- (3) Assumes issuance of \$124 million in liquidation preference of fixed rate preferred stock, net assets attributable to common stock of approximately \$1,656 billion (which includes the issuance of \$376 million in common stock) and \$316,000 in preferred offering expenses. The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.
- (4) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets. The Fund's average weekly net assets will be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities (such liabilities exclude (i) the aggregate liquidation preference of outstanding shares of preferred stock and accumulated dividends, if any, on those shares and (ii) the liabilities for any money borrowed). Consequently, because the Fund has preferred stock outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common stock will be higher than if the Fund did not utilize a leveraged capital structure.
- (5) Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.
- (6) Dividends on Preferred Stock represent the aggregate of (1) the estimated annual distributions on the existing preferred stock outstanding and (2) the distributions that would be made assuming \$124 million of preferred stock is issued with a fixed dividend rate of 5.1875%. There can, of course, be no guarantee that any preferred stock would be issued or, if issued, the terms thereof.

The purpose of the table above and the example below is to help you understand all fees and expenses that you, as a holder of common stock, would bear directly or indirectly.

The following example illustrates the expenses (including the maximum estimated sales load on common stock of \$10 and on preferred stock of \$31.50 and estimated offering expenses of \$1.01 from the issuance of \$376 million in common stock and \$124 million in preferred stock) you would pay on a \$1,000 investment in common stock followed by the preferred stock offering, assuming a 5% annual portfolio total return.\* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total Expenses Incurred	\$ 45	\$ 105	\$ 168	\$ 335

\* **The example should not be considered a representation of future expenses.** The example is based on Total Annual Expenses and Dividends on Preferred Stock shown in the table above and assumes that the amounts set forth in the table do not change and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

The above example includes Dividends on Preferred Stock. If Dividends on Preferred Stock were not included in the example calculation, the expenses would be as follows (based on the same assumptions as above).

<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
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Total Expenses Incurred	\$ 31	\$ 61	\$ 93	\$ 185
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**Table of Contents****FINANCIAL HIGHLIGHTS**

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this Prospectus and the SAI. The financial information for the five fiscal years ended December 31, 2016, 2015, 2014, 2013, and 2012 has been audited by [ ], the Fund's independent registered public accounting firm, whose unqualified report on such Financial Statements is incorporated by reference into the SAI. The financial information for the period ended June 30, 2017 is unaudited.

Selected data for a share outstanding throughout each period:

	<b>Six Months Ended June 30, 2017</b>	<b>2016</b>	<b>Year Ended December 31,</b>			
			<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Performance:</b>						
Net asset value, beginning of year	\$ 5.84	\$ 5.70	\$ 6.78	\$ 7.23	\$ 5.60	\$ 5.20
Net investment income	0.03	0.07	0.06	0.07	0.06	0.09
Net realized and unrealized gain/(loss) on investments, futures contracts, swap contracts, and foreign currency transactions	0.65	0.75	(0.44)	0.30	2.26	0.97
Total from investment operations	0.68	0.82	(0.38)	0.37	2.32	1.06
<b>Distributions to Preferred Shareholders: (a)</b>						
Net investment income	(0.02)*	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)
Net realized gain	(0.02)*	(0.06)	(0.05)	(0.05)	(0.06)	(0.05)
Total distributions to preferred shareholders	(0.04)	(0.07)	(0.06)	(0.06)	(0.07)	(0.08)
<b>Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations</b>						
	0.64	0.75	(0.44)	0.31	2.25	0.98
<b>Distributions to Common Shareholders:</b>						
Net investment income	(0.01)*	(0.08)	(0.05)	(0.05)	(0.05)	(0.06)
Net realized gain	(0.01)*	(0.52)	(0.44)	(0.49)	(0.57)	(0.11)
Return of capital	(0.28)*	(0.00)(b)	(0.15)	(0.10)		(0.39)
Total distributions to common shareholders	(0.30)	(0.60)	(0.64)	(0.64)	(0.62)	(0.56)
<b>Fund Share Transactions:</b>						
				(0.12)	0.00(b)	



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Decrease in net asset value from common share transactions						
Increase in net asset value from repurchase of preferred shares	0.00(b)	0.00(b)	0.00(b)	0.00(b)	0.00(b)	
Offering costs and adjustment to offering costs for preferred shares charged to paid-in capital		(0.01)			0.00(b)	(0.02)
Total Fund share transactions	0.00(b)	(0.01)	0.00(b)	(0.12)	0.00(b)	(0.02)
<b>Net Asset Value Attributable to Common Shareholders, End of Year</b>	<b>\$ 6.18</b>	<b>\$ 5.84</b>	<b>\$ 5.70</b>	<b>\$ 6.78</b>	<b>\$ 7.23</b>	<b>\$ 5.60</b>

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	Six Months Ended June 30, 2017	Year Ended December 31,				
		2016	2015	2014	2013	2012
NAV total return	11.04%	13.66%	(6.85)%	4.68%	41.90%	19.05%
Market value, end of year	\$ 6.18	\$ 5.52	\$ 5.31	\$ 6.47	\$ 7.75	\$ 5.58
Investment total return	13.65%	15.71%	(8.54)%	(6.08)%	52.44%	23.62%

**Ratios to Average Net Assets and Supplemental Data:**

Net assets including liquidation value of preferred shares, end of year (in 000 s)	\$ 1,772,166	\$ 1,693,448	\$ 1,582,823	\$ 1,820,361	\$ 1,712,663	\$ 1,384,961
Net assets attributable to common shares, end of year (in 000 s)	\$ 1,359,253	\$ 1,280,115	\$ 1,249,157	\$ 1,486,491	\$ 1,378,436	\$ 1,050,451
Ratio of net investment income to average net assets attributable to common shares before preferred distributions	0.93%(c)	1.23%	0.91%	0.82%	0.84%	1.54%
Ratio of operating expenses to average net assets attributable to						

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common shares:						
before fee reductions	1.43%(c)(d)	1.44%(d)	1.36%(d)	1.37%	1.40%	1.48%
net of fee reductions, if any	1.43%(c)(d)	1.44%(d)	1.25%(d)	1.33%	1.40%	1.48%
Ratio of operating expenses to average net assets including liquidation value of preferred shares:						
before fee reductions	1.09%(c)(d)	1.10%(d)	1.10%(d)	1.10%	1.10%	1.12%
net of fee reductions, if any	1.09%(c)(d)	1.10%(d)	1.01%(d)	1.07%	1.10%	1.12%
Portfolio turnover rate	2.1%	12.7%	8.9%	10.9%	10.0%	4.2%

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	<b>Six Months Ended June 30, 2017</b>	<b>2016</b>	<b>Year Ended December 31,</b>			
			<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cumulative Preferred Stock:</b>						
<b>Auction Rate Series C</b>						
Liquidation value, end of year (in 000 s)	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000
Total shares outstanding (in 000 s)	3	3	3	3	3	3
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Liquidation value(e)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share(f)	\$ 107,297	\$ 102,426	\$ 118,593	\$ 136,308	\$ 128,106	\$ 103,507
<b>5.875% Series D</b>						
Liquidation value, end of year (in 000 s)	\$ 59,097	\$ 59,097	\$ 59,097	\$ 59,097	\$ 59,097	\$ 59,097
Total shares outstanding (in 000 s)	2,364	2,364	2,364	2,364	2,364	2,364
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value(g)	\$ 25.97	\$ 26.22	\$ 25.69	\$ 25.21	\$ 25.27	\$ 25.75
Asset coverage per share(f)	\$ 107.30	\$ 102.43	\$ 118.59	\$ 136.31	\$ 128.11	\$ 103.51
<b>Auction Rate Series E</b>						
Liquidation value, end of year (in 000 s)	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000
Total shares outstanding (in 000 s)	1	1	1	1	1	1
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Liquidation value(e)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share(f)	\$ 107,297	\$ 102,426	\$ 118,593	\$ 136,308	\$ 128,106	\$ 103,507
<b>5.000% Series G</b>						
Liquidation value, end of year (in 000 s)	\$ 69,495	\$ 69,743	\$ 69,925	\$ 70,099	\$ 70,373	\$ 70,413
Total shares outstanding (in 000 s)	2,780	2,791	2,797	2,804	2,815	2,817
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value(g)	\$ 24.14	\$ 24.67	\$ 23.78	\$ 23.32	\$ 23.91	\$ 26.01
Asset coverage per share(f)	\$ 107.30	\$ 102.43	\$ 118.59	\$ 136.31	\$ 128.11	\$ 103.51
<b>5.000% Series H</b>						
Liquidation value, end of year (in 000 s)	\$ 104,322	\$ 104,494	\$ 104,644	\$ 104,674	\$ 104,757	\$ 105,000
Total shares outstanding (in 000 s)	4,173	4,180	4,186	4,187	4,190	4,200
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00

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Average market value(g)	\$ 24.24	\$ 25.00	\$ 24.33	\$ 22.82	\$ 23.85	\$ 25.55
Asset coverage per share(f)	\$ 107.30	\$ 102.43	\$ 118.59	\$ 136.31	\$ 128.11	\$ 103.51
<b>5.450% Series J</b>						
Liquidation value, end of period (in 000 s)	\$ 80,000	\$ 80,000				
Total shares outstanding (in 000 s)	3,200	3,200				
Liquidation preference per share	\$ 25.00	\$ 25.00				
Average market value(g)	\$ 25.02	\$ 25.43				
Asset coverage per share(f)	\$ 107.30	\$ 102.43				
<b>Asset Coverage(h)</b>	429%	410%	474%	545%	512%	414%

For years ended December 31, 2016, 2015, 2014, and 2013 based on net asset value per share, adjusted for reinvestment of distributions at net asset value on the ex-dividend date. The year ended 2012 was based on net asset value per share, adjusted for reinvestment of distributions at prices obtained under the Fund's dividend reinvestment plan.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan.

- \* Based on year to date book income. Amounts are subject to change and recharacterization at year end.
- (a) Calculated based upon average common shares outstanding on the record dates throughout the years.
- (b) Amount represents less than \$0.005 per share.

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- (c) Annualized.
- (d) The Fund received credits from a designated broker who agreed to pay certain Fund operating expenses. For the six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, there was no impact on the expense ratios.
- (e) Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auction.
- (f) Asset coverage per share is calculated by combining all series of preferred stock.
- (g) Based on weekly prices.
- (h) Asset coverage is calculated by combining all series of preferred stock.

	<b>Year Ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Performance:</b>					
Net asset value, beginning of period	\$ 5.85	\$ 5.03	\$ 4.14	\$ 9.22	\$ 9.4
Net investment income	0.07	0.05	0.06	0.12	0.14
Net realized and unrealized gain/(loss) on investments, written options, futures contracts, swap contracts, and foreign currency transactions	(0.08)	1.35	1.62	(4.30)	1.12
Total from investment operations	(0.01)	1.4	1.68	(4.18)	1.26
<b>Distributions to Preferred Shareholders:(a)</b>					
Net investment income	(0.06)	(0.05)	(0.07)	(0.11)	(0.02)
Net realized gain	<b>(0.01)</b>				<b>(0.12)</b>
Return of capital		(0.02)			
Total distributions to preferred shareholders	<b>(0.07)</b>	<b>(0.07)</b>	<b>(0.07)</b>	<b>(0.11)</b>	<b>(0.14)</b>
<b>Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations</b>					
	(0.08)	1.33	1.61	(4.29)	1.12
<b>Distributions to Common Shareholders:</b>					
Net investment income	(0.02)		(0.00)(e)	(0.00)(e)	(0.12)
Net realized gain	(0.00)(e)				(0.57)
Return of capital	(0.55)	(0.51)	(0.72)	(0.80)	(0.61)
Total distributions to common shareholders	(0.57)	(0.51)	(0.72)	(0.80)	(1.30)
<b>Fund Share Transactions:</b>					
Increase in net asset value from common stock share transactions			0(e)	0.01	
Increase in net asset value from repurchase of preferred shares			0(e)	0(e)	

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Recapture of gain on sale of Fund shares by an affiliate			0(e)							
Offering costs for preferred shares charged to paid-in capital					0(e)					
Offering costs for issuance of rights charged to paid-in capital										
Total fund share transactions			0(e)	0(e)	0.01					
<b>Net Asset Value Attributable to Common Shareholders, End of Period</b>	\$	5.20	\$	5.85	\$	5.03	\$	4.14	\$	9.22
NAV total return		(1.17)%		28.15%		44.1%		(49.06)%		12.14%
Market value, end of period	\$	4.99	\$	5.67	\$	5.04	\$	3.7	\$	9.28
Investment total return		(2.15)%		23.96%		61.56%		(54.77)%		12.75%
<b>Ratios to Average Net Assets and Supplemental Data:</b>										
Net assets including liquidation value of preferred shares, end of period (in 000 s)	\$	1,265,307	\$	1,364,172	\$	1,215,626	\$	1,106,614	\$	1,990,123
Net assets attributable to common shares, end of period (in 000 s)	\$	959,950	\$	1,058,815	\$	910,269	\$	724,076	\$	1,586,381
Ratio of net investment income to average net assets attributable to common shares before preferred distributions		1.26%		0.92%		1.53%		1.73%		1.16%
Ratio of operating expenses to average net assets attributable to common shares before fees waived		1.48%		1.5%		1.74%		1.52%		
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction, if any		1.19%		1.5%		1.72%		1.19%		1.46%
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fees waived		1.15%		1.14%		1.22%		1.14%		
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction, if any		0.92%		1.14%		1.2%		0.89%		1.17%
Portfolio turnover rate		6.3%		5.5%		6.7%		13.5%		17.2%





**Table of Contents****Preferred Stock:****Auction Rate Series C Cumulative****Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 72,000	\$ 72,000	\$ 72,000	\$ 117,000	\$ 130,000
Total shares outstanding (in 000 s)	3	3	3	5	5
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Liquidation value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230

**5.875% Series D Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 59,097	\$ 59,097	\$ 59,097	\$ 72,532	\$ 73,743
Total shares outstanding (in 000 s)	2,364	2,364	2,364	2,901	2,950
Liquidation preference per share	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
Average market value (b)	\$ 25.35	\$ 25.03	\$ 23.39	\$ 22.69	\$ 23.86
Asset coverage per share	\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23

**Auction Rate Series E Cumulative****Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 28,000	\$ 28,000	\$ 28,000	\$ 45,000	\$ 50,000
Total shares outstanding (in 000 s)	1	1	1	2	2
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Liquidation value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230

**6.200% Series F Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 146,260	\$ 146,260	\$ 146,260	\$ 148,007	\$ 150,000
Total shares outstanding (in 000 s)	5,850	5,850	5,850	5,920	6,000
Liquidation preference per share	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
Average market value (b)	\$ 25.57	\$ 25.71	\$ 24.08	\$ 23.48	\$ 24.69
Asset coverage per share	\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23
<b>Asset Coverage (d)</b>	414%	447%	398%	289%	493%

Based on net asset value per share, adjusted for reinvestment of distributions at prices obtained under the Fund's dividend reinvestment plan.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan.

Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted retroactively, the portfolio turnover rate for the years ended December 31, 2007 and 2006, would have been 27.3% and 33.1%, respectively.

- Calculated based upon average common shares outstanding on the record dates throughout the periods.
- Based on weekly prices.
- Based on weekly auction prices. Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auctions.

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- (d) Asset coverage is calculated by combining all series of preferred stock.
- (e) Amount represents less than \$0.005 per share.

**USE OF PROCEEDS**

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 objectives 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. Depending on market conditions and operations, a portion of the cash held by Fund, including any proceeds raised from the offering, may be used to pay distributions in accordance with the Fund's distribution policy. The Fund may also use the proceeds to call existing series of preferred stock in whole or in part. See "Use of Proceeds" in the Prospectus Supplement for a discussion of whether the Fund expects to use the proceeds from the offering to call existing series of preferred stock.

**THE FUND**

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Maryland corporation on May 20, 1986. The Fund commenced its investment operations on August 21, 1986. The Fund's principal office is located at One Corporate Center, Rye, New York 10580-1422, and its telephone number is (800) 422-3554.

**INVESTMENT OBJECTIVES AND POLICIES**

**Investment Objectives**

The Fund's primary investment objective is to achieve long term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective. The investment objectives of long term growth of capital and income are fundamental policies of the Fund. These fundamental policies and the investment limitations described in the SAI under the caption "Investment Restrictions" cannot be changed without the approval of the holders of a majority of the Fund's outstanding shares of preferred stock voting as a separate class and the approval of the holders of a majority of the Fund's outstanding voting securities. Such majority votes require, in each case, the lesser of (i) 67% of the Fund's applicable shares represented at a meeting at which more than 50% of the Fund's applicable shares outstanding are represented, whether in person or by proxy, or (ii) more than 50% of the outstanding shares of the applicable class.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The 80% Policy may be changed without stockholder approval. The Fund will provide stockholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in fixed income securities rated as low as C by Moody's or D by S&P or unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having

extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

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The Fund invests in equity securities across all market capitalization ranges. The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in emerging markets.

No assurance can be given that the Fund's investment objectives will be achieved.

## **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 (as defined below), cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;

the potential for capital appreciation of the securities;

the interest or dividend income generated by 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;

the existence of any anti-dilution protections or guarantees of the security; and

the diversification of the portfolio of the Fund as to issuers.

The Investment Adviser's investment philosophy with respect to 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**

*Foreign Securities.* The Fund may invest up to 35% of its total assets in foreign securities including issuers in emerging markets, which are countries in the initial stages of their industrialization cycles. Investing in the equity and debt markets of developing countries involves exposure to economic structures that are generally less diverse and less mature, and to political systems that may have less stability, than those of developed countries. The markets of developing countries historically have been more volatile than the markets of the more mature economies of developed countries, but often have provided higher rates of return to investors.

The Fund may also invest in the debt securities of foreign governments. Although such investments are not a principal strategy of the Fund, there is no independent limit on its ability to invest in the debt securities of foreign governments.

*Temporary Investments.* Subject to the Fund's investment restrictions, when a temporary defensive period is believed by the Investment Adviser to be warranted (temporary defensive periods), the Fund may, without limitation, hold cash or invest its assets in securities of United States government sponsored instrumentalities, including U.S. Treasury securities, in repurchase agreements in respect of those instruments, and in certain high-grade commercial paper instruments. During temporary defensive periods, the Fund may also invest in money market mutual funds that invest primarily in securities of United States government sponsored instrumentalities and repurchase agreements in respect of those instruments. Obligations of certain agencies and instrumentalities of the United States government, such as the Government National Mortgage Association, are supported by the full faith and credit of the United States government; others, such as those of the Export-Import Bank of the United States,

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are supported by the right of the issuer to borrow from the United States Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the United States government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the United States government would provide financial support to United States government sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may be less likely to achieve its secondary investment objective of income.

*Non-Investment 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. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's 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 securities. In addition, such 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 in response to changes in the economy or the financial markets. Lower grade securities 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 regular income streams.

As part of its investment in non-investment 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 under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. 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.

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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 may change their ratings of a particular issue to reflect subsequent events. 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 several periods of significantly adverse price and liquidity, 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.

*Futures Contracts and Options on Futures.* On behalf of the Fund, the Investment Adviser may, subject to the Fund's investment restrictions and guidelines of the Board, 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. These futures contracts and related options may be on debt securities, financial indices, securities indices, United States government securities and foreign currencies. 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. A sale of a futures contract (or a short futures position) means the assumption of a contractual obligation to deliver the assets underlying the contract at a specified price at a specified future time. A purchase of a futures contract (or a long futures position) means the assumption of a contractual obligation to acquire the assets underlying the contract at a specified price at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the assets underlying the futures contracts. No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as initial margin and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as variation margin, to and from the broker will be made daily as the price of the index or security underlying the futures contract fluctuates. At any time prior to the expiration of a futures contract, the Fund may close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration of the option. Upon exercise of an option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on a futures contract is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

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 yield 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 on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements



described below.

In the event the Fund sells a put option, the Fund will segregate or earmark cash, U.S. government securities or other liquid assets equal to the full notional value of the underlying security due in sold put options (less any margin

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on deposit). The Fund also reserves the right to instead cover its obligation by either purchasing a put option on the same reference asset with a strike price that equals or is higher than the strike price of the put option sold or selling short the instruments or currency underlying the put option at the same or higher price than the strike price of the put option. In the event the Fund enters into long futures contracts, the Fund will segregate or earmark cash, U.S. government securities or other liquid assets in an amount equal to the full notional value of the contract (less any margin on deposit). For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash or liquid securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contract or call option or the market price at which the short positions were established. These earmarking, segregation or cover requirements can result in the Fund maintaining securities positions it would otherwise liquidate, segregating or earmarking assets at a time when it might be disadvantageous to do so or otherwise restrict portfolio management.

The Investment Adviser has claimed an exclusion, granted to operators of registered investment companies like the Fund, from registration as a commodity pool operator ( CPO ) with respect to the Fund under the Commodity Exchange Act (the CEA ), and, therefore, is not subject to registration or regulation with respect to the Fund under the CEA. As a result, the Fund is limited in its ability to use commodity futures (which include futures on broad-based securities indices and interest rate futures) or options on commodity futures, engage in certain swaps transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging, as defined in the rules of the Commodity Futures Trading Commission. With respect to transactions other than for bona fide hedging purposes, either: (1) the aggregate initial margin and premiums required to establish the Fund's positions in such investments may not exceed 5% of the liquidation value of its portfolio (after accounting for unrealized profits and unrealized losses on any such investments); or (2) the aggregate net notional value of such instruments, determined at the time the most recent position was established, may not exceed 100% of the liquidation value of its portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, the Fund may not market itself as a commodity pool or otherwise as a vehicle for trading in the futures, options or swaps markets. If the Investment Adviser were required to register as a CPO with respect to the Fund, compliance with additional registration and regulatory requirements would increase Fund expenses. Other potentially adverse regulatory initiatives could also develop.

*Swap Contracts.* On behalf of the Fund, the Investment Adviser may, subject to the Fund's investment restrictions and guidelines established by the Board, enter into swap transactions. Swap contracts generally will be used by the Fund for the purpose of seeking to increase the income of the Fund. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In a typical swap transaction on an equity security, a set of future cash flows is exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. Depending on the general state of short term interest rates and the returns on the Fund's portfolio securities at the time an equity swap 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.

*Options.* On behalf of the Fund, the Investment Adviser may, subject to the guidelines of the Board and SEC or staff guidance and any other applicable regulatory authority, 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 U.S. over-the-counter ( OTC ) markets as a means of achieving additional return or of hedging the value of the Fund's portfolio. The Fund may write covered call options on common stocks that it owns or has an immediate right to acquire through conversion or exchange of other securities in an amount not to exceed 25% of total assets or invest up to 10% of its total assets in the

purchase of put options on common stocks that the Fund owns or may acquire through the conversion or exchange of other securities that it owns.

A call option is a contract that gives the holder of the option the right to buy from the writer (seller) of the call option, in return for a premium paid, the security 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 upon payment of the exercise price during the option period.

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A put option is a contract that gives the holder of the option the right to sell to the writer (seller), in return for the premium, the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy the underlying security upon exercise, at the exercise price during the option period.

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. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange-traded option may be closed out only on an exchange which provides a secondary market for an option of the same series. 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.

A call option is covered if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration upon conversion or exchange of another instrument held in its portfolio (or for additional cash consideration held in a segregated account by its custodian). A call option is also covered if the Fund holds a call on the same instrument as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. government obligations or other high-grade short term obligations in a segregated account with its custodian. A put option is covered if the Fund maintains cash or other high-grade short term obligations with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same instrument as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written. 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, it 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 with the same terms 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 it received from writing the option or is more than the premium it 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 it received from writing the option or is less than the premium it 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 that provides a secondary market for an option with the same terms 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. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks. Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options

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give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in the stock index options prior to expiration by entering into a closing transaction on an exchange or it may let the option expire unexercised.

The Fund may also buy or sell put and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. OTC options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. OTC options are considered illiquid securities.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Investment Adviser is satisfied with the development, depth and liquidity of the market and the Investment Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund may not correlate precisely with the movements in the level of an index and, therefore, the use of options on indices cannot serve as a complete hedge and will depend, in part, on the ability of the Investment Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indices require settlement in cash, the Fund may be forced to liquidate portfolio securities to meet settlement obligations.

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.

*Securities Index Futures Contracts and Options Thereon.* Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of its securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that it intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

*Currency Futures and Options Thereon.* Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish the rate at which it will be entitled to exchange U.S. dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the U.S. dollar, the Fund can attempt to lock in the U.S. dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the

Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the U.S. dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to lock in the price in U.S. dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in the case of a put option) a futures contract at a specified price at any time during the period before the option

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expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move as against the U.S. dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce, rather than enhance, the Fund's profits on its underlying securities transactions.

*Forward Currency Exchange Contracts.* Subject to guidelines of the Board, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of 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's dealings in forward contracts generally will be limited to hedging involving either specific transactions or portfolio positions. The Fund does not have an independent limitation on its investments in foreign currency futures contracts and options on foreign currency futures contracts.

At or before the maturity of a forward sale contract, the Fund may either sell a portfolio security and make delivery of the currency, or retain the security and offset its contractual obligations to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency which it is obligated to deliver. If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund, at the time of execution of the offsetting transaction, will incur a gain or a loss to the extent that movement has occurred in forward contract prices. Should forward prices decline during the period between entering into a forward contract by the Fund for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to purchase is less than the price of the currency it has agreed to sell. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. Closing out forward purchase contracts involves similar offsetting transactions.

The cost to the Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward transactions in currency exchange are usually conducted on a principal basis, no fees or commissions are involved. The use of foreign currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result if the value of the currency increases.

If a decline in any currency is generally anticipated by the Investment Adviser, the Fund may not be able to contract to sell the currency at a price above the level to which the currency is anticipated to decline.

*Repurchase Agreements.* The Fund may enter into repurchase agreements with banks and non-bank dealers of United States government securities which are listed as reporting dealers of the Federal Reserve Bank and which furnish collateral at least equal in value or market price to the amount of their repurchase obligation. In a repurchase agreement, the Fund purchases a debt security from a seller who undertakes to repurchase the security at a specified resale price on an agreed future date. Repurchase agreements are generally for one business day and generally will not have a duration of longer than one week. The SEC has taken the position that, in economic reality, a repurchase agreement is a loan by a fund to the other party to the transaction secured by securities transferred to the fund. The



resale price generally exceeds the purchase price by an amount which reflects an agreed upon market interest rate for the term of the repurchase agreement. The Fund's risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller's obligation may be less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of the collateral upon a default in the obligation to repurchase is less than the repurchase price, the Fund will experience a loss. If the financial institution that is a party to the repurchase agreement 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 could suffer a loss.

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**Loans of Portfolio Securities.** To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan will cause the value of all loaned securities to exceed 20% of the value of its total assets. 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 fail financially.

While these loans of portfolio securities will be made in accordance with guidelines approved by the Fund's Board, 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 counterparty to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the Fund's rights is unsettled. As a result, under these circumstances, there may be a restriction on the Fund's ability to sell the collateral and it would suffer a loss.

**Borrowing.** The Fund may borrow money in accordance with its investment restrictions, including as a temporary measure for extraordinary or emergency purposes. It may not borrow for investment purposes.

**Leverage.** As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue senior securities representing stock, such as preferred stock, so long as immediately following such issuance of stock, its total assets exceed 200% of the amount of such stock. 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.

Further information on the investment objectives and policies of the Fund is 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, a majority, as defined in the 1940 Act, of the outstanding preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy, as defined in the 1940 Act. The Fund's investment restrictions are more fully discussed under "Investment Restrictions" in the SAI.

**Portfolio Turnover.** The Fund does not engage in the trading of securities for the purpose of realizing short term profits, but adjusts its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish its investment objectives. A high rate of portfolio turnover involves correspondingly greater brokerage commission expenses than a lower rate, and such expenses must be borne by the Fund and its stockholders. High portfolio turnover may also result in the realization of substantial net short term capital gains and any distributions resulting from such gains will be taxable at ordinary income rates for United States federal income tax purposes. The Fund's portfolio turnover rates for the fiscal years ended December 31, 2015 and 2016 were 8.9% and 12.7%, respectively. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of a fund's portfolio securities. For purposes of this calculation, portfolio securities exclude purchases and sales of debt securities having a maturity at the date of purchase of one year or less.



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**RISK FACTORS AND SPECIAL CONSIDERATIONS**

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

**Leverage Risk**

The Fund currently uses, and intends to continue to use, leverage for investment purposes by issuing preferred stock.

Leverage for these purposes means the ratio by which the aggregate amount of senior securities representing indebtedness of the Fund plus the aggregate involuntary liquidation preference of the Fund's preferred stock bears to the Fund's total assets. As of June 30, 2017, the amount of leverage represented approximately 23% of the Fund's net assets. The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, Series G Preferred, Series H Preferred and Series J Preferred have the same seniority with respect to distributions and liquidation preference. Preferred stock has seniority over common stock.

The Fund's use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested, either through the issuance of preferred stock, borrowing or other forms of market exposure, magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The Fund cannot assure that the issuance of preferred stock will result in a higher yield or return to the holders of the common stock.

**Preferred Stock Risk.** The issuance of preferred stock causes the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock plus the management fee annual rate of 1.00% (as applicable) exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to the holders of common stock than if the Fund had not issued preferred stock.

Any decline in the net asset value of the Fund's investments would be borne entirely by the holders of common stock. Therefore, if the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value to the holders of common stock than if the Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the common stock. The Fund might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing its ratings on the preferred stock or, in an extreme case, the Fund's current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, the Fund might need to liquidate investments in order to fund a redemption of some or all of the preferred stock.

In addition, the Fund would pay (and the holders of common stock will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including the advisory fees on the incremental assets attributable to such shares.

Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over the Fund's affairs. Holders of preferred stock, voting separately as a single class, would have the right to elect two members of the Board at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the Directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion of the fund to open-end status, and accordingly can veto any such changes.

Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of the Fund's common stock and preferred stock, 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 stock 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.

**Table of Contents****Special Risks to Holders of Fixed Rate Preferred Stock**

*Illiquidity Prior to Exchange Listing.* Prior to the offering, there will be no public market for any additional series of Fixed Rate Preferred Stock. In the event any additional series of Fixed Rate Preferred Stock are issued, prior application will have been made to list such shares on a national securities exchange, which will likely be the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its initial issuance, such shares may not be listed on any securities exchange. Before an additional series of Fixed Rate Preferred Stock is listed on a securities exchange, the underwriters may, but will not be obligated to, make a market in such shares. Consequently, an investment in such shares may be illiquid during such period.

*Market Price Fluctuation.* Shares of Fixed Rate Preferred Stock may trade at a premium to or discount from liquidation value for various reasons, including changes in interest rates.

*Common Stock Repurchases.* Repurchases of common stock by the Fund may reduce the net asset coverage of the preferred stock, which could adversely affect their liquidity or market prices.

*Common Stock Distribution Policy.* In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount at least equal to its distributions for a given year, the Fund may return capital as part of its distribution. This would decrease the asset coverage per share with respect to the Fund's preferred stock, which could adversely affect its liquidity or market prices. See Risk Factors and Special Considerations Common Stock Distribution Policy Risk.

*Credit Quality Ratings.* The Fund may obtain credit quality ratings for its preferred stock, if desired; however, it is not required to do so and may issue shares of preferred stock without any rating. If rated, the Fund does not impose any minimum rating necessary to issue such shares. In order to obtain and maintain attractive credit quality ratings for preferred stock or borrowings, if desired, the Fund's portfolio must satisfy over-collateralization tests established by the relevant rating agencies. These tests are more difficult to satisfy to the extent the Fund's portfolio securities are of lower credit quality, longer maturity or not diversified by issuer and industry. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act. With respect to ratings (if any) of the preferred stock, a rating by a ratings agency does not eliminate or necessarily mitigate the risks of investing in our preferred stock, and a rating may not fully or accurately reflect all of the securities' credit risks. A rating does not address the liquidity or any other market risks of the securities being rated. A rating agency could downgrade the rating of our preferred stock, which may make such securities less liquid in the secondary market. If a rating agency downgrades the rating assigned to our preferred stock, we may alter our portfolio or redeem all or a portion of the preferred stock that are then redeemable under certain circumstances.

**Portfolio Guidelines of Rating Agencies for Preferred Stock and/or Credit Facility.** In order to obtain and maintain attractive credit quality ratings for preferred stock, the Fund must comply with investment quality, diversification and other guidelines established by the relevant rating agencies. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act. In the event that a rating on the Fund's preferred stock is lowered or withdrawn by the relevant rating agency, the Fund may also be required to redeem all or part of its outstanding preferred stock, and the common stock of the Fund will lose the potential benefits associated with a leveraged capital structure.

**Impact on Common Stock.** The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on common stock total return, assuming investment portfolio

total returns (comprised of net investment income of the Fund, realized gains or losses of the Fund and changes in the value of the securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by the Fund. See Risks. The table further reflects leverage representing 24% of the Fund's net assets, the Fund's current projected blended annual average leverage dividend or interest rate of 4.77%, a management fee at an annual rate of 1.00% of the liquidation preference of any outstanding preferred stock and estimated annual incremental expenses attributable to any outstanding preferred stock of 0.01% of the Fund's net assets attributable to shares of common stock.

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<b>Assumed Portfolio Total Return (Net of Expenses)</b>	<b>(10)%</b>	<b>(5)%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
Common Stock Total Return	(14.45)%	(8.04)%	(1.63)%	4.78%	11.19%

Common stock total return is composed of two elements: the common share distributions paid by the Fund (the amount of which is largely determined by the taxable income of the Fund (including realized gains or losses) after paying interest on any debt and/or dividends on any preferred stock) and unrealized gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy total return. For example, to assume a total return of 0% the Fund must assume that the income it receives on its investments is entirely offset by expenses and losses in the value of those investments.

**Special Risks for Holders of Subscription Rights**

There is a risk that changes in yield or changes in the credit quality of the Fund may result in the underlying preferred stock or common stock purchasable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of shares of preferred stock issued may be reduced, and the preferred stock or common stock may trade at less favorable prices than larger offerings for similar securities.

**Common Stock Distribution Policy Risk**

The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may 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 preferred stock. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2016, the Fund made distributions of \$0.60 per share of common stock, approximately 0.73% of which was deemed a return of capital. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common stockholders during eighteen of the thirty fiscal years that distributions were paid since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through the end of the calendar year.

**Value Investing Risk**

The Fund invests in 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 it is not limited by the 1940 Act in the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest in the securities of individual issuers to a greater degree than a

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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. To qualify as a regulated investment company, or RIC, for purposes of the Code, the Fund has in the past conducted and intends to conduct its operations in a manner that will relieve it of any liability for federal income tax to the extent its earnings are distributed to stockholders. To so qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year:

not more than 25% of the market value of its total assets will be invested in the securities (other than United States government securities or the securities of other RICs) of a single issuer, any two or more issuers in which the Fund owns 20% or more of the voting securities and which are determined to be engaged in the same, similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (as defined in the Code); and

at least 50% of the market value of the Fund's assets will be represented by cash, securities of other regulated investment companies, United States 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 its assets and not more than 10% of the outstanding voting securities of such issuer.

### **Market Value and Net Asset Value**

The Fund is a non-diversified, closed-end management investment company. Shares of closed-end funds are bought and sold in the securities markets and may trade at either a premium to or discount from net asset value. Listed shares of closed-end investment companies often trade at discounts from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that its net asset value may decrease. The Fund cannot predict whether its listed stock will trade at, below or above net asset value. Since inception, the Fund's shares of common stock have traded at both premiums to and discounts from net asset value. As of December 31, 2016, the shares closed at a discount of approximately 5.48%. Stockholders desiring liquidity may, subject to applicable securities laws, trade their Fund shares on the NYSE or other markets on which such shares may trade at the then-current market value, which may differ from the then-current net asset value. Stockholders will incur brokerage or other transaction costs to sell stock.

### **Equity Risk**

Investing in the Fund involves equity risk, which is the risk that the securities held by the Fund will fall in market value due to adverse market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate and the particular circumstances and performance of particular companies whose securities the Fund holds. An investment in the Fund represents an indirect economic stake in the securities owned by the Fund, which are for the most part traded on securities exchanges or in the OTC markets. The market value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The net asset value of the Fund may at any point in time be worth less than the amount at the time the stockholder invested in the Fund, even after taking into account any reinvestment of distributions.

### **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.

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### **Special Risks Related to Fund Investments in 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 dividends or distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its dividends or 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 securities 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 stockholder. Should an issuer of a non-cumulative preferred security held by the Fund determine not to pay dividends or distributions on such security, the Fund's return from that security may be adversely affected. There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Fund invests will be declared or otherwise made payable.

*Subordination.* Preferred securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments, 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 directors 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.

*Phantom Income.* Some preferred securities are classified as debt for U.S. federal income tax purposes.

### **Market Disruption and Geopolitical Risk**

The occurrence of events similar to those in recent years, such as the aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Libya, Syria and other countries in the Middle East and North Africa, terrorist attacks in the

U.S., Europe and elsewhere around the world, social and political discord and uncertainty, debt crises (such as the recent Greek crisis), sovereign debt downgrades, or the exit or potential exit of one or more countries from the EMU or the European Union (such as the United Kingdom), among others, may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide. Any such event(s) could have a significant adverse impact on the value and risk profile of the Fund's portfolio. The Fund does not know how long the securities markets may be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. There can be no assurance that similar events and other market disruptions will not have other material and adverse implications.

### **Economic Events and Market Risk**

Periods of market volatility remain, and may continue to occur in the future, in response to various political, social and economic events both within and outside of the United States. These conditions have resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price

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transparency, with many securities remaining illiquid and of uncertain value. Such market conditions may adversely affect the Fund, including by making valuation of some of the Fund's securities uncertain and/or result in sudden and significant valuation increases or declines in the Fund's holdings. If there is a significant decline in the value of the Fund's portfolio, this may impact the asset coverage levels for the Fund's outstanding leverage.

Risks resulting from any future debt or other economic crisis could also have a detrimental impact on the global economic recovery, the financial condition of financial institutions and our business, financial condition and results of operation. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. To the extent uncertainty regarding the U.S. or global economy negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected. Downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, Federal Reserve policy, including with respect to certain interest rates and the decision to end its quantitative easing policy, may also adversely affect the value, volatility and liquidity of dividend- and interest-paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could impair the Fund's ability to achieve its investment objective.

### **Government Intervention in Financial Markets Risk**

The U.S. government and certain foreign governments and their regulatory agencies or self-regulatory organizations have in the past taken, and may in the future take, legislative and regulatory actions that may affect the Fund, its securities and/or the Fund's investments. Such legislation or regulation may change the way in which the Fund is regulated and could limit or preclude the Fund's ability to achieve its investment objective. The Dodd-Frank Act, signed into law by President Obama on July 21, 2010, contains sweeping financial legislation regarding the operation of banks, private fund managers and other financial institutions. The Dodd-Frank Act includes provisions regarding, among other things, the regulation of derivatives, the identification, monitoring and prophylactic regulation of systemic risks to financial markets, and the regulation of proprietary trading and investment activity of banking institutions. The continuing implementation of the Dodd-Frank Act and any other regulations could adversely affect the Investment Adviser and the Fund. The Investment Adviser may attempt to take certain actions to lessen the impact of the Dodd-Frank Act and any other legislation or regulation affecting the Fund, although no assurance can be given that such actions would be successful and no assurance can be given that such actions would not have a significant negative impact on the Fund. The ultimate impact of the Dodd-Frank Act, and any additional future legislation or regulation, is not yet certain and the Investment Adviser and the Fund may be affected by governmental action in ways that are unforeseeable.

Additionally, the SEC and its staff are also reportedly engaged in various initiatives and reviews that seek to improve and modernize the regulatory structure governing investment companies. These efforts appear to be focused on risk identification and controls in various areas, including imbedded leverage through the use of derivatives and other trading practices, cybersecurity, liquidity, enhanced regulatory and public reporting requirements and the evaluation of systemic risks. Any new rules, guidance or regulatory initiatives resulting from these efforts could increase the Fund's expenses and impact its returns to shareholders or, in the extreme case, impact or limit the Fund's use of various portfolio management strategies or techniques and adversely impact the Fund.

The change in presidential administration could significantly impact the regulation of United States financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act, including the Volcker Rule and various swaps and derivatives regulations, the authority of the Federal Reserve and Financial Stability Oversight Council, and renewed proposals to separate banks' commercial and investment banking activities. Other potential changes that could be pursued by the new presidential administration could include the United States' withdrawal

from, or attempt to renegotiate, various trade agreements or the taking of other actions that would change current trade policies of the United States. It is not possible to predict which, if any, of these actions will be taken or, if taken, their effect on the economy, securities markets or the financial stability of the United States. The Fund may be affected by governmental action in ways that are not foreseeable, and there is a possibility that such actions could have an adverse effect on the Fund and its ability to achieve its investment objective.

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### **Interest Rate Transactions**

The Fund may enter into interest rate swap or cap transactions. 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](#).

### **Foreign Securities**

The Fund may invest up to 35% of its total assets in securities of foreign issuers, including emerging market issuers, determined at the time of purchase. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers and such securities may be more volatile than those of issuers in the United States. Foreign companies are not generally subject to uniform accounting, auditing and financial standards, and requirements comparable to those applicable to United States 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. Also, 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. Dividend income that the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income. Moreover, certain equity investments in foreign issuers classified as passive foreign investment companies may be subject to additional taxation risk.

There may be less publicly available information about a foreign company than a United States company. Foreign securities markets may have substantially less volume than United States securities markets and some foreign company securities are less liquid than securities of otherwise comparable United States 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-United States securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts ( ADRs ) or United States dollar denominated securities of foreign issuers, including emerging market 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 stockholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

### **Emerging Markets**

The Fund may invest up to 35% of its total assets in foreign securities, including securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the World Bank ). Investing in securities of companies in emerging markets may entail special risks relating to



potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Other

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risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; overdependence on exports, including gold and natural resources exports, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; potential for sanctions; less developed legal systems; and less reliable securities custodial services and settlement practices.

### **Smaller Companies**

The Fund may invest in smaller companies that 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 stock will be subject to duplicative investment expenses.

### **Fixed Income Securities**

Fixed income securities in which the Fund may invest are generally subject to the following risks:

*Interest Rate Risk.* The market value of bonds and other fixed-income or dividend paying securities changes in response to interest rate changes and other factors. Interest rate risk is the risk that prices of bonds and other income or dividend paying securities will increase as interest rates fall and decrease as interest rates rise. The Fund may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates and the Federal Reserve's indication that it may raise the federal funds rate in the near future.

*Issuer Risk.* Issuer risk is the risk that the value of an income or dividend paying security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer's goods and services, historical and prospective earnings of the issuer, and the value of the assets of the issuer.

*Credit Risk.* Credit risk is the risk that one or more income or dividend paying securities in the Fund's portfolio will decline in price or fail to pay interest/distributions or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates.

*Prepayment Risk.* Prepayment risk is the risk that during periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For income or dividend paying securities, such payments often occur during periods of declining interest rates, forcing the Fund to reinvest in lower yielding securities, resulting in a possible decline in the Fund's income and distributions to shareholders.

*Reinvestment Risk.* Reinvestment risk is the risk that income from the Fund's portfolio will decline if the Fund invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Fund portfolio's current earnings rate.

*Duration and Maturity Risk.* The Fund may incur costs in seeking to adjust the portfolio average duration or maturity. In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's

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expected principal and interest payments. Specifically, duration measures the anticipated percentage change in net asset value that is expected for every percentage point change in interest rates. The two have an inverse relationship. Duration can be a useful tool to estimate anticipated price changes to a fixed pool of income securities associated with changes in interest rates. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in addition to the amount of time until the security matures. As the value of a security changes over time, so will its duration. There can be no assurance that the Investment Adviser's assessment of current and projected market conditions will be correct or that any strategy to adjust duration or maturity will be successful at any given time.

*Liquidity Risk.* Certain fixed income securities in which the Fund invests may be or become illiquid. See Risk Factors and Special Considerations Restricted and Illiquid Securities.

**Non-Investment 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. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds. Such securities are subject to greater risks than investment grade securities, which reflect their speculative character, including the following:

greater volatility;

greater credit risk;

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.

Fixed income securities purchased by the Fund may be rated as low as C by Moody's or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date.

The market value of lower rated securities may be more volatile than the market value of higher rated 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 more highly rated securities, which primarily reflect fluctuations in general levels of interest rates. Generally, such non-investment 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 securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such non-investment 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.

Non-investment grade securities 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

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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 regular income streams.

Ratings are relative and subjective, and are 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 part of its investment 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 under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. 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.

## **Special Risks of Derivative Transactions**

The Fund may participate in derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options, futures or swaps 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 are inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. 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; and

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. Options, futures contracts, swaps contracts, and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States, may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the ability of the Fund to act upon economic events occurring in the foreign markets during non-business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States and (v) less trading volume. Exchanges on which options, futures, swaps, and options on futures or swaps are traded may impose limits on the positions that the Fund may take in certain circumstances.

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**Futures Transactions**

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 yield 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.

The Fund's ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time.

In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet the requirements. These sales may be, but will not necessarily be, at increased prices that reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

For a further description, see "Investment Objectives and Policies" "Investment Practices" in the SAI.



### **Swap Agreements**

The Fund may enter into total rate of return, credit default, interest rate or other types of swaps and related derivatives for various purposes, including to gain economic exposure to an asset or group of assets that may be difficult or impractical to acquire or for hedging and risk management. Swap agreements involve the risk that the party with whom a Fund has entered into the swap will default on its obligation to pay a Fund and the risk that a Fund will not be able to meet its obligations to pay the other party to the agreement.

### **Forward Currency Exchange Contracts**

The use of forward currency exchange 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

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because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see Investment Objectives and Policies Investment Practices in the SAI.

## **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.

## **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 Objectives and Policies Certain Investment Practices Loans of Portfolio Securities.

## **Management Risk**

The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser applies 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.

## **Dependence on Key Personnel**

Mario J. Gabelli serves as a portfolio manager of the Fund. 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.

## **Anti-Takeover Provisions of the Fund's Governing Documents**

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 qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company under Subchapter M of the Code. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock 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 stock 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.

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**Table of Contents****Temporary Investments**

During temporary defensive periods and during inopportune periods to be fully invested, the Fund may invest in U.S. government securities, including U.S. Treasury securities, and in money market mutual funds that invest in those securities. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the full faith and credit of the U.S. government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government-sponsored instrumentalities if it is not obligated to do so by law.

**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). 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 Fitch Ratings, Inc. (Fitch) on its preferred stock.

**Interest Rate Transactions**

The Fund may enter into interest rate swap or cap transactions. 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 its outstanding auction rate preferred stock. 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 stock dividends or distributions when due in accordance with the Articles Supplementary of the relevant series of the Auction Rate Preferred Stock 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 or distribution payments on the Auction Rate Preferred Stock. 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 or distribution payments on the Auction Rate Preferred Stock. 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 Auction Rate Preferred Stock. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Articles Supplementary for each series of the preferred stock, if the Fund fails to maintain the required asset coverage on the outstanding preferred stock or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. The Fund generally may redeem any series of Auction Rate

Preferred Stock, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transactions. 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.

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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 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 Board (which, together with the Fund's officers, is 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.

**The Investment Adviser**

The Investment Adviser, a New York limited liability company and registered investment adviser under the Investment Advisers Act of 1940, as amended, serves as an investment adviser to registered investment companies with combined aggregate net assets approximating \$23.2 billion as of March 31, 2017. The Investment Adviser is a wholly owned subsidiary of GAMCO Investors, Inc. ( GBL ), 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 controlling interest in GBL. Mr. Gabelli owns a majority of the stock of GGCP, Inc. ( GGCP ), which holds a majority of the capital stock and voting power of GBL. The Investment Adviser has several affiliates that provide investment advisory services: GAMCO Asset Management, Inc., a wholly owned subsidiary of GBL, acts as investment adviser for individuals, pension trusts, profit sharing trusts, endowments, and The GAMCO Mathers Fund, and as a sub-adviser to certain third party investment funds, which include registered investment companies, having assets under management of approximately \$18.5 billion as of March 31, 2017; Teton Advisors, Inc. and its wholly owned investment adviser, Keeley Teton Advisors, LLC, with assets under management of approximately \$3.8 billion as of March 31, 2017, act as investment advisers to The TETON Westwood Funds, the KEELEY Funds, and separately managed accounts; Gabelli & Company Investment Advisers, Inc. (formerly, Gabelli Securities, Inc.), a majority-owned subsidiary of Associated Capital Group, Inc. ( Associated Capital ), acts as investment adviser for certain alternative investment products, consisting primarily of risk arbitrage and merchant banking limited partnerships and offshore companies, with assets under management of approximately \$1 billion as of March 31, 2017; and Gabelli Fixed Income, LLC, an indirect wholly owned subsidiary of GBL, acts as investment adviser for separate accounts having assets under management of approximately \$34 million as of March 31, 2017. Teton Advisors, Inc. was spun off by GBL in March 2009 and is an affiliate of GBL by virtue of Mr. Gabelli's ownership of GGCP, the principal stockholder of Teton Advisors, Inc., as of March 31, 2017. Associated Capital was spun off from GBL on November 30, 2015, and is an affiliate of GBL by virtue of Mr. Gabelli's ownership of GGCP, the principal stockholder of Associated Capital.

The Investment Adviser has sole investment discretion for the Fund's assets under the supervision of the Fund's Board and in accordance with the Fund's stated policies. The Investment Adviser will select investments for the Fund and will place purchase and sale orders on behalf of the Fund.

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Fund's investment advisory agreement (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 and allocated costs of the chief compliance officer function and officers of the Fund that are employed by the Fund and are not employed by the Investment Adviser), and the fees of all Directors of the Fund who are affiliated with the Investment Adviser.

In addition to the fees of the Investment Adviser, the Fund is responsible for the payment of all other expenses incurred in the operation of the Fund, which include, among other things, offering expenses, expenses for legal and Independent Registered Public Accounting Firm services, rating agency fees, costs of printing proxies, stock

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certificates and stockholder reports, charges of the custodian, any sub-custodian, auction agent, transfer agent(s) and dividend disbursing agent expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, SEC 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.

**Advisory Agreement**

Under the terms of the Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, and places orders to purchase and sell securities on behalf of the Fund and manages the Fund's other business and affairs, all subject to the supervision and direction of its Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to its stockholders and supervising the calculation of the net asset value of its stock. All expenses of computing the Fund's net asset value, including any equipment or services obtained solely for the purpose of pricing shares of stock or valuing the Fund's investment portfolio, will be an expense of the Fund under the Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal year 2016, the Fund reimbursed the Investment Adviser \$45,000 in connection with the cost of computing the Fund's net asset value.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets. The Fund's average weekly net assets will be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities (such liabilities exclude (i) the aggregate liquidation preference of outstanding shares of preferred stock and accumulated dividends, if any, on those shares and (ii) the liabilities for any money borrowed). The fee paid by the Fund may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and management fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder's total return. This fee waiver was voluntarily undertaken by the Investment Adviser and will remain in effect as long as the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred are outstanding. This fee waiver does not apply to the Series G Preferred, Series H Preferred or Series J Preferred and, unless otherwise stated, will not apply to any preferred stock issued in this offering. The Fund's total return on the net asset value of its common stock is monitored on a monthly basis to assess whether the total return on the net asset value of its common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of outstanding preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those assets.



For the year ended December 31, 2016, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate of the outstanding shares of Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred. Thus, management fees with respect to the liquidation value of the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred were not reduced.

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The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties thereunder, the Investment Adviser is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Fund's Board or by the holders of a majority of the Fund's outstanding voting securities and (ii) by a majority of the Directors who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval.

A discussion regarding the basis of the Board's approval of the Advisory Agreement is available in the Fund's semiannual report to stockholders for the six months ended June 30, 2017.

## **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 G.research, LLC, an affiliate of the Fund and the Investment Adviser (G.research), or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than G.research 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 Managers**

Mario J. Gabelli, CFA, is currently and has been responsible for the day to day management of the Fund since its inception. Mr. Gabelli serves as Chairman and Chief Executive Officer of GAMCO Investors, Inc., Chief Investment Officer - Value Portfolios for GBL, the Investment Adviser and GAMCO Asset Management Inc., Chief Executive Officer and Chief Investment Officer of GGCP, Executive Chairman of Associated Capital, and a director or officer of other companies affiliated with GBL. Mr. Gabelli serves as portfolio manager for and is a director of several funds in the Gabelli fund family (Gabelli/GAMCO/Teton Fund Complex or Fund Complex). 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 of the Fund. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School and Honorary Doctorates from Fordham University and Roger Williams University.

Kevin V. Dreyer, a Managing Director of GBL and Co-Chief Investment Officer of GBL's Value team, became a portfolio manager of the Fund in July 2013. Mr. Dreyer joined Gabelli in 2005 as a research analyst. He currently manages several funds within the Gabelli/GAMCO/Teton Fund Complex and serves as a portfolio manager on GAMCO Asset Management Inc.'s institutional and high net worth separate accounts team. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

Robert D. Leininger, CFA, became a portfolio manager of the Fund in June 2015. He joined GBL in 1993 as a security analyst. Mr. Leininger moved to Rorer Asset Management LLC in Philadelphia in 1997, where he was a partner in the firm and member of the investment policy committee. In August 2009, he joined Copeland Capital Management as a partner and portfolio manager before rejoining GBL in 2010 where he currently serves as a portfolio

manager for the Investment Adviser and on GAMCO Asset Management Inc. s institutional and high net worth separate accounts team. He is a member of the Financial Analyst Society of Philadelphia. Mr. Leininger is a magna cum laude graduate of Amherst College with a degree in Economics and holds an MBA from the Wharton School at the University of Pennsylvania.

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Daniel M. Miller, a Managing Director of GBL and Executive Vice President of Marketing for the mutual funds business, became a portfolio manager of the Fund in June 2015. He also serves as a portfolio manager of other funds in the Gabelli/GAMCO/Teton Fund Complex and on GAMCO Asset Management Inc.'s institutional and high net worth separate accounts team. Mr. Miller graduated magna cum laude with a degree in finance from the University of Miami in Coral Gables, Florida.

Christopher J. Marangi, a Managing Director of GBL and Co-Chief Investment Officer of GBL's Value team, became a portfolio manager of the Fund in July 2013. Mr. Marangi joined Gabelli in 2003 as a research analyst. He currently manages several funds within the Gabelli/GAMCO/Teton Fund Complex and serves as a portfolio manager on GAMCO Asset Management Inc.'s institutional and high net worth separate accounts team. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a BA in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

The SAI provides additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers' ownership of securities in the Fund.

## **Sub-Administrator**

The Investment Adviser has entered into a sub-administration agreement with BNY Mellon Investment Servicing (US) Inc. (the Sub-Administrator) pursuant to which the Sub-Administrator provides certain administrative services necessary for the Fund's operations that 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 0.0275% of the first \$10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser, GAMCO Asset Management Inc., and Teton Advisors, Inc. and administered by the Sub-Administrator, 0.0125% of the aggregate average net assets exceeding \$10 billion and 0.01% 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.

## **PORTFOLIO TRANSACTIONS**

Principal transactions are not entered into with affiliates of the Fund. However, G.research may execute portfolio transactions on stock exchanges and in the OTC 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 intends to pay a quarterly distribution of an amount determined each quarter by the Board. Under the Fund's current distribution policy, the Fund intends to pay a minimum annual distribution of 10% of the average net asset value of the Fund within a calendar year or an amount sufficient to satisfy the minimum distribution requirements of the Code, whichever is greater. The average net asset value of the Fund is based on the average net asset values as of the last day of the four preceding calendar quarters during the year. Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain, or capital available. The Board continues to monitor the Fund's distribution level, taking into consideration the Fund's net asset value and the financial market environment. The Fund's distribution policy is subject to modification by the Board at any time, and the Fund will make distributions only when, as and if authorized by the Board and declared by the Fund. The distribution rate should not be considered the dividend yield or total return on an investment in the Fund. This policy permits common stockholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their shares of common stock without having to sell their shares. The Fund may retain for reinvestment, and pay the resulting federal income

taxes on, its net capital gain, if any, although the Fund reserves the authority to distribute its net capital gain in any year. To avoid paying income tax at the corporate level, the Fund distributes substantially all of its investment company taxable income and net capital gain. A portion of all distributions to common stockholders for four of the past five years have constituted a return of capital. Stockholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Stockholders should not assume that the source of a distribution from the Fund is net profit.

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Long term capital gains, qualified dividend income, ordinary income, and paid-in capital, if any, will be allocated on a pro-rata basis to all distributions to common stockholder for the year. The estimated components of each distribution are updated and provided to stockholder of record in a notice accompanying the distribution and are available on our website ([www.gabelli.com](http://www.gabelli.com)). Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to stockholders all of its net realized long term capital gains as a capital gain dividend, generally subject to federal income tax rates for an individual of either 15% or 20%, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6% plus the 3.8% Medicare contribution surcharge. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. Stockholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Stockholders should not assume that the source of a distribution from the Fund is net profit. The final determination of the sources of all distributions in 2017 will be made after year end and can vary from the quarterly estimates. All stockholders with taxable accounts will receive written notification regarding the components and tax treatment for all 2017 distributions in early 2018 via Form 1099-DIV.

If, for any calendar year, the total quarterly distributions to common stockholders and the amount of distributions on any preferred stock issued by the Fund exceed investment company taxable income and net capital gain (prior to any adjustment for a capital loss carryover from a prior year), the excess will generally be treated as a tax free return of capital up to the amount of a stockholder's tax basis in the stock. Any distributions to the holders of common or preferred stock which constitute tax free return of capital will reduce a stockholder's tax basis in such stock, thereby increasing such stockholder's potential taxable gain or reducing his or her potential taxable loss on the sale of the stock. Any amounts distributed to a stockholder in excess of the basis in the stock will generally be taxable to the stockholder as capital gain.

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 its 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 might have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.

The Fund, along with other closed-end registered investment companies advised by the Investment Adviser, has obtained an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting it to make periodic distributions of long term capital gains provided that any distribution policy of the Fund with respect to its common stock calls for periodic (e.g., quarterly or semiannually, 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 share of common stock at or about the time of distribution or payment of a fixed dollar amount. The exemption also permits the Fund to make distributions with respect to its preferred stock in accordance with such stock's terms. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan.

### **ISSUANCE OF COMMON STOCK**

During the twelve months ended December 31, 2016, the Fund did not have any transactions in shares of common stock. G.research, an affiliate of Gabelli Funds, LLC, the Fund's Investment Adviser, may act as dealer-manager for future offerings.

### **AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN**

Under the Fund's Automatic Dividend Reinvestment Plan and Voluntary Cash Purchase Plan (the Plan), a stockholder whose shares of common stock are registered in his or her own name will have all distributions reinvested automatically by Computershare Trust Company, N.A. (Computershare), which is an agent under the Plan, unless the stockholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the stockholder elects to receive distributions in cash. Investors who own shares of common stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to investors who do not participate in the Plan will be paid by check mailed directly to the record holder by Computershare as dividend-disbursing agent.

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**Enrollment in the Plan**

It is the policy of the Fund to automatically reinvest dividends. As a registered stockholder, you automatically become a participant in the Fund's Plan. The Plan authorizes the Fund to credit shares of common stock to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to stockholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their stock certificates to Computershare to be held in their dividend reinvestment account. Registered stockholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Equity Trust Inc.

c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

Stockholders requesting this cash election must include the stockholder's name and address as they appear on the share certificate. Stockholders with additional questions regarding the Plan, or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of street name and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Stockholders holding shares in street name at participating institutions will have dividends automatically reinvested. Stockholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of shares of common stock distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund's common stock is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued shares of common stock valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund's common stock. The valuation date is the dividend or distribution payment date or, if that date is not a NYSE trading day, the next trading day. If the net asset value of the common stock at the time of valuation exceeds the market price of the common stock, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common stock in the open market, or on the NYSE or elsewhere, for the participants' accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common stock exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for U.S. federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.



**Voluntary Cash Purchase Plan**

The Voluntary Cash Purchase Plan is yet another vehicle for our stockholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, stockholders must have their shares registered in their own name.

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Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund's shares at the then current market price. Stockholders may send an amount from \$250 to \$10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each stockholder who participates \$0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 43010, Providence, RI 02940-3010 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Stockholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address and account number. The cost to liquidate shares is \$2.50 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Automatic Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days' written notice to participants in the Plan.

## **DESCRIPTION OF THE CAPITAL STOCK**

*The following is a brief description of the terms of the Fund's common stock, preferred stock, subscription rights to purchase common stock and subscription rights to purchase preferred stock. This description does not purport to be complete and is qualified by reference to the Fund's Governing Documents. For complete terms of the common stock and preferred stock, please refer to the actual terms of such series, which are or will be set forth in the Governing Documents. For complete terms of the subscription rights, please refer to the actual terms of such subscription rights which will be set forth in subscription rights agreement relating to such subscription rights.*

### **Common Stock**

Pursuant to an amendment to the Fund's Charter that was approved by stockholders in 2004, the Board may increase or decrease the aggregate number of shares of stock of the Fund or the number of shares of any class or series that the Fund has authority to issue without stockholder approval. The Fund is currently authorized to issue 237,024,900 shares of common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Board payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund as described below.

Offerings of stock require approval by the Board. Any additional offering of common stock will be subject to the requirements of the 1940 Act, which provides that common stock may not be issued at a price below the then current

net asset value, exclusive of sales load, except in connection with an offering to existing holders of common stock or with the consent of a majority of the Fund's outstanding voting securities.

The Fund's outstanding common stock is listed and traded on the NYSE under the symbol GAB. The average weekly trading volume of the common stock on the NYSE during the period from January 1, 2016 through December 31, 2016 was 1,876,981 shares.

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The Fund's net asset value per share will be reduced immediately following the offering of common stock by the amount of the sales load and offering expenses paid by the Fund. See Use of Proceeds. Unlike open-end funds, closed-end funds like the Fund do not continuously offer shares and do not provide daily redemptions. Rather, if a stockholder determines to buy additional shares of common stock or sell shares already held, the stockholder may do so by trading through a broker on the NYSE or otherwise.

Shares of closed-end investment companies often trade on an exchange at prices lower than net asset value. The Fund's shares of common stock have traded in the market at both premiums to and discounts from net asset value. Over the Fund's twenty-nine year history, the range fluctuated from a 38% premium in June 2002 to a 27% discount in December 1987. Beginning in early 2001, the market price of the Fund exceeded the net asset value and this premium continued through August 2005. The previous extended period over which the premium existed occurred during the twenty month period from August 1993 to March 1995. As of December 31, 2016, the market price of the Fund closed at an approximate 5.48% discount to its net asset value. Because the market value of the common stock may be influenced by such factors as dividend and distribution levels (which are in turn affected by expenses), dividend and distribution stability, net asset value, market liquidity, relative demand for and supply of such shares in the market, unrealized gains, general market and economic conditions and other factors beyond the control of the Fund, the Fund cannot assure you that shares of common stock will trade at a price equal to or higher than net asset value in the future. The common stock is designed primarily for long term investors and you should not purchase the shares of the common stock if you intend to sell them soon after purchase.

The Fund's common stockholders vote as a single class to elect the Fund's Board and on additional matters with respect to which the 1940 Act, the Governing Documents or resolutions adopted by the Directors provide for a vote of the Fund's common stockholders. The Fund's common stockholders and preferred stockholders vote together as a single class, except that the preferred stockholders vote as a separate class to elect two of the directors of the Fund and to approve certain amendments to the Charter, whether by merger, consolidation or otherwise, that materially and adversely affect the contract rights of the existing preferred stock as set forth in the Charter. See Anti-Takeover Provisions of the Fund's Governing Documents.

The Fund may repurchase its shares of common stock from time to time as and when it deems such repurchase advisable from legally available funds, subject to rights of holders of the Fund's outstanding preferred stock and maintaining required asset coverage for each series of outstanding preferred stock. The Board has adopted a policy to authorize such repurchases when the shares are trading at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value of the shares. Although the Board has authorized such repurchases, the Fund is not required to repurchase its shares. The policy does not limit the amount of common stock that can be repurchased. The percentage of the discount from net asset value at which share repurchases will be authorized may be changed at any time by the Board. Through December 31, 2016, the Fund has not repurchased shares of its common stock under this authorization.

**Preferred Stock**

Currently, 32,975,100 shares of the Fund's capital stock, which include the preferred stock being registered with this registration statement, have been classified by the Board as preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of the holders of the Fund's common stock. As of June 30, 2017, the Fund had 2,880 outstanding shares of Series C Auction Rate Preferred, 2,363,860 outstanding shares of Series D Preferred, 1,120 outstanding shares of Series E Auction Rate Preferred, 2,779,796 outstanding shares of Series G Preferred, 4,172,873 outstanding shares of Series H Preferred and 3,200,000 of Series J Preferred.

Distributions on the Series C Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present, the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series C Auction Rate Preferred, these securities paid dividends set at a weekly auction. The liquidation preference of the Series C Auction Rate Preferred is \$25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared). The Fund generally may redeem the outstanding Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series C Auction Rate Preferred is not traded on any public exchange.

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Distributions on the Series D Preferred accumulate at an annual rate of 5.875% of the liquidation preference of \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared), are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series D Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund at any time. The Series D Preferred is listed and traded on the NYSE under the symbol GAB PrD.

Distributions on the Series E Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present, the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series E Auction Rate Preferred, these securities paid dividends set at a weekly auction. The liquidation preference of the Series E Auction Rate Preferred is \$25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared). The Fund generally may redeem the outstanding Series E Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series E Auction Rate Preferred is not traded on any public exchange.

Distributions on the Series G Preferred accumulate at an annual rate of 5.00% of the liquidation preference of \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared), are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series G Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund at any time. The Series G Preferred is listed and traded on the NYSE under the symbol GAB PrG.

Distributions on the Series H Preferred accumulate at an annual rate of 5.00% of the liquidation preference of \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared), are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series H Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund following the expiration of the five year call protection on September 28, 2017. The Series H Preferred is listed and traded on the NYSE under the symbol GAB PrH.

Distributions on the Series J Preferred accumulate at an annual rate of 5.45% of the liquidation preference of \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared), are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series J Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund following the expiration of the five year call protection on March 31, 2021. The Series J Preferred is listed and traded on the NYSE under the symbol GAB PrJ.

If the Fund issues any additional series of preferred stock, it will pay dividends to the holders at either a fixed rate or a rate that will be reset, as described in the Prospectus Supplement accompanying each preferred stock offering.

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The following table shows (i) the classes of capital stock authorized, (ii) the number of shares authorized in each class, and (iii) the number of shares outstanding in each class as of June 30, 2017.

<b>Title of Class</b>	<b>Amount Outstanding</b>	<b>Amount Authorized</b>
Common Stock	219,808,898	237,024,900
Series C Auction Rate Preferred	2,880	5,200
Series D Preferred	2,363,860	3,000,000
Series E Auction Rate Preferred	1,120	2,000
Series G Preferred	2,779,796	3,280,477
Series H Preferred	4,172,873	4,198,880
Series J Preferred	3,200,000	4,500,000
Preferred Stock	0	13,488,543

As of June 30, 2017, the Fund does not hold any shares of capital stock for its account. Upon a liquidation, each holder of preferred stock will be entitled to receive out of the assets of the Fund available for distribution to stockholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common stock or any other class of capital stock of the Fund ranking junior to the preferred stock as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid distributions (whether or not earned or declared, excluding interest thereon) to the date of distribution, and such stockholders shall be entitled to no further participation in any distribution or payment in connection with such liquidation. Each series of preferred stock ranks on a parity with any other series of preferred stock of the Fund as to the payment of distributions and the distribution of assets upon liquidation, and is junior to the Fund's obligations with respect to any outstanding senior securities representing debt. The preferred stock carries one vote per share on all matters on which such shares are entitled to vote. The preferred stock will, upon issuance, be fully paid and non-assessable and will have no preemptive, exchange or conversion rights. The Board 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 distributions or terms or conditions of redemption. The Fund will not issue any class of capital stock senior to the preferred stock.

*Rating Agency Guidelines.* New issuances of shares of preferred stock are currently expected to be issued with a specified rating by a nationally recognized statistical rating organization. The Fund expects that it will be required under Moody's and Fitch 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 stock with respect to the separate guidelines Moody's and Fitch 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 Fitch 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 calculated as set out in the organizational documents for each series of preferred stock.

If the Fund does not cure in a timely manner 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 preferred stock at the request of the Fund, the Fund may, and in certain circumstances will be required to, mandatorily redeem preferred stock, 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 Fitch. 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 preferred stock at the request of the Fund may, at any time, change or withdraw any such rating. The Board, without further action by the stockholders, 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 stock by Moody's and Fitch, as the case may be, is in the best interests of the holders of common stock and is not adverse to the



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holders of preferred stock in view of advice to the Fund by Moody's and Fitch (or such other rating agency then rating the preferred stock at the request of the Fund) that such modification would not adversely affect, as the case may be, its then current rating of the preferred stock.

As described by Moody's and Fitch, the ratings assigned to each series of preferred stock are assessments of the capacity and willingness of the Fund to pay the obligations of each such series. The ratings on these series of preferred stock are not recommendations to purchase, hold or sell shares of any 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 preferred stock 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 Fitch 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 apply to each series of preferred stock only so long as such rating agency is rating such series at the request of the Fund. The Fund pays fees to Moody's and Fitch for rating the preferred stock.

*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 stock. Under the 1940 Act, debt or additional preferred stock may be issued only if immediately after such issuance the value of the Fund's total assets (less ordinary course liabilities) is at least 300% of the amount of any debt outstanding and at least 200% of the amount of any preferred stock and debt outstanding. The Fund is required under the applicable Articles Supplementary to determine whether it has, as of the last business day of each March, June, September and December of each year (for its Series H Preferred and Series J Preferred), at the time the Fund declares or pays any dividend or distribution on its common stock (other than a dividend payable solely in shares of common stock) and at the time the Fund purchases any of its common stock (for its Series G Preferred), and as of the last business day of each month (for its Series C Preferred, Series D Preferred and Series E Preferred), 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 debt or stock, including any outstanding preferred stock. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Stock, or 10 business days, in the case of the Auction Rate Preferred Stock, the Fund may, and in certain circumstances will be required to, mandatorily redeem the minimum number of shares of preferred stock sufficient to satisfy such asset coverage. See Redemption below.

*Distributions.* In connection with the offering of one or more additional series of preferred stock, an accompanying Prospectus Supplement will specify whether dividends on such preferred stock will be based on a constant fixed rate or on a fixed rate that changes after an initial period (e.g., one year). Holders of additional shares of such Fixed Rate Preferred Stock will be entitled to receive, out of funds legally available therefor, cumulative cash distributions, at an annual rate set forth in the applicable Prospectus Supplement, payable with such frequency as set forth in the applicable Prospectus Supplement. Such distributions will accumulate from the date on which such shares are issued.

**Restrictions on Dividends and Other Distributions for the Preferred Stock**

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

the Fund has declared and paid (or provided to the relevant dividend paying agent) all cumulative distributions on the Fund's outstanding preferred stock due on or prior to the date of such common stock dividend or distribution;

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the Fund has redeemed the full number of shares of preferred stock to be redeemed pursuant to any mandatory redemption provision in the Fund's Governing Documents; and

after making the distribution, the Fund meets applicable asset coverage requirements described under Rating Agency Guidelines and Asset Maintenance Requirements.

No full distribution will be declared or made on any series of preferred stock for any dividend period, or part thereof, unless full cumulative distributions due through the most recent dividend payment dates therefor for all outstanding series of preferred stock of the Fund ranking on a parity with such series as to distributions have been or contemporaneously are declared and made. If full cumulative distributions due have not been made on all outstanding preferred stock of the Fund ranking on a parity with such series of preferred stock as to the payment of distributions, any distributions being paid on the preferred stock will be paid as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date. The Fund's obligation to make distributions on the preferred stock will be subordinate to its obligations to pay interest and principal, when due, on any 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 stock 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 existing Fixed Rate Preferred Stock, 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 preferred stock subject to mandatory redemption will be the liquidation preference, as stated in the Articles Supplementary of each existing series of preferred stock or the Prospectus Supplement accompanying the issuance of any additional series of preferred stock, including an amount equal to any accumulated but unpaid distributions (whether or not earned or declared) to the date fixed for redemption.

The number of shares of preferred stock that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding shares of preferred stock, 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 shares of preferred stock. In the event that shares of preferred stock 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 shares of preferred stock 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 shares of preferred stock 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 shares of preferred stock 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).

If the Fund does not have funds legally available for the redemption of, or is otherwise unable to redeem, all the shares of preferred stock 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.

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If fewer than all shares of the Fund's outstanding preferred stock are to be redeemed, the Fund, at its discretion and subject to the limitations of the Charter, the 1940 Act, and Maryland law, will select the one or more series of preferred stock from which shares will be redeemed and the amount of preferred stock to be redeemed from each such series. If fewer than all shares of a series of preferred stock 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. If fewer than all shares of preferred stock 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 Fixed Rate Preferred Stock.* Shares of any additional series of Fixed Rate Preferred Stock will not be subject to optional redemption by the Fund until the date, if any, specified in the applicable Prospectus or Prospectus Supplement, 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 such date and thereafter, the Fund may at any time redeem such Fixed Rate Preferred Stock in whole or in part for cash at a redemption price per share equal to the liquidation preference per share plus accumulated and unpaid distributions (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 Charter, the 1940 Act and Maryland law.

*Redemption Procedures.* A notice of redemption with respect to an optional redemption will be given to the holders of record of preferred stock selected for redemption not less than 15 days (subject to NYSE requirements), nor more than 40 days prior to the date fixed for redemption. Preferred stockholders 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 shares of preferred stock 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 distributions to be included therein), (v) the place or places where such shares are to be redeemed, (vi) that distributions on the shares to be redeemed will cease to accumulate on such redemption date, (vii) the provision of the Articles Supplementary 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 preferred stock, whether subject to a variable or fixed rate, will not have the right to redeem any of their shares at their option, unless specifically provided in the Charter.

**Liquidation Preference**

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the holders of preferred stock then outstanding will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per share of preferred stock plus accumulated and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common stock. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preferred stock will not be entitled to any further participation in any distribution of assets by the Fund.

**Voting Rights**

Except as otherwise stated in this Prospectus, specified in the Fund's Charter or resolved by the Board or as otherwise required by applicable law, holders of preferred stock shall be entitled to one vote per share held on each matter submitted to a vote of the stockholders of the Fund and will vote together with holders of common stock and of any other preferred stock then outstanding as a single class.

In connection with the election of the Fund's Directors, holders of the outstanding shares of preferred stock, voting together as a single class, will be entitled at all times to elect two of the Fund's Directors, and the remaining Directors will be elected by holders of common stock and holders of preferred stock, voting together as a single class. In addition, if (i) at any time dividends and distributions on outstanding shares of preferred stock are unpaid in an amount equal to at least two full years' dividends and distributions thereon and sufficient cash or specified securities have not been deposited with the applicable paying agent for the payment of such accumulated dividends and distributions or (ii) at any time holders of any other series of preferred stock are entitled to elect a majority of

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the Directors of the Fund under the 1940 Act or the applicable Articles Supplementary creating such shares, then the number of Directors constituting the Board automatically will be increased by the smallest number that, when added to the two Directors elected exclusively by the holders of preferred stock as described above, would then constitute a simple majority of the Board as so increased by such smallest number. Such additional Directors will be elected by the holders of the outstanding shares of preferred stock, voting together as a single class, at a special meeting of stockholders which will be called as soon as practicable and will be held not less than ten nor more than twenty 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 stockholder on like notice. The terms of office of the persons who are Directors at the time of that election will continue. If the Fund thereafter pays, or declares and sets apart for payment in full, all dividends and distributions payable on all outstanding shares of preferred stock for all past dividend periods or the holders of other series of preferred stock are no longer entitled to elect such additional Directors, the additional voting rights of the holders of the preferred stock as described above will cease, and the terms of office of all of the additional Directors elected by the holders of the preferred stock (but not of the Directors with respect to whose election the holders of common stock were entitled to vote or the two Directors the holders of preferred stock have the right to elect as a separate class in any event) will terminate at the earliest time permitted by law.

So long as shares of preferred stock are outstanding, the Fund will not, without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the shares of preferred stock outstanding at the time, and present and voting on such matter, voting separately as one class, amend, alter or repeal the provisions of the Fund's Charter whether by merger, consolidation or otherwise, so as to materially adversely affect any of the rights, preferences or powers expressly set forth in the Charter with respect to such shares of preferred stock, unless the Fund obtains written confirmation from Moody's, Fitch or any such other rating agency then rating the preferred stock that such amendment, alteration or repeal would not impair the rating then assigned by such rating agency to the preferred stock, in which case the vote or consent of the holders of the preferred stock is not required. Also, to the extent permitted under the 1940 Act, in the event shares of more than one series of preferred stock are outstanding, the Fund will not approve any of the actions set forth in the preceding sentence which materially adversely affect the rights, preferences or powers expressly set forth in the Charter with respect to such shares of a series of preferred stock differently than those of a holder of shares of any other series of preferred stock without the affirmative vote of the holders of at least a majority, as defined in the 1940 Act, of the outstanding shares of preferred stock of each series materially adversely affected and outstanding at such time (each such materially adversely affected series voting separately as a class to the extent its rights are affected differently). For purposes of this paragraph, no matter shall be deemed to adversely affect any right, preference or power unless such matter (i) adversely alters or abolishes any preferential right of such series; (ii) creates, adversely alters or abolishes any right in respect of redemption of such series; or (iii) creates or adversely alters (other than to abolish) any restriction on transfer applicable to such series.

Under the Charter and applicable provisions of the 1940 Act or Maryland law, the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding shares of the preferred stock, voting together as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock. The approval of 66<sup>2</sup>/<sub>3</sub>% of each class, voting separately, of the Fund's outstanding voting stock is required to authorize 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 stock 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 (other than a conversion of the Fund from a closed-end to an open-end investment company), including, among other things, changes in the Fund's investment objectives or changes in the investment restrictions described as fundamental policies under Investment Objectives and Policies in this Prospectus and the SAI, How the Fund Manages Risk Investment Restrictions in this Prospectus and Investment Restrictions in the SAI. For purposes of this paragraph, except as otherwise required under the 1940 Act, a majority of the outstanding

preferred stock means, in accordance with Section 2(a)(42) of the 1940 Act, the vote, at the annual or a special meeting of the stockholders of the Fund duly called (i) of 67% or more of the shares of preferred stock present at such meeting, if the holders of more than 50% of the outstanding shares of preferred stock are present or represented by proxy, or (ii) more than 50% of the outstanding shares of preferred stock, whichever is less. The class vote of holders of preferred stock described above in each case will be in addition to a separate vote of the requisite percentage of common stock, and any other preferred stock, voting together as a single class, that may be necessary to authorize the action in question.



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The calculation of the elements and definitions of certain terms of the rating agency guidelines may be modified by action of the Board without further action by the stockholders if the Board determines that such modification is necessary to prevent a reduction in rating of the shares of preferred stock by Moody's and/or Fitch (or such other rating agency then rating the preferred stock at the request of the Fund), as the case may be, or is in the best interests of the holders of common stock and is not adverse to the holders of preferred stock 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 stock.

The foregoing voting provisions will not apply to any series of preferred stock if, at or prior to the time when the act with respect to which such vote otherwise would be required will be effected, such stock will 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 preferred stock will have no preemptive rights or rights to cumulative voting.

## **Limitation on Issuance of Preferred Stock**

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

The Fund will consider from time to time whether to offer additional preferred stock or securities representing indebtedness and may issue such additional securities if the Board concludes that such an offering would be consistent with the Fund's Charter and applicable law, and in the best interest of existing common stockholders.

*Book Entry.* Shares of Fixed Rate Preferred Stock sold through this offering 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 such shares for all purposes. In accordance with the procedures of DTC, however, purchasers of Fixed Rate Preferred Stock will be deemed the beneficial owners of shares purchased for purposes of dividends, voting and liquidation rights.

## **Subscription Rights**

*General.* We may issue subscription rights to holders of our (i) common stock to purchase common and/or preferred stock or (ii) preferred stock to purchase preferred stock (subject to applicable law). Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to holders of our common or preferred stock, we would distribute certificates or other documentation evidencing the subscription rights and a prospectus supplement to our common or preferred stockholders as of the record date that we set for determining the stockholders eligible to receive subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of the subscription rights in respect of which this prospectus is being delivered:

the period of time the offering would remain open (which will be open a minimum number of days such that all record holders would be eligible to participate in the offering and will not be open longer than 120 days);

the underwriter or distributor, if any, of the subscription rights and any associated underwriting fees or discounts applicable to purchases of the rights;

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the title of such subscription rights;

the exercise price for such subscription rights (or method of calculation thereof);

the number of such subscription rights issued in respect of each share of common stock or each share of preferred stock;

the number of rights required to purchase a single share of common stock or share of preferred stock;

the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;

if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;

the date on which the right to exercise such subscription rights will commence, and the date on which such right will expire (subject to any extension);

the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;

any termination right we may have in connection with such subscription rights offering; and

any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

*Exercise of Subscription Rights.* A certain number of subscription rights would entitle the holder of the subscription right(s) to purchase for cash such number of shares of common stock or shares of preferred stock at such exercise price as in each case is set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights would be exercisable at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void. Upon expiration of the rights offering and the receipt of payment and the subscription rights certificate or other appropriate documentation properly executed and completed and duly executed at the corporate trust office of the subscription rights agent, or any other office indicated in the prospectus supplement, the shares of common stock or shares of preferred stock purchased as a result of such exercise will be issued as soon as practicable. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

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

The Fund presently has provisions in its Governing Documents that 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 Directors or stockholders to amend the Governing Documents or effectuate changes in the Fund s management.

These provisions of the Governing Documents may be regarded as anti-takeover provisions. The Board is divided into three classes, each having a term of three years. Each year the term of one class of Directors will expire. Accordingly, only those Directors in one class may be changed in any one year, and it would require two years to

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change a majority of the Board. Further, one Director in each of two of the classes of the Fund is elected solely by the holders of the Fund's preferred stock and cannot be removed or replaced by the holders of the common stock. The affirmative vote of a majority of the shares present at a meeting of stockholders duly called and at which a quorum is present is required to elect a Director. A classified Board may have the effect of maintaining the continuity of management and, thus, make it more difficult for the stockholders of the Fund to change the majority of Directors. A Director of the Fund may be removed only for cause by a vote of a majority of the votes entitled to be cast for the election of Directors of the Fund.

In addition, the affirmative vote of the holders of 66 2/3% of the outstanding voting shares of the Fund, voting as a single class, and the vote of a majority (as defined in the 1940 Act) of the holders of outstanding shares of preferred stock, voting as a single class, is required to authorize the conversion of the Fund from a closed-end to an open-end investment company or generally to authorize any of the following transactions:

the merger or consolidation of the Fund with any Principal Shareholder, as such term is defined in the Charter ( Principal Shareholder );

the issuance of any securities of the Fund for cash to any Principal Shareholder;

the sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000 over a 12 month period); or

the sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000 over a 12 month period);

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. Such vote would not be required, however, when, under certain circumstances, the Board approves the transaction or when each class of voting securities of the entity that is the other party to any of the above-listed transactions is (directly or indirectly) majority owned by the Fund and its subsidiaries.

The Fund's Bylaws provide that the affirmative vote of two-thirds of the entire Board of Directors shall be required to approve or declare advisable:

- (1) Any amendment to the Charter to make the Fund's common stock a redeemable security or to convert the Fund, whether by merger or otherwise, from a closed-end company to an open-end company (as defined in the 1940 Act);
- (2) The liquidation or dissolution of the Fund and any amendment to the Charter to effect any such liquidation or dissolution; or

- (3) Any merger, consolidation, share exchange or sale or exchange of all or substantially all of the assets of the Fund that Maryland law requires be approved by the stockholders of the Fund.

Further, unless a higher percentage is provided for under the Charter, the affirmative vote of a majority (as defined in the 1940 Act) of the votes entitled to be cast by holders of outstanding shares of the Fund's preferred stock, voting as a separate class, will be required to approve any plan of reorganization adversely affecting such stock or any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changing the Fund's subclassification as a closed-end investment company, changing the Fund's investment objectives or changing its fundamental investment restrictions. The Charter requires the affirmative vote of the holders of 66 <sup>2</sup>/<sub>3</sub>% of the outstanding shares of each class of stock entitled to vote in the election of directors, each voting as a separate class, to convert from a closed-end investment company to an open-end investment company.

Maryland corporations that are subject to the Securities Exchange Act of 1934, as amended (the 1934 Act), and have at least three outside directors, such as the Fund, may by board resolution elect to become subject to certain

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corporate governance provisions set forth in the Maryland General Corporation Law, even if such provisions are inconsistent with the corporation's charter and by laws. Accordingly, notwithstanding the Fund's Governing Documents, under Maryland law the Board may elect by resolution (and the filing of Articles Supplementary) to, among other things:

provide that the call of special meetings by stockholders be required only at the request of stockholders entitled to cast at least a majority of the votes entitled to be cast at such meeting;

reserve for the Board the right to fix the number of Fund Directors;

classify the Board into three classes of directors of as equal number as practicable;

provide that Directors are subject to removal only by the vote of the stockholders entitled to cast two-thirds of the votes entitled to be cast generally in the election of Directors; and

retain for the Board sole authority to fill any vacancies on the Board, with any Director so appointed to serve for the balance of the unexpired term rather than only until the next annual meeting of stockholders.

The Governing Documents of the Fund presently: (i) divide the Fund's Board into three classes of Directors; (ii) require holders of not less than a majority of the votes entitled to be cast to call a special meeting of stockholders; and (iii) provide that only the Board may fix the number of the Fund's Directors. On December 3, 2010, in accordance with Maryland law, the Fund's Board elected by resolution and approved Articles Supplementary to vest in the Board the sole power to fill any vacancies on the Board, with any Director so elected to serve for the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies.

Under the Maryland General Corporation Law, if the directors have been divided into classes (as the Funds Directors are), unless the charter provides otherwise (which the Charter does not), a director may be removed only for cause by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of directors. The Board could elect in the future to be subject to the provision of Maryland law that would increase the vote required to remove a Director to two-thirds of all the votes entitled to be cast.

The Fund's Bylaws provide that, with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) by or at the direction of the Board of Directors or (2) by a stockholder who was a stockholder of record from the time the stockholder gives notice as provided for in the Bylaws to the time of the annual meeting, who is entitled to vote at the meeting in the election of each such nominee or on such other business and who has complied with the advance notice procedures of and provided the information and other materials required by the Bylaws. With respect to special meetings of stockholders, only the business specified in the Fund's notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) by or at the direction of the Board of Directors or (2) provided that a special meeting has been called for the purpose of electing directors, by a stockholder who was a stockholder of record from the time the stockholder gives notice as provided for in the Bylaws to the time of the special meeting, who is entitled to vote at the meeting in the election of each such nominee and who has complied with the advance notice provisions of and provided the

information and other materials required by the Bylaws.

The Fund's Bylaws provide that special meetings of stockholders may be called by the Board of Directors and certain of the Fund's officers. Additionally, the Fund's Bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the Fund upon the written request of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting.

The provisions of the Governing Documents and Maryland law described above could have the effect of depriving the owners of stock 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 stockholder.



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The Governing Documents of the Fund are on file with the SEC. For access to the full text of these provisions, see Additional Information.

**CLOSED-END FUND STRUCTURE**

The Fund is a non-diversified, closed-end management investment company (commonly referred to as a clo