



**18,000,000 Shares**  
**Flaherty & Crumrine Dynamic Preferred and Income**  
**Fund Incorporated**  
**\$25.00 per Share**

*The Fund.* Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated (the “Fund”) is a newly organized, non-diversified, closed-end management investment company.

*Investment Objective and Strategies.* The Fund’s investment objective is to seek total return, with an emphasis on high current income. Under normal market conditions, the Fund invests at least 80% of its “Managed Assets” in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt, and senior debt. “Managed Assets” are the Fund’s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock (“Preferred Shares”) issued by the Fund, if any, and the proceeds of any reverse repurchase agreements (“Reverse Repurchase Agreements”) entered into by the Fund.

**No Prior Trading History.** Because the Fund is newly organized, its shares of common stock (“Common Shares”) have no history of public trading. The shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the initial public offering.

The Fund’s Common Shares have been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol “DFP.” The minimum investment in the Fund is 100 Common Shares (\$2,500).

**Investment in the Fund’s Common Shares involves substantial risks arising from, among other strategies, the Fund’s ability to invest in securities that are rated below investment grade (below Baa3 by Moody’s Investors Service, Inc. or below BBB by either Standard & Poor’s Ratings Services, a subsidiary of The McGraw-Hill Company, Inc. or Fitch, Inc.) or unrated but determined by Flaherty & Crumrine Incorporated to be of comparable quality and the Fund’s anticipated use of leverage. Below investment grade securities are regarded as having increased risk with respect to capacity to pay interest and to repay principal, and are commonly referred to as “high yield” securities or “junk bonds.” Because of the risks associated with investing in high yield securities and using leverage, an investment in the Fund may be considered speculative. Before buying any of the Fund’s Common Shares, you should read the discussion of the principal risks of investing in the Fund in “Principal Risks of the Fund” beginning on page 37 of this prospectus.**

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

The underwriters expect to deliver Common Shares to purchasers on or about May 29, 2013.

	Per Share	Total(1)
Public offering price .....	\$25.000	\$450,000,000
Sales load(2) .....	\$ 1.125	\$ 20,250,000
Estimated offering expenses(3) .....	\$ 0.050	\$ 900,000
Proceeds, after expenses, to Fund .....	\$ 23.825	\$ 428,850,000

*(notes on following page)*

**Wells Fargo Securities**

Crowell, Weedon & Co.  
Hennion & Walsh, Inc.  
National Securities Corporation  
Wedbush Securities Inc.

**Stifel**

The GMS Group, LLC  
Ladenburg Thalmann & Co. Inc.  
Newbridge Securities Corporation  
Wunderlich Securities

**Raymond James**

Henley & Company LLC  
Maxim Group LLC  
Pershing LLC  
B.C. Ziegler

The date of this prospectus is May 23, 2013.

*(notes from previous page)*

- (1) The Fund has granted the underwriters an option to purchase up to 2,700,000 additional Common Shares at the public offering price less the sales load within 45 days of the date of this prospectus, solely to cover overallocments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be \$517,500,000, \$23,287,500, \$1,035,000 and \$493,177,500, respectively. See “Underwriting.”
- (2) Flaherty & Crumrine Incorporated (the “Adviser” or “Flaherty & Crumrine”) (and not the Fund) has agreed to pay from its own assets structuring fees to Wells Fargo Securities, LLC and Raymond James & Associates, Inc. In addition, Flaherty & Crumrine (and not the Fund) has agreed to pay from its own assets a sales incentive fee to each of The GMS Group, LLC, Stifel, Nicolaus & Co., Inc. and Wedbush Securities Inc. Flaherty & Crumrine (and not the Fund) has also agreed to pay Destra Capital Investments LLC (“Destra”) for distribution assistance in connection with the offering. The structuring, distribution assistance and other fees referenced in this footnote are not reflected in the sales load in the table above. See “Underwriting.”
- (3) The Adviser has agreed to pay for all of the Fund’s organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed \$0.05 per Common Share. See “Summary of Fund Expenses.”

*(continued from previous page)*

*Investment Portfolio.* The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and real estate investment trust (“REIT”) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund’s investments as it deems appropriate in light of current market and credit conditions.

The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated American Depositary Receipts (“ADRs”), U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund will invest at least 80% of its Managed Assets in (i) investment grade quality securities or (ii) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its Managed Assets in securities of companies with below investment grade quality senior unsecured debt outstanding. Securities that are rated below investment grade are commonly referred to as “high yield” or “junk bonds.” Some of the Fund’s Managed Assets may be invested in securities rated (or issued by companies rated) below investment grade at the time of purchase. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay dividends and interest and repayment of principal. Due to the risks involved in investing in securities of below investment grade quality, an investment in the Fund should be considered speculative. The maturities of securities in which the Fund will invest generally will be longer-term (perpetual, in the case of some preferred securities, and ten years or more for other preferred and debt securities); however, as a result of changing market conditions and interest rates, the Fund may also invest in shorter-term securities. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years.

The portion of the Fund's Managed Assets not invested in preferred and other income-producing securities may be invested in, among other securities, money market instruments, money market mutual funds, asset-backed securities, and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities ("Government Securities") and such obligations which are subject to repurchase agreements and commercial paper. Depending on market conditions, these investments may at times have a higher or lower yield than preferred securities and other income-producing securities in which the Fund invests.

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including:

- Traditional preferred stock;
- Hybrid and trust preferred securities that have characteristics of both equity and debt securities;
- Convertible securities;
- Subordinated debt; and
- Senior debt

These securities may be across a wide range of sectors and industries. The Fund may also invest in common stocks and Government Securities. These securities are not included within the Fund's 80% investment policy.

There can be no assurance that the Fund will achieve its investment objective. See "Investment Objective and Policies" and "Principal Risks of the Fund."

*Leverage.* The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through borrowings, including loans from certain financial institutions and/or the issuance of debt securities (collectively, "Borrowings"), Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33⅓% of its Managed Assets (including the amount borrowed).

After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under a credit facility in an initial aggregate amount up to approximately 33⅓% (as determined immediately after borrowing) of the value of its Managed Assets. The use of leverage can create special risks. There can be no assurance that any leverage strategy the Fund employs will be successful during any period in which it is employed. See "Use of Leverage" and "Principal Risks of the Fund—Leverage Risk."

*Investment Adviser.* Flaherty & Crumrine Incorporated, a registered investment adviser located at 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101, is an independently-owned, California corporation. The Adviser was formed in 1983, and its clients include institutional investors and investment companies, including open-end and closed-end funds. The Adviser manages the assets of Flaherty & Crumrine Preferred Income Fund Incorporated ("PFD"), Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated ("PFO"), Flaherty & Crumrine Preferred Securities Income Fund Incorporated ("FFC") and Flaherty & Crumrine Total Return Fund Incorporated ("FLC"), four closed-end investment companies registered under the Investment Company Act of 1940, as amended (the "1940 Act"), and listed on the New York Stock Exchange ("NYSE"). The Adviser also subadvises the assets of Destra Preferred and Income Securities Fund, an open-end investment company registered under the 1940 Act and Flaherty & Crumrine Investment Grade Fixed Income Fund ("FFI.UN"), an investment trust registered in Canada. The Adviser also manages portfolios of preferred securities for a variety of U.S. and foreign institutions, including insurance and non-financial companies. As of February 28, 2013, the Adviser had approximately \$5.2 billion in assets under management.

This prospectus sets forth concisely the information about the Fund you should know before investing. You should read the prospectus carefully before deciding whether to invest, and should retain it for future reference. A Statement of Additional Information, dated May 23, 2013 (the "SAI"), as supplemented from time to time, 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 can review the table of contents of the SAI on page 73 of this prospectus. You may request a free copy of the SAI by calling 1-866-233-4001. You also may call to request the Fund's annual and semi-annual reports (when available) or other information about the Fund, and to make shareholder inquiries. The Fund makes available the SAI and the Fund's annual and semi-annual reports (when available), free of charge, at [www.flaherty-crumrine.com](http://www.flaherty-crumrine.com). You may also obtain the SAI and other information regarding the Fund on the Securities and Exchange Commission website (<http://www.sec.gov>).

The Common Shares are not a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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

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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 the Fund's Common Shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information (the "SAI"), especially the information set forth under the heading "Principal Risks of the Fund."*

**The Fund** ..... Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated is a newly organized, non-diversified, closed-end management investment company. Throughout this prospectus, we refer to it simply as the "Fund" or as "we," "us" or "our." See "The Fund."

**The Offering** ..... The Fund is offering 18,000,000 shares of common stock ("Common Shares") through a group of underwriters led by Wells Fargo Securities, LLC and Raymond James & Associates, Inc. The underwriters have been granted an option to purchase up to 2,700,000 additional Common Shares solely to cover overallotments, if any. The initial public offering price is \$25.00 per Common Share. Flaherty & Crumrine Incorporated (the "Adviser" or "Flaherty & Crumrine") has agreed to pay for all of the Fund's organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed \$0.05 per Common Share. The minimum investment in the Fund is 100 Common Shares (\$2,500). See "Underwriting."

**Investment Objective and Policies** .....

The Fund's investment objective is to seek total return, with an emphasis on high current income. The Fund's investment objective is considered non-fundamental and may be changed by the Fund's Board of Directors (the "Board of Directors") without shareholder approval. The Fund's investment policies also may be changed by the Board of Directors without shareholder approval, unless otherwise noted in this Prospectus or the SAI. However, the Fund's investment objective and its 80% policy described below may only be changed upon 60 days' prior written notice to the Fund's shareholders. See "Investment Objective and Policies."

Under normal market conditions, the Fund invests at least 80% of its Managed Assets (defined below) in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt and senior debt. "Managed Assets" are the Fund's net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock ("Preferred Shares") issued by the Fund, if any, and the proceeds of any reverse repurchase agreements ("Reverse Repurchase Agreements") entered into by the Fund.

The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and real

estate investment trust (“REIT”) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund’s investments as it deems appropriate in light of current market and credit conditions.

The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated American Depositary Receipts (“ADRs”), U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund will invest at least 80% of its Managed Assets in (i) investment grade quality securities or (ii) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its Managed Assets in securities of companies with below investment grade quality senior unsecured debt outstanding. Securities that are rated below investment grade are commonly referred to as “high yield” or “junk bonds.” Some of the Fund’s Managed Assets may be invested in securities rated (or issued by companies rated) below investment grade at the time of purchase. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay dividends and interest and repayment of principal. Due to the risks involved in investing in securities of below investment grade quality, an investment in the Fund should be considered speculative. The maturities of securities in which the Fund will invest generally will be longer-term (perpetual, in the case of some preferred securities, and ten years or more for other preferred and debt securities); however, as a result of changing market conditions and interest rates, the Fund may also invest in shorter-term securities. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and increase in value by 3% if interest rates fall 1%.

The portion of the Fund’s Managed Assets not invested in preferred and other income-producing securities may be invested in, among other securities, money market instruments, money market mutual funds, asset-backed securities, and securities issued or guaranteed by



the U.S. Government, its agencies or instrumentalities (“Government Securities”) and such obligations which are subject to repurchase agreements and commercial paper. Depending on market conditions, these investments may at times have a higher or lower yield than preferred securities and other income-producing securities in which the Fund invests.

**Investment Portfolio . . . . .**

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including:

- Traditional preferred stock;
- Hybrid and trust preferred securities that have characteristics of both equity and debt securities;
- Convertible securities;
- Subordinated debt; and
- Senior debt

These securities may be across a wide range of sectors and industries. The Fund may also invest in common stocks and Government Securities. These securities are not included within the Fund’s 80% investment policy.

**Primary Investment Strategies and Techniques . . . . .**

*Preferred Securities.* Preferred securities share many investment characteristics with both bonds and common stock; therefore, the risks and potential rewards of investing in the Fund may at times be similar to the risks of investing in equity-income funds or both equity funds and bond funds. Similar to bonds, preferred securities, which generally pay fixed or adjustable rate dividends or interest to investors, have preference over common stock in the payment of dividends or interest and the liquidation of a company’s assets, which means that a company typically must pay dividends or interest on its preferred securities before paying any dividends on its common stock. On the other hand, like common stock, preferred securities are junior to all forms of the company’s debt, including both senior and subordinated debt, and the company can skip or defer dividend or interest payments for extended periods of time without triggering an event of default. Further, different types of preferred securities can be junior or senior to other types of preferred securities in both priority of payment of dividends or interest and/or the liquidation of a company’s assets.

Preferred securities can be structured differently for retail and institutional investors, and the Fund may purchase either structure. The retail segment is typified by \$25 par securities that are listed on the NYSE and which trade and are quoted with accreted dividend or interest income included in the price. The institutional segment is typified by \$1,000 par value securities that are not exchange-listed, and which trade over-the-counter (“OTC”) and are quoted on a “clean” price, *i.e.*, without accrued dividend or interest income included in the price.

While preferred securities can be issued with a final maturity date, others (including most traditional preferred stock) are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without any adverse consequence to the issuer. No redemption can typically take place unless all cumulative payment obligations to preferred security investors have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends or interest payable. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to holders of such securities.

There are two basic types of preferred securities. The first, sometimes referred to in this prospectus as traditional preferred securities, consists of preferred stock issued by an entity taxable as a corporation. Preferred stocks are considered equity securities for federal income tax purposes. The second basic type is referred to in this prospectus as hybrid-preferred securities. Hybrid-preferred securities may be issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated trust or partnership of the corporation, generally in the form of preferred interests in subordinated debentures or similarly structured securities. Hybrid-preferred securities are considered debt securities for federal income tax purposes.

The Fund may invest up to 100% of its Managed Assets in floating-rate and fixed-to-floating-rate preferred securities. Floating-rate and fixed-to-floating-rate preferred securities may be traditional preferred or hybrid-preferred securities. The terms of floating-rate preferred securities provide that interest rates are adjusted periodically based upon an interest rate adjustment index. Because of the interest rate reset feature, floating-rate securities provide the Fund with a certain degree of protection against rising interest rates, although the interest rates of floating-rate securities will participate in any declines in interest rates as well. Similarly, a fixed-to-floating-rate security may be less price-sensitive to rising interest rates (or yields), because it has a rate of payment that is fixed for a certain period (typically five, ten or thirty years when first issued), after which period a floating-rate of payment applies.

*Debt Securities.* The Fund may invest in a variety of debt securities, including corporate senior or subordinated debt securities and U.S. government securities. Corporate debt securities are fixed-income securities issued by businesses to finance their operations. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities, with the primary difference being their maturities and secured or unsecured status. Senior debt refers to debt that is in first-lien position. In the event of a default and subsequent liquidation, the senior lender has first priority in recouping its investment. Subordinated debt, also known as mezzanine or junior debt is a second-level of debt. Such debt is referred to as subordinate, because the debt providers (lenders) have subordinate status in relationship to the senior debt.

*Non-U.S. Investments.* The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. The Fund may invest its Managed Assets in U.S. dollar-denominated ADRs, U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States. ADRs are receipts issued by a bank or trust company to evidence ownership of the underlying securities issued by non-U.S. companies.

*Convertible Securities.* The Fund may invest in convertible securities, which have investment characteristics of both bonds and common stocks. Convertible securities are generally debt securities or preferred stock that may be converted into common stock; in some cases, conversions may be mandatory. Convertible securities typically pay current income as either interest (debt security convertibles) or dividends (preferred stock). Convertible securities entitle the holder to receive interest paid or accrued on debt, or dividends paid or accrued on preferred stock, until the security matures or is redeemed, converted or exchanged. A convertible's value usually reflects both the stream of current income payments and the market value of the underlying common stock.

*Concentration in Financials Sector.* The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and REIT industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund's investments as it deems appropriate in light of current market and credit conditions.

*REITs.* The Fund may invest in REITs which are pooled investment vehicles that invest primarily in income producing real estate or real estate related loans or interests. The Fund may invest in REITs of any market capitalization; however, even the larger REITs tend to be small- to medium-sized companies in relation to the equity markets as a whole. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest primarily in real property and earn rental income from leasing those properties. They may also realize gains or losses from the sale of properties. Equity REITs will be affected by conditions in the real estate rental market and by changes in the value of the properties they own. Mortgage REITs invest primarily in mortgages and similar real

estate interests and receive interest payments from the owners of the mortgaged properties. They are paid interest by the owners of the financed properties. Mortgage REITs will be affected by changes in creditworthiness of borrowers and changes in interest rates. Hybrid REITs invest both in real property and in mortgages. Equity and mortgage REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. Dividends paid by REITs will not be eligible for the dividends received deduction and generally will not qualify for the reduced U.S. federal income tax rates applicable to qualified dividends under the Internal Revenue Code of 1986, as amended (the "Code").

*Illiquid Securities.* The Fund may invest without limit in instruments that lack a secondary trading market or are otherwise considered illiquid. Generally, illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities. The Board of Directors or its delegate has the ultimate authority to determine, to the extent permissible under the Federal securities laws, which securities are liquid or illiquid. The Board of Directors has delegated to the Adviser the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. The Board of Directors and/or the Adviser will consider factors such as (i) the nature of the market for a security (including the institutional private resale market; the frequency of trades and quotes for the security; the number of dealers willing to purchase or sell the security; the amount of time normally needed to dispose of the security; and the method of soliciting offers and the mechanics of transfer), (ii) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (e.g., certain repurchase obligations and demand instruments) and (iii) other permissible relevant factors.

**Additional Investment  
Strategies and Techniques . . . . .**

*Common Stocks.* The Fund may invest up to 15% of its Managed Assets in common stocks, which represent residual ownership interest in issuers and include rights or warrants to purchase common stocks. Holders of common stocks are entitled to the income and increase in the value of the assets and business of the issuers after all debt obligations and obligations to preferred shareholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

*Derivatives.* The Fund expects that its initial use of derivatives will involve interest rate and other hedging transactions, such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk of its use of leverage. The Fund also may engage in derivatives transactions to manage duration in the Fund's portfolio. The Fund also may use options on treasury futures contracts for purposes of hedging interest rate exposure in the portfolio

and has the authority to use other types of derivative investments for hedging or to increase expected return. The Fund may, for example, use futures, total return swaps, credit default swaps, options and other derivative instruments and may short certain securities to hedge the risks of its investments in securities, as a substitute for a position in the underlying asset, to reduce transaction costs, to maintain full market exposure (which means to adjust the characteristics of their investments to more closely approximate those of the markets in which they invest), to manage cash flows, to increase total return or to preserve capital.

*Credit Derivatives.* The market value of the Fund's investments in credit derivatives and/or premiums paid therefor as a buyer of credit protection will not exceed 10% of the Fund's Managed Assets. The notional amount of the credit exposure to which the Fund is subject when it sells credit protection will not exceed 33 $\frac{1}{3}$ % of the Fund's Managed Assets.

*New Issues and Follow-On Offerings.* In addition to purchasing securities in the secondary market, the Fund intends to seek investment opportunities in new issues and follow-on or secondary offerings of preferred securities. The Adviser, as an institutional investor, may have access to new issues and secondary offerings that may not be fully available to retail investors. By investing in such offerings, the Adviser may be able to secure favorable terms for the Fund, such as attractive pricing relative to other securities available in the secondary market. The Adviser has developed relationships with issuers and underwriters that it believes could afford the Fund competitive advantages in evaluating and managing these investment opportunities in preferred securities.

*Investment Companies.* The Fund may also invest in securities of open-end or closed-end investment companies, including exchange-traded funds ("ETFs"), that invest primarily in securities of the types in which the Fund may invest directly. The Fund may invest in the securities of ETFs in excess of the limits imposed under the Investment Company Act of 1940, as amended (the "1940 Act"), pursuant to exemptive orders obtained by certain ETFs and their sponsors from the Securities and Exchange Commission ("SEC"). An ETF is a fund that holds a portfolio of securities generally designed to track the performance of a securities index, including industry, sector, country and region indexes. ETFs and registered closed-end investment companies generally trade on a securities exchange and their shares may, at times, trade at a premium or discount to their net asset value. As a shareholder in an investment company, the Fund will bear its pro rata portion of that investment company's expenses, and will remain subject to payment of the Fund's advisory and administrative fees with respect to assets invested in such underlying investment companies. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the Fund will incur brokerage costs when purchasing and selling shares of ETFs or an exchanged-traded closed-end investment company. Securities of other investment companies may be leveraged, in which case the value and/or yield of such securities will tend to be more volatile than securities of unleveraged vehicles.

*Temporary Defensive Policy, Cash Equivalents and Short Term Investments.* Under normal conditions, the Fund invests substantially all of its assets with the goal of attaining its investment objective. The remainder of the Fund's assets may be held as cash or invested in short-term securities or cash equivalents. The percentage of the Fund invested in such holdings varies and depends heavily on current market conditions, among other factors. For temporary defensive purposes and during periods of high cash inflows or outflows, the Fund may depart from its principal investment strategies and invest part or all of its assets in these securities or it may hold cash. During such periods, the Fund may not be able to achieve its investment objective. The Fund may adopt a defensive strategy when the portfolio managers believe securities in which the Fund normally invests have elevated risks due to political or economic factors and in other extraordinary circumstances. For more information on eligible short term investments, see the SAI.

There can be no assurance that the Fund's investment objective will be achieved. For additional information about the Fund's portfolio composition, see "Investment Objective and Policies."

**Use of Leverage** .....

The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through borrowings, including loans from certain financial institutions and/or the issuance of debt securities (collectively, "Borrowings"), Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33 $\frac{1}{3}$ % of its Managed Assets (including the amount borrowed). After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under a credit facility in an initial aggregate amount up to approximately 33 $\frac{1}{3}$ % (as determined immediately after borrowing) of the value of its Managed Assets.

There is no assurance that the Fund will utilize leverage or, if leverage is utilized, that it will be successful in enhancing the level of its distributions or total return. The net asset value of the Fund's Common Shares will be reduced by the issuance or incurrence costs of any leverage. Through leveraging, the Fund will seek to obtain a higher return for shareholders of the Fund's shares of common stock ("Common Shareholders") than if the Fund did not utilize leverage. Leverage is a speculative technique and there are special risks and costs associated with leverage. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. See "Use of Leverage—Leverage Risk."

Under the 1940 Act, the Fund may utilize leverage through (i) Borrowings if the principal amount of such Borrowings, at the time of issuance, generally does not exceed 33 $\frac{1}{3}$ % of the Fund's total assets less liabilities other than the Borrowings and (ii) the issuance of Preferred Shares if immediately after such issuance, the liquidation value of the outstanding Preferred Shares does not exceed 50% of the Fund's total assets (including the proceeds from the issuance) less liabilities other

than Borrowings. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of Fund securities. Although it currently has no intention of doing so, the Fund may utilize leverage through Reverse Repurchase Agreements, in which the Fund transfers portfolio securities to a financial institution in exchange for cash with an agreement to repurchase such securities on a future date at a specified price. At the time the Fund enters into a Reverse Repurchase Agreement, the Fund will “cover” its exposure under the Reverse Repurchase Agreement by designating on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). As a result, a Reverse Repurchase Agreement will not be considered a senior security under the 1940 Act. However, even to the extent that the Fund segregates liquid assets, enters into offsetting transactions or otherwise covers such transactions, the amount of financing the Fund may initially obtain through Reverse Repurchase Agreements will not exceed 33 $\frac{1}{3}$ % of the Fund’s Managed Assets. The Fund has no current intention to issue Preferred Shares or to use Reverse Repurchase Agreements for leverage. See “Use of Leverage—Leverage Risk.”

In order to seek to reduce the interest rate risk of the Fund’s leverage through Borrowings, which typically have a floating-rate of interest, the Fund may, but is not required to, enter into interest rate swap transactions or Eurodollar strips to offset increases in short-term interest rates. The Fund also may initially enter into interest rate cap transactions to seek to reduce the interest rate risk of its leverage. 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. Depending on the state of interest rates in general, our use of interest rate swaps or caps could enhance or harm the overall performance of the Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than our rate of payment on the interest rate swap, this will reduce the performance of the Fund’s Common Shares. If, on the other hand, short-term interest rates are higher than our rate of payment on the interest rate swap, this will enhance the performance of the Fund’s Common Shares. Buying interest rate caps could enhance the performance of the Fund’s Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net income of the Fund’s Common Shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement. See “Use of Leverage—Interest Rate Derivative Transactions.”

So long as the Fund is able to realize a higher net return on its investment portfolio than the then-current cost of any leverage together with other related expenses, the effect of the leverage will be



to cause Common Shareholders to realize higher net return than if the Fund were not so leveraged. On the other hand, to the extent that the then-current cost of any leverage, together with other related expenses, approaches the net return on the Fund's investment portfolio, the benefit of leverage to Common Shareholders will be reduced, and if the then-current cost of any leverage were to exceed the net return on the Fund's portfolio, the Fund's leveraged capital structure would result in a lower rate of return to Common Shareholders than if the Fund were not so leveraged. See "Use of Leverage—Leverage Risk."

The Fund is currently negotiating with commercial banks and other financial institutions to arrange a fixed or floating rate credit facility (the "Credit Facility") pursuant to which the Fund would expect to be entitled to borrow funds from time to time in accordance with the terms of the Credit Facility. The Fund expects to enter into the Credit Facility shortly after the Fund's commencement of operations. Any such Borrowings, as well as the issuance of notes or other debt securities or Preferred Shares, would constitute financial leverage and would be subject to the asset coverage requirements imposed by the 1940 Act with respect to the amount of the borrowings and may limit the Fund's ability to declare dividends and distributions or repurchase its capital stock. The Fund may choose not to enter into the Credit Facility. If the Fund does not borrow the full amount under the Credit Facility, it may be charged a commitment fee on the aggregate undrawn commitment amount. However, the Fund expects to be fully drawn under the Credit Facility and therefore does not expect to be subject to any undrawn commitment fees.

**Investment Adviser** .....

Flaherty & Crumrine Incorporated is the investment adviser of the Fund under an investment advisory agreement (the "Investment Advisory Agreement"). The Adviser, a registered investment adviser, was formed in 1983, and its clients include pension plans, endowment funds and institutional investors and investment companies, including open-end and closed-end funds. As of February 28, 2013, the Adviser had approximately \$5.2 billion of assets under management.

The Fund will pay the Adviser a monthly fee for its advisory services equal to an annual rate of 0.575 of 1.00% on the first \$200 million of the Fund's average daily Managed Assets, and 0.50 of 1.00% on the Fund's average daily Managed Assets above \$200 million. See "Management of the Fund—Investment Adviser." If the Fund utilizes leverage, the fees paid to the Adviser for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's Managed Assets, which include the principal amount of outstanding Borrowings, the liquidation preference of Preferred Shares, if any, and the proceeds of any Reverse Repurchase Agreements. The Fund's investment management fees and other expenses are paid only by the Common Shareholders, and not by holders of Preferred Shares, if any. See "Use of Leverage."



**Investor Support Services** . . . . . The Fund has retained Destra Capital Investments LLC (“Destra” or the “Servicing Agent”), a registered broker-dealer, to provide investor support services in connection with the on-going operation of the Fund. Such services include providing ongoing contact with respect to the Fund and its performance with financial advisors that are representatives of broker-dealers and other financial intermediaries, communicating with the stock exchange specialist for the Fund’s Common Shares, and with the closed-end fund analyst community regarding the Fund on a regular basis, and developing and maintaining a website for the Fund. See “Management of the Fund – Investor Support Services.”

**Administrator** . . . . . BNY Mellon Investment Servicing (US) Inc. (“BNY Mellon”), serves as the Fund’s administrator (the “Administrator”). The Administrator calculates the net asset value of the Fund’s Common Shares and generally assists in all aspects of the Fund’s administration and operation. See “Management of the Fund – Administrator, Transfer Agent and Custodian.”

**Listing and Symbol** . . . . . The Fund’s Common Shares have been approved for listing on the NYSE, subject to notice of issuance, under the symbol “DFP.”

**Dividends and Distributions** . . . . . The Fund expects to distribute throughout the year, primarily in the form of regular monthly distributions, substantially all (on an annual basis) of its net investment income (that is, income other than net realized long-term and short-term capital gains) and its net realized short-term capital gains, if any. Initial distributions to common shareholders are expected to be declared approximately 45 days and paid approximately 60 to 90 days, after the completion of the offering of Common Shares. Realized long term capital gains, if any, are expected to be distributed annually. Fund distributions will retain the tax characteristics of the underlying dividends received from the Fund’s investments. Thus, Fund distributions that derive from dividends paid by U.S. corporations and certain foreign corporations will be characterized as qualified dividend income (“QDI”) for individual shareholders, and Fund distributions that derive from dividends paid by U.S. corporations will be eligible for the dividends-received deduction (“DRD”) for corporate shareholders, in each case subject to the Fund and the shareholder meeting certain investment holding period requirements. Fund distributions that derive from interest on debt securities and dividends on “hybrid” preferred securities are generally fully taxable to shareholders and are not eligible for DRD or QDI characterization. Individuals will generally be taxed at long-term capital gain rates on QDI. For more information regarding QDI and DRD, see “Taxation.”

**Dividend Reinvestment and Cash Purchase Plan** . . . . . The Fund has a dividend reinvestment and cash purchase plan (the “Plan”) commonly referred to as an “opt-out” plan. Each Common Shareholder who does not specifically elect in writing to receive cash will automatically participate in the Plan and will have all distributions of dividends reinvested in additional Common Shares. Common Shareholders who elect not to participate in the Plan will receive all

distributions in cash, paid by check. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan. See “Dividends and Distributions—Dividend Reinvestment and Cash Purchase Plan” and “Taxation.”

**Custodian** ..... The Bank of New York Mellon (the “Custodian”) will act as custodian for the Fund. See “Management of the Fund – Administrator, Transfer Agent and Custodian.”

**Transfer Agent** ..... BNY Mellon Investment Servicing (US) Inc. also serves as the Fund’s transfer agent, dividend disbursing agent and registrar (“transfer agent”). See “Management of the Fund – Administrator, Transfer Agent and Custodian.”

**Principal Risks of the Fund** .... The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective.

*No Operating History.* The Fund is a newly organized, non-diversified, closed-end management investment company with no operating history. See “The Fund.”

*Investment Risk.* An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest. The Fund’s Common Shares may be affected by such factors as liquidity and market supply and demand. In addition, the common shares of closed-end management investment companies frequently trade at a discount from their NAV. The Fund cannot assure you that its Common Shares will trade at a price higher than or equal to NAV.

*Market Risk.* The market values of securities owned by the Fund may decline, at times sharply and unpredictably. Under normal conditions, markets generally move in cycles over time, with periods of rising prices followed by periods of declining prices. These fluctuations could be a sustained trend or a drastic movement and the value of your investment may reflect these fluctuations. The Fund may utilize leverage, which magnifies this risk. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. See “Use of Leverage—Leverage Risk.”

*Preferred and Subordinated Securities Risk.* Preferred and other subordinated securities rank lower than bonds and other debt instruments in a company’s capital structure and therefore will be subject to greater credit risk than those debt instruments. Distributions on some types of these securities may also be skipped or deferred by issuers without causing a default. Finally, some of these securities typically have special redemption rights that allow the issuer to redeem the security at par earlier than scheduled. If this occurs, the Fund may be forced to reinvest in lower yielding securities. See “Principal Risks of the Fund—Preferred and Subordinated Securities Risk.”

*Hybrid-Preferred Securities Risk.* Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. Hybrid-preferred securities typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the maximum deferral period is five years. Payments on hybrid-preferred securities may be deferred for extended periods of time without default consequences to the issuer. Deferral will have adverse tax consequences for an investor in the Fund. During a deferral period, an investor in the Fund will incur a tax liability on the deferred interest income which will continue to accrue on the hybrid-preferred security, even though it is not actually paid. Because the Fund values the deferred income in calculating its net asset value, the Adviser will also receive a fee on this deferred income. Hybrid-preferred securities are also subject to event risk, which encompasses the variety of events, including default, that could occur that can affect an issuer's ability to repay its debt obligations in a timely manner. Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. In some cases, when investing in these hybrid-preferred securities issued by trusts or other special purpose entities, the Fund may not have recourse against the operating company in the event that the trust or other special purpose entity cannot pay the obligation and therefore, the Fund may lose some or all of the value of its investments in the hybrid-preferred security. In addition, in the event of the bankruptcy or dissolution of such an entity, the Fund may lose the value of some or all of its investment in the hybrid-preferred security, as investors in such securities would be paid only after all payments are made to senior debt holders.

*Credit Risk.* Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability to make such payments. Credit risk may be heightened for the Fund because the Fund may invest in "high yield" or "high risk" securities; such securities, while generally offering higher yields than investment grade securities with similar maturities, involve greater risks, including the possibility of default or bankruptcy, and are regarded as predominantly speculative with respect to the issuer's capacity to pay dividends and interest and repay principal.

*Interest Rate Risk.* If interest rates rise, in particular, if long term interest rates rise, the prices of fixed rate securities held by the Fund will fall. See "Principal Risks of the Fund—Interest Rate Risk."

*Duration Risk.* Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and

increase in value by 3% if interest rates fall 1%. Because the Fund initially expects to have a long duration, it will be more sensitive to interest rate or yield changes. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Because of events affecting the bond markets and interest rate changes, the duration of the portfolio might not meet its target duration at all times. Duration differs from maturity in that it considers potential changes to interest rates, and a security's coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund's duration, including investments in floating-rate and fixed-to-floating-rate securities and interest rate and other hedging transactions such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

*Floating-Rate and Fixed-to-Floating-Rate Securities Risk.* The market value of floating-rate securities is a reflection of discounted expected cash flows based on expectations for future interest rate resets. The market value of such securities may fall in a declining interest rate environment and may also fall in a rising interest rate environment if there is a lag between the rise in interest rates and the reset. This risk may also be present with respect to fixed-to-floating-rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating-rate and fixed-to-floating-rate securities will decline due to lower coupon payments on floating-rate securities.

*Liquidity Risk.* The Fund may invest, without limit, in illiquid securities. From time to time, certain securities held by the Fund may have limited marketability and may be difficult to sell at favorable times or prices. It is possible that certain securities held by the Fund will not be able to be sold in sufficient amounts or in a sufficiently timely manner to raise the cash necessary to meet any potentially large redemption requests by Fund shareholders.

*Concentration Risk.* The Fund intends to invest 25% or more of its total assets in the financials sector. This policy makes the Fund more susceptible to adverse economic or regulatory occurrences affecting the financials sector.

*Financials Sector Risk.* The financials sector is especially subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentrations in geographic markets and in commercial and residential real estate loans, and competition from new entrants in their fields of business.

U.S. and foreign laws and regulations require banks and bank holding companies to maintain minimum levels of capital and liquidity and to establish loan loss reserves. A bank's failure to maintain specified capital ratios may trigger dividend restrictions, suspensions on

payments on subordinated debt and preferred securities, and limitations on growth. Bank regulators have broad authority in these instances and can ultimately impose sanctions, such as imposing resolution authority, conservatorship or receivership, on such non-complying banks even when these banks continue to be solvent, thereby possibly resulting in the elimination of stockholders' equity. Unless a bank holding company has subsidiaries other than banks that generate substantial revenues, the holding company's cash flow and ability to declare dividends may be impaired severely by restrictions on the ability of its bank subsidiaries to declare dividends or ultimately to redeem its securities (as they mature).

Similarly, U.S. and foreign laws and regulations require insurance companies to maintain minimum levels of capital and liquidity. An insurance company's failure to maintain these capital ratios may also trigger dividend restrictions, suspensions on payments of subordinated debt, and limitations on growth. Insurance regulators (at the state-level in the United States) have broad authority in these instances and can ultimately impose sanctions, including conservatorship or receivership, on such non-complying insurance companies even when these companies continue to be solvent, thereby possibly resulting in the elimination of shareholders' equity. In addition, insurance regulators have extensive authority in some categories of insurance of approving premium levels and setting required levels of underwriting.

Companies engaged in stock brokerage, commodity brokerage, investment banking, investment management or related investment advisory services are closely tied economically to the securities and commodities markets and can suffer during a decline in either market. These companies also are subject to the regulatory environment and changes in regulations, pricing pressure, the availability of Funds to borrow and interest rates. See "Principal Risks of the Fund—Financials Sector Risk."

*REITs Risk.* Investments in REITs expose the Fund to risks similar to investing directly in real estate. The value of these underlying investments may be affected by changes in the value of the underlying real estate, the quality of the property management, the creditworthiness of the issuer of the investments, and changes in property taxes, interest rates and the real estate regulatory environment. Investments in REITs are also affected by general economic conditions.

*Foreign Investment Risk.* Because the Fund may invest its assets in foreign instruments, the value of Fund shares can be adversely affected by political and economic developments abroad. Foreign markets may be smaller, less liquid and more volatile than the major markets in the United States, and as a result, Fund share values may be more volatile. Trading in foreign markets typically involves higher expense than trading in the United States. The Fund may have difficulties enforcing its legal or contractual rights in a foreign country. See "Principal Risks of the Fund—Foreign Investment Risk."

*Currency Risk.* Since a portion of the Fund's assets may be invested in securities denominated in foreign currencies, changes in currency exchange rates may adversely affect the Fund's net asset value, the value of dividends and income earned, and gains and losses realized on the sale of securities. See "Principal Risks of the Fund—Currency Risk."

*Non-Diversification Risk.* The Fund is non-diversified, which means that it may invest in the securities of fewer issuers than a diversified fund. As a result, it may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, may experience increased volatility and may be highly concentrated in certain securities.

*Convertible Securities Risk.* The market value of a convertible security often performs like that of a regular debt security; that is, if market interest rates rise, the value of a convertible security usually falls. In addition, convertible securities are subject to the risk that the issuer will not be able to pay interest or dividends when due, and their market value may change based on changes in the issuer's credit rating or the market's perception of the issuer's creditworthiness. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer risks that apply to the underlying common stock. See "Principal Risks of the Fund—Convertible Securities Risk."

*High Yield Securities Risk.* Although high yield securities generally pay higher rates of interest than investment grade securities, high yield securities are high risk investments that may cause income and principal losses for the Fund. High yield securities may be issued by less creditworthy issuers. Issuers of high yield securities may have a larger amount of outstanding debt relative to their assets than issuers of investment grade securities. In the event of an issuer's bankruptcy, claims of other creditors may have priority over the claims of high yield bond holders, for example, leaving few or no assets available to repay high yield bond holders. Prices of high yield securities are subject to extreme price fluctuations. Adverse changes in an issuer's industry and general economic conditions may have a greater impact on the prices of high yield securities than on other higher rated fixed-income securities. Issuers of high yield securities may be unable to meet their interest or principal payment obligations because of an economic downturn, specific issuer developments, or the unavailability of additional financing. High yield securities frequently have redemption features that permit an issuer to repurchase the security from the Fund before it matures. If the issuer redeems high yield securities, the Fund may have to invest the proceeds in securities with lower yields and may lose income. High yield securities may be less liquid than higher rated fixed-income securities, even under normal economic conditions. There may be significant differences in the prices quoted for high yield securities by dealers in the market. Because they are less liquid, judgment may play a greater role in valuing certain of the Fund's securities than is the case with securities trading in a more liquid market. The Fund may incur expenses to the

extent necessary to seek recovery upon default or to negotiate new terms with a defaulting issuer. The credit rating of a high yield security does not necessarily address its market value risk. Ratings and market value may change from time to time, positively or negatively, to reflect new developments regarding the issuer. See “Principal Risks of the Fund—High Yield Securities Risk.”

*Selection Risk.* Selection risk is the risk that the securities selected by Fund management will under-perform the markets, the relevant indices or the securities selected by other funds with similar investment objectives and investment strategies. This means you may lose money.

*Management Risk.* The Fund is an actively managed portfolio and its success depends upon the investment skills and analytical abilities of the Adviser to develop and effectively implement strategies that achieve the Fund’s investment objective. Subjective decisions made by the Adviser may cause the Fund to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

*Leverage Risk.* Leverage is a speculative technique and there are special risks and costs associated with leveraging. There is no assurance that leveraging strategy will be successful. Leverage involves risks and special considerations for holders of Common Shares, including:

- the likelihood of greater volatility of net asset value, market price and dividend rate of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in the interest or dividend rates that the Fund must pay on any leverage will reduce the return on the holders of the Common Shares;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares;
- when the Fund uses financial leverage, the management fees payable to the Adviser will be higher than if the Fund did not use leverage; and
- leverage may increase operating costs, which may reduce total return.

For a more detailed description of the risks associated with leverage, see “Use of Leverage—Leverage Risk.”

*Risk of Market Price Discount from Net Asset Value.* Shares of closed-end funds frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value could decrease as a result of investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. We cannot predict whether the Common Shares will trade at, above or below net asset value. Net asset value will be reduced immediately following the offering of the Common Shares by the amount of the sales load and the amount of organizational and offering expenses paid by the



Fund, to the extent such expenses are not borne by the Adviser. See “Principal Risks of the Fund—Risk of Market Price Discount from Net Asset Value.”

Given the risks described above, an investment in the Fund’s Common Shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.

**Additional Risk**

**Considerations** .....

*Potential Conflicts of Interest Risk.* The Adviser provides investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Adviser intends to engage in such activities and may receive compensation from third parties for its services. The Adviser is not under any obligation to share any investment opportunity with the Fund. As a result, other clients of the Adviser with similar strategies may compete with the Fund for appropriate investment opportunities. The results of the Fund’s investment activities may differ from those of other accounts managed by the Adviser, and it is possible that the Fund could sustain losses during periods in which one or more of the other accounts managed by the Adviser achieve profits. The Adviser has informed the Fund’s Board of Directors that the investment professionals associated with the Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund’s business and affairs. The Adviser has adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the accounts managed by the Adviser in a fair and equitable manner.

*Dependence on Key Personnel Risk.* The Adviser is dependent upon the experience and expertise of certain key personnel in providing services with respect to the Fund’s investments. If the Adviser were to lose the services of these individuals, its ability to service the Fund could be adversely affected. As with any managed fund, the Adviser might not be successful in selecting the best-performing securities or investment techniques for the Fund’s portfolio and the Fund’s performance may lag behind that of similar funds. In addition, the performance of the Fund may also depend on the experience and expertise of individuals who become associated with the Adviser in the future.

*Portfolio Turnover Risk.* The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund’s investment objective. There are no limits on portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of the Adviser, investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund that, when distributed to Common Shareholders, would be taxable to such shareholders as ordinary income. See “Additional Risk Considerations—Portfolio Turnover Risk.”



*Risk of Anti-Takeover Provisions.* Certain provisions of the Fund’s charter (the “Charter”) and Bylaws (the “Bylaws”) could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to modify the Fund’s structure. The provisions may have the effect of depriving you of an opportunity to sell your shares at a premium over prevailing market prices and may have the effect of inhibiting conversion of the Fund to an open-end investment company. See “Certain Provisions of the Charter and Bylaws” and “Additional Risk Considerations—Risk of Anti-Takeover Provisions.”

*Derivatives Risk.* The Fund’s use of derivatives may reduce the Fund’s returns and/or increase volatility. Volatility is defined as the characteristic of a security, an index or a market to fluctuate significantly in price within a short time period. A risk of the Fund’s use of derivatives is that the fluctuations in their values may not correlate perfectly with the overall securities markets. Derivatives are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments). In addition, some derivatives are more sensitive to interest rate changes and market price fluctuations than other securities. The possible lack of a liquid secondary market for derivatives and the resulting inability of the Fund to sell or otherwise close a derivatives position could expose the Fund to losses and could make derivatives more difficult for the Fund to value accurately. The Fund could also suffer losses related to its derivatives positions as a result of unanticipated market movements, which losses are potentially unlimited. Finally, the Adviser may not be able to predict correctly market conditions, liquidity or the direction of securities prices, interest rates and other economic factors, which could cause the Fund’s derivatives positions to lose value. When a derivative is used as a hedge against a position that the Fund holds, any loss generated by the derivative generally should be substantially offset by gains on the hedged investment, and vice versa. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Hedges are sometimes subject to imperfect matching between the derivative and the underlying security, and there can be no assurance that the Fund’s hedging transactions will be effective. The income from certain derivatives may be subject to Federal income tax.

In addition, the derivatives market is subject to a changing regulatory environment. In particular, adoption of derivatives legislation by the United States Congress, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), could have an adverse effect on the Fund’s ability to use derivative instruments. The Dodd-Frank Act provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. The extent and impact of the regulation is not yet known and may not be known for some time. The new regulations could, among other things, restrict the Fund’s ability to engage in derivatives transactions and/or increase the costs of such derivatives transactions (for example, by increasing

margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result. See “Additional Risk Considerations—Derivatives Risk.”

*Investment in Other Investment Companies Risk.* As with other investments, investments in other investment companies are subject to market and selection risk. As a shareholder in an investment company, the Fund will bear its pro rata portion of that investment company’s expenses, and will remain subject to payment of the Fund’s advisory and administrative fees with respect to assets invested in such underlying investment companies. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. To the extent the Fund is held by an affiliated fund, the ability of the Fund itself to hold other investment companies may be limited.

Investing in ETFs will give the Fund exposure to the securities comprising the index on which the ETF is based and will expose the Fund to risks similar to those of investing directly in those securities. Shares of ETFs are traded on exchanges and may trade at either a premium or discount to net asset value. The Fund will pay brokerage commissions in connection with the purchase and sale of shares of ETFs. See “Additional Risk Considerations—Investment in Other Investment Companies Risk.”

*Market Disruption Risk.* Global financial markets have recently experienced periods of unprecedented turmoil. The debt and equity capital markets in the United States and around the world were negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broader market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system were also experiencing severe economic distress materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular.

The instability in the financial markets has led governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable.

The current financial market situation, as well as various social and political tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets; and may cause further economic uncertainties or deterioration in the United States and worldwide. The prolonged continuation or further deterioration of the current U.S. and global economic downturn could adversely impact the Fund’s portfolio. See “Additional Risk Considerations—Market Disruption Risk.”

## SUMMARY OF FUND EXPENSES

The purpose of the following table and example below is to help you understand the fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The expenses shown in the table under “Other expenses” and “Total annual Fund operating expenses” are based on estimated amounts for the Fund’s first year of operations and assumes that the Fund issues 18,000,000 Common Shares. The table also assumes the use of leverage in the form of borrowings, including loans from certain financial institutions and/or the issuance of debt securities (collectively, “Borrowings”) in an amount equal to 33 $\frac{1}{3}$ % of the Fund’s Managed Assets (after the leverage is incurred), and shows Fund expenses as a percentage of net assets attributable to Common Shares. The Fund’s actual expenses may vary from the estimated expenses shown in the table.

<b>Shareholder Transaction Expenses</b>	<b>Percentage of Offering Price</b>
Sales load paid by you (as a percentage of offering price).....	4.50%
Offering Expenses borne by Common Shareholders (as a percentage of offering price)(1)(2) .....	0.20%
Dividend reinvestment and cash purchase plan fees.....	None
Expenses Associated with the Arrangement of a Credit Facility and/or Use of Leverage.....	0%
<hr/>	
<b>Annual Expenses</b>	<b>Percentage of Net Assets(7) Attributable to Common Shares (Assumes Leverage is Used)</b>
Investment management fee(3).....	0.78%
Interest payments on borrowed funds(4) .....	0.625%
Other expenses(5).....	0.34%
Acquired fund fees and expenses(6).....	None
Total annual Fund operating expenses .....	1.75%

- (1) The Adviser has agreed to pay for all of the Fund’s organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed \$0.05 per Common Share (0.20% of the offering price). Assuming the Fund issues 18,000,000 Common Shares for \$25.00 per share, the Fund’s offering costs are estimated to be approximately \$900,000, all of which is expected to be borne by the Fund. Offering expenses borne by Common Shareholders will result in a reduction of capital of the Fund attributable to the Common Shares.
- (2) The Adviser (and not the Fund) has agreed to pay from its own assets structuring fees to Wells Fargo Securities, LLC and Raymond James & Associates, Inc. In addition, the Adviser (and not the Fund) has agreed to pay from its own assets a sales incentive fee to each of The GMS Group, LLC, Stifel, Nicolaus & Co., Inc. and Wedbush Securities Inc. The Adviser (and not the Fund) has agreed to pay Destra for distribution assistance in connection with the offering. The structuring, distribution assistance and other fees referenced in this footnote are not reflected in the sales load. See “Underwriting.”
- (3) The Adviser will receive a monthly management fee for its advisory services equal to an effective annual rate of 0.52% of the Fund’s average daily Managed Assets assuming that 18,000,000 shares of Common Stock are sold and the anticipated amount of leverage of 33 $\frac{1}{3}$ % of the Fund’s Managed Assets is used.

- (4) Interest expense assumes that leverage will represent up to 33 $\frac{1}{3}$ % of the Fund's Managed Assets and charge interest or involve payment at a rate set by an interest rate transaction at an annual average rate of approximately 1.25%.
- (5) The "Other expenses" shown in the tables above and related footnotes are based upon estimated amounts for the current fiscal year and assumes that the Fund issues approximately 18,000,000 Common Shares.
- (6) Fund investors will bear indirectly the fees and expenses (including investment advisory fees and other operating expenses) of any investment companies in which the Fund invests. For purposes of this calculation, the Adviser assumed that 0% of the Fund's portfolio will be invested in acquired funds, although such percentage may vary over time.
- (7) For purposes of the Fee Table, the Fund's net assets have been calculated as Managed Assets less the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of Preferred Shares issued by the Fund, if any, and the proceeds of any reverse repurchase agreements ("Reverse Repurchase Agreements") entered into by the Fund.

### Example

The following example illustrates the hypothetical expenses (including the sales load of \$45.00, estimated offering expenses of this offering of \$2.00 and the estimated costs of Borrowings assuming the Fund utilizes leverage representing 33 $\frac{1}{3}$ % of the Fund's Managed Assets) that you would pay on a \$1,000 investment in Common Shares, assuming (1) total net annual expenses of 1.75% of net assets attributable to Common Shares and (2) a 5% annual return:

<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
\$66	\$100	\$138	\$241

\* **The examples above should not be considered a representation of future expenses. Actual expenses may be higher or lower.** The example assumes that the estimated "Other Expenses" set forth in the Annual Expenses table is accurate and that all dividends and 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 FUND

The Fund is a newly organized, non-diversified, closed-end management investment company. The Fund was organized as a Maryland corporation on October 10, 2012 and is registered as an investment company under the 1940 Act. As a newly organized entity, the Fund has no operating history. The Fund's principal office is located at 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101, and its telephone number is (626) 795-7300.

### USE OF PROCEEDS

We estimate the net proceeds of this offering, after deducting sales load, organizational expenses and offering costs (other than the sales load) that do not exceed \$0.05 per Common Share, to be \$428,850,000, or \$493,177,500 assuming exercise of the overallotment option in full. The net proceeds will be invested in accordance with the policies set forth under "Investment Objective and Policies." A portion of the organizational and offering expenses of the Fund has been advanced by the Adviser and will be repaid by the Fund upon closing of this offering. The Adviser has agreed to pay for all of the Fund's organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed \$0.05 per Common Share.

The Fund estimates that the net proceeds of this offering will be fully invested in accordance with its investment objective and policies within 60 days of the initial public offering. Pending such investments, those proceeds may be invested in cash, cash equivalents, government securities and short-term fixed income securities. See “Investment Objective and Policies.”

## INVESTMENT OBJECTIVE AND POLICIES

### General

The Fund’s investment objective is to seek total return, with an emphasis on high current income. The Fund’s investment objective is considered non-fundamental and may be changed by the Board of Directors without shareholder approval. The Fund’s investment policies also may be changed by the Board of Directors without shareholder approval, unless otherwise noted in this Prospectus or the SAI. However, the Fund’s investment objective and its 80% policy described below may only be changed upon 60 days’ prior written notice to the Fund’s shareholders.

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt and senior debt. “Managed Assets” are the Fund’s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock (“Preferred Shares”) issued by the Fund, if any, and the proceeds of any Reverse Repurchase Agreements entered into by the Fund.

The Adviser attempts to identify, through independent credit analysis, analysis of security terms and structure and market supply/demand imbalances, those preferred and debt securities that provide opportunities for high relative total return and income. This analysis may include the position of the security in the issuer’s capital structure, as well as the Adviser’s outlook for particular industries, sectors and the U.S. and global economy and preferred and fixed income markets generally. In addition, there have been numerous instances in the past when, for periods of time, the various sectors of income-producing asset classes have moved independently of one another, eventually restoring more traditional relationships. The Adviser believes it is well positioned to possibly take advantage of such inefficiencies and pricing anomalies in the income-producing securities markets in an attempt to enhance investment performance.

The Fund anticipates that it will actively reposition its portfolio holdings both “horizontally” among issuers and obligors as well as “vertically” among a particular issuer’s common preferred and debt securities, or credit derivatives thereon, in pursuing its investment objective. A horizontal type of securities transaction would be one where the Fund sold a security of one issuer in order to purchase another security of a different issuer, but where both securities rank the same in the capital structure. For example, the Fund might sell a lower yielding preferred stock of Company X in order to buy a higher yielding preferred stock of Company Y.

By contrast, a vertical type of trade would be characterized by a movement up or down in the capital structure of issuers. For example, if the yield on debt securities of a particular issuer were unusually high, as compared with the yield of its preferred stock, the Fund might sell its holdings of preferred securities and use the proceeds to go “up” in the capital structure by purchasing such issuer’s debt securities. As a result, the techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover.

In selecting individual securities for investment, the Adviser considers, among other things, current yield, price variability and the underlying fundamental characteristics of the issuer, with particular emphasis on capital structure, interest and dividend coverage, and the potential for the timely payment of dividends and interest. Flaherty & Crumrine maintains a proprietary database that includes information on the securities in which it invests.

The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and REIT industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund's investments as it deems appropriate in light of current market and credit conditions.

The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated American Depositary Receipts ("ADRs"), U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund will invest at least 80% of its Managed Assets in (i) investment grade quality securities or (ii) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its Managed Assets in securities of companies with below investment grade quality senior unsecured debt outstanding. Securities that are rated below investment grade are commonly referred to as "high yield" or "junk bonds." Some of the Fund's Managed Assets may be invested in securities rated (or issued by companies rated) below investment grade at the time of purchase. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay dividends and interest and repayment of principal. Due to the risks involved in investing in securities of below investment grade quality, an investment in the Fund should be considered speculative. The maturities of securities in which the Fund will invest generally will be longer-term (perpetual, in the case of some preferred securities, and ten years or more for other preferred and debt securities); however, as a result of changing market conditions and interest rates, the Fund may also invest in shorter-term securities. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and increase in value by 3% if interest rates fall 1%.

The portion of the Fund's Managed Assets not invested in preferred and other income-producing securities may be invested in, among other securities, money market instruments, money market mutual funds, asset-backed securities, and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities ("Government Securities") and such obligations which are subject to repurchase agreements and commercial paper. Depending on market conditions, these investments may at times have a higher or lower yield than preferred securities and other income-producing securities in which the Fund invests.

### **Investment Portfolio**

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including:

- Traditional preferred stock;
- Hybrid and trust preferred securities that have characteristics of both equity and debt securities;

- Convertible securities;
- Subordinated debt; and
- Senior debt

These securities may be across a wide range of sectors and industries. The Fund may also invest in common stocks and Government Securities. These securities are not included within the Fund's 80% investment policy.

A more detailed description of our investment policies and restrictions and more detailed information about the Fund's portfolio investments are contained in the SAI.

### **Primary Investment Strategies and Techniques**

*Preferred Securities.* Preferred securities share many investment characteristics with both bonds and common stock; therefore, the risks and potential rewards of investing in the Fund may at times be similar to the risks of investing in equity-income funds or both equity funds and bond funds. Similar to bonds, preferred securities, which generally pay fixed or adjustable rate dividends or interest to investors, have preference over common stock in the payment of dividends or interest and the liquidation of a company's assets, which means that a company typically must pay dividends or interest on its preferred securities before paying any dividends on its common stock. On the other hand, like common stock, preferred securities are junior to all forms of the company's debt, including both senior and subordinated debt, and the company can skip or defer dividend or interest payments for extended periods of time without triggering an event of default. Further, different types of preferred securities can be junior or senior to other types of preferred securities in both priority of payment of dividends or interest and/or the liquidation of a company's assets.

Preferred securities can be structured differently for retail and institutional investors, and the Fund may purchase either structure. The retail segment is typified by \$25 par securities that are listed on the NYSE and which trade and are quoted with accreted dividend or interest income included in the price. The institutional segment is typified by \$1,000 par value securities that are not exchange-listed, and which trade OTC and are quoted on a "clean" price, *i.e.*, without accrued dividend or interest income included in the price.

While preferred securities can be issued with a final maturity date, others (including most traditional preferred stock) are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without any adverse consequence to the issuer. No redemption can typically take place unless all cumulative payment obligations to preferred security investors have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends or interest payable. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to holders of such securities.

*Traditional Preferred Securities.* Traditional preferred securities pay fixed or floating dividends to investors and have "preference" over common stock in the payment of dividends and in the liquidation of a company's assets. This means that a company must pay dividends on preferred stock before paying any dividends on its common stock. In order to be payable, distributions on such preferred securities must be declared by the issuer's board of directors. Income payments on certain preferred securities currently outstanding are cumulative, causing dividends and distributions to accumulate even if not declared by the board of directors or otherwise made payable. In such a case, all accumulated dividends must be paid before any dividend on the common stock can be paid. However, some traditional preferred stocks are non-cumulative, in which case dividends do not accumulate and need not ever be paid. The Fund may invest in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred stock held by the Fund determine not to pay dividends on such stock, the amount of dividends the Fund pays may be adversely affected. There is no assurance that dividends or distributions on the traditional preferred securities in



which the Fund invests will be declared or otherwise made payable. Preferred shareholders usually have no right to vote for corporate directors or on other matters. Shares of traditional preferred securities have a liquidation preference that generally equals the original purchase price at the date of issuance. The market value of preferred securities may be affected by favorable and unfavorable changes impacting companies in the utilities and financial services sectors, which are prominent issuers of preferred securities, and by actual and anticipated changes in tax laws, such as changes in corporate income tax rates. Because the claim on an issuer's earnings represented by traditional preferred securities may become onerous when interest rates fall below the rate payable on such securities, the issuer may redeem the securities. Thus, in declining interest rate environments in particular, the Fund's holdings of higher rate-paying fixed rate preferred securities may be reduced and the Fund may be unable to acquire securities of comparable credit quality paying comparable rates with the redemption proceeds.

The Fund may invest up to 100% of its Managed Assets in floating-rate and fixed-to-floating-rate preferred securities. Floating-rate and fixed-to-floating-rate preferred securities may be traditional preferred or hybrid-preferred securities. Floating-rate preferred securities provide for a periodic adjustment in the interest rate paid on the securities. The terms of such securities provide that interest rates are adjusted periodically based upon an interest rate adjustment index. The adjustment intervals may be regular, and range from daily up to annually, or may be event-based, such as a change in the short-term interest rate. Because of the interest rate reset feature, floating-rate securities provide the Fund with a certain degree of protection against rising interest rates, although the interest rates of floating-rate securities will participate in any declines in interest rates as well. Similarly, a fixed-to-floating-rate security may be less price-sensitive to rising interest rates (or yields), because it has a rate of payment that is fixed for a certain period (typically five, ten or thirty years when first issued), after which period a floating-rate of payment applies. The Fund will invest significantly in both floating-rate and fixed-to-floating-rate preferred securities.

Corporate shareholders of the Fund generally are permitted to claim the 70% DRD with respect to that portion of their distributions from the Fund attributable to amounts received by the Fund that qualify for the DRD, provided such amounts are properly reported by the Fund and certain holding period requirements are met at both the Fund and shareholder level. However, not all traditional preferred securities pay dividends that are eligible for the DRD.

Individual shareholders of the Fund generally may be eligible to treat as QDI that portion of their distributions from the Fund attributable to QDI received and reported as such by the Fund, provided certain holding period requirements are met at both the Fund and shareholder level. However, not all traditional preferred securities will provide significant benefits under the rules relating to QDI. Individuals will generally be taxed at long-term capital gain rates on QDI. For more information regarding QDI and DRD, see "Taxation" below.

Within the category of traditional preferred securities, the Fund may invest in traditional preferred securities issued by real estate companies, including REITs. REIT preferred securities are generally perpetual in nature, although REITs often have the ability to redeem the preferred securities after a specified period of time. The market value of REIT preferred securities may be affected by favorable and unfavorable changes affecting a particular REIT. While sharing characteristics of other traditional preferred securities, dividends from REIT preferred securities do not qualify for the DRD and generally do not constitute QDI. The Fund may invest in REITs of any market capitalization; however, even the larger REITs tend to be small- to medium-sized companies in relation to the equity markets as a whole.

*Hybrid-Preferred Securities.* Hybrid-preferred securities are typically issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, as described below, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The hybrid-preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates.



Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, hybrid-preferred securities typically permit an issuer to defer the payment of income for 18 months or more without triggering an event of default. Generally, the maximum deferral period is five years. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without default consequences to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when full cumulative payments on the hybrid-preferred securities have not been made), these hybrid-preferred securities are often treated as close substitutes for traditional preferred securities, both by issuers and investors. Hybrid-preferred securities have many of the key characteristics of equity because of their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows. Hybrid-preferred securities include, but are not limited to, trust originated preferred securities; monthly income preferred securities; quarterly income bond securities; quarterly income debt securities; quarterly income preferred securities; corporate trust securities; public income notes; and other hybrid-preferred securities.

Hybrid-preferred securities are typically issued with a final maturity date, although some are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without default. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to whether all payments have been paid. Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not direct obligations of the operating company. The Fund may invest in hybrid-preferred securities issued by trusts or other special purpose entities regardless of whether the obligations of the trust or other special purpose entity are guaranteed by the operating company. At the time the trust or special purpose entity sells such preferred securities to investors, it purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for tax purposes the interest paid on the debt held by the trust or special purpose entity. For U.S. federal income tax purposes, holders of the trust preferred securities generally are treated as owning beneficial interests in the underlying debt of the operating company held by the trust or special purpose entity, and payments on the hybrid-preferred securities are generally treated as interest rather than dividends. As such, payments on the hybrid-preferred securities are not eligible for the DRD or the reduced rates of tax that may apply to QDI. The trust or special purpose entity would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common shareholders, but would typically be subordinated to other classes of the operating company's debt. Typically a preferred security has a credit rating that is lower than that of its corresponding operating company's senior debt securities.

Within the category of hybrid-preferred securities are senior debt instruments that trade in the broader preferred securities market. These debt instruments, which are sources of long-term capital for the issuers, have structural features similar to preferred stock such as maturities ranging from 30 years to perpetuity, call features, exchange listings and the inclusion of accrued interest in the trading price. Similar to other hybrid-preferred securities, these debt instruments usually do not offer equity capital treatment. Corporate trust securities (CORTS<sup>®</sup>) and public income notes (PINES<sup>®</sup>) are two examples of senior debt instruments which are structured and trade as hybrid-preferred securities.

*Debt Securities.* The Fund may invest in a variety of debt securities, including corporate senior or subordinated debt securities and U.S. government securities. Corporate debt securities are fixed-income securities issued by businesses to finance their operations. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities, with the primary difference being their maturities and secured or unsecured status. Senior debt refers to debt that is in first-lien position. In the event of a default and subsequent liquidation, the senior lender has

first priority in recouping its investment. Subordinated debt, also known as mezzanine or junior debt is a second-level of debt. Such debt is referred to as subordinate, because the debt providers (lenders) have subordinate status in relationship to the senior debt.

*Non-U.S. Investments.* The Fund may invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated ADRs, U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States. Those securities that are traded in the United States have characteristics that are similar to traditional and hybrid-preferred securities. The Fund may also invest in securities of foreign companies in the form of ADRs, Global Depositary Receipts (“GDRs”) and European Depositary Receipts (“EDRs”). Generally, ADRs in registered form are dollar denominated securities designed for use in the U.S. securities markets, which represent and may be converted into an underlying foreign security. GDRs, in bearer form, are designated for use outside the United States. EDRs, in bearer form, are designed for use in the European securities markets.

*Convertible Securities.* The Fund may invest in convertible securities, which have investment characteristics of both bonds and common stocks. Convertible securities are generally debt securities or preferred stock that may be converted into common stock; in some cases, conversions may be mandatory. Convertible securities typically pay current income as either interest (debt security convertibles) or dividends (preferred stock). Convertible securities entitle the holder to receive interest paid or accrued on debt, or dividends paid or accrued on preferred stock, until the security matures or is redeemed, converted or exchanged. A convertible’s value usually reflects both the stream of current income payments and the market value of the underlying common stock.

*Concentration in Financials Sector.* The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and REIT industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund’s investments as it deems appropriate in light of current market and credit conditions.

*REITs.* The Fund may invest in REITs which are pooled investment vehicles that invest primarily in income producing real estate or real estate related loans or interests. The Fund may invest in REITs of any market capitalization; however, even the larger REITs tend to be small- to medium-sized companies in relation to the equity markets as a whole. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest primarily in real property and earn rental income from leasing those properties. They may also realize gains or losses from the sale of properties. Equity REITs will be affected by conditions in the real estate rental market and by changes in the value of the properties they own. Mortgage REITs invest primarily in mortgages and similar real estate interests and receive interest payments from the owners of the mortgaged properties. They are paid interest by the owners of the financed properties. Mortgage REITs will be affected by changes in creditworthiness of borrowers and changes in interest rates. Hybrid REITs invest both in real property and in mortgages. Equity and mortgage REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. Dividends paid by REITs do not qualify for the DRD and generally do not constitute QDI.

*Illiquid Securities.* The Fund may invest, without limit, in illiquid securities. For this purpose, illiquid securities include, among others, securities that are illiquid by virtue of the absence of a readily available market or legal or contractual restrictions on resale. Securities that have legal or contractual restrictions on resale but have a readily available market are not deemed illiquid for purposes of this limitation. Generally, illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities.

Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and securities which are otherwise not readily marketable. Securities that have not been registered under the Securities Act are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Securities that do not have a readily available market may include certain small cap securities or certain unrated securities. Illiquid securities have the potential for delays on resale and uncertainty in valuation. Limitations on resale may have an adverse effect on the marketability of portfolio securities and the Fund might be unable to dispose of restricted or other illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemptions within seven days. The Fund might also have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. Adverse market conditions could impede such a public offering of securities.

In recent years, however, an institutional market has developed for certain securities that are not registered under the Securities Act, including repurchase agreements, commercial paper, foreign securities, municipal securities and corporate bonds and notes. Institutional investors depend on an efficient institutional market in which the unregistered security can be readily resold or on an issuer’s ability to honor a demand for repayment. The fact that there are contractual or legal restrictions on resale to the general public or to certain institutions may not be indicative of the liquidity of such investments.

Rule 144A under the Securities Act allows a broader institutional trading market for securities otherwise subject to restriction on resale to the general public. Rule 144A establishes a safe harbor from the registration requirements of the Securities Act of resales of certain securities to qualified institutional buyers, which generally creates a more liquid market for securities eligible for resale under Rule 144A than other types of restricted securities.

The Adviser will monitor the liquidity of restricted securities in the Fund’s portfolio, under the supervision of the Board of Directors. In reaching liquidity decisions, the Adviser will consider, among other things, the following factors: (1) the nature of the market for a security (including the institutional private resale market; the frequency of trades and quotes for the security; (2) the number of dealers willing to purchase or sell the security and the number of other potential purchasers; (3) dealer undertakings to make a market in the security; (4) the nature of the security and the nature of the marketplace trades (e.g., the amount of time normally needed to dispose of the security, the method of soliciting offers and the mechanics of transfer); (5) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (e.g., certain repurchase obligations and demand instruments); and (6) other permissible relevant factors.

### **Additional Investment Strategies and Techniques**

*Common Stocks.* The Fund may invest up to 15% of its Managed Assets in common stocks, which represent residual ownership interest in issuers and include rights or warrants to purchase common stocks. Holders of common stocks are entitled to the income and increase in the value of the assets and business of the issuers after all debt obligations and obligations to preferred shareholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity. The value of common

stocks purchased by the Fund could decline if the financial condition of the companies the Fund invests in declines or if overall market and economic conditions deteriorate. Their value also may decline due to factors that affect a particular industry or industries, such as labor shortages or an increase in production costs and competitive conditions within an industry. In addition, they may decline due to general market conditions that are not specifically related to a company or industry, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or generally adverse investor sentiment.

*Derivatives.* The Fund expects that its initial use of derivatives will involve interest rate and other hedging transactions, such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk of its use of leverage. The Fund also may engage in derivatives transactions to manage duration in the Fund's portfolio. In an interest rate swap, the Fund agrees to pay to the counterparty a fixed rate payment in exchange for the counterparty agreeing to pay the Fund a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the variable rate borrowing it has incurred or any Preferred Shares it has issued. The payment obligation would be based on the notional amount of the swap. In an interest rate cap, the Fund pays a premium to the counterparty to the interest rate swap, and to the extent that a specified variable rate index exceeds a predetermined fixed rate, receives from the counterparty payments of the difference based on the notional amount of such cap. The Fund would use interest rate swaps or caps to reduce or eliminate the risk that an increase in short-term interest rates could have on the performance on the Fund's portfolio holdings or of the Fund's Common Shares as a result of leverage. "Eurodollar strip" means a consecutive series of equal amounts of quarterly Eurodollar futures contracts at each settlement date. A Eurodollar strip may range from six-months to ten-years to final contract expiration.

The Fund also may use options on treasury futures contracts for purposes of hedging interest rate exposure in the portfolio and has the authority to use other types of derivative investments for hedging or to increase expected return. The Fund may, for example, use futures, total return swaps, credit default swaps, options and other derivative instruments and may short certain securities to hedge the risks of its investments in securities, as a substitute for a position in the underlying asset, to reduce transaction costs, to maintain full market exposure (which means to adjust the characteristics of their investments to more closely approximate those of the markets in which they invest), to manage cash flows, to increase total return or to preserve capital.

Options and futures are contracts involving the right to receive or the obligation to deliver assets or money depending on the performance of one or more underlying assets, instruments or a market or economic index. An option gives its owner the right, but not the obligation, to buy ("call") or sell ("put") a specified amount of a security at a specified price within a specified time period. The Fund may purchase listed options on various indices in which it may invest. When the Fund purchases an over-the-counter option, it increases its credit risk exposure to the counterparty. Futures are standardized, exchange-traded contracts that obligate a purchaser to take delivery, and a seller to make delivery, of a specific amount of an asset at a specified future date at a specified price. No price is paid upon entering into a futures contract. Rather, upon purchasing or selling a futures contract the Fund is required to deposit collateral ("margin") equal to a percentage (generally less than 10%) of the contract value. Each day thereafter until the futures position is closed, the Fund will pay additional margin representing any loss experienced as a result of the futures position the prior day or be entitled to a payment representing any profit experienced as a result of the futures position the prior day.

Total return swap agreements are contracts in which one party agrees to make periodic payments to another party based on the change in market value of the assets underlying the contract, which may include a specified security, basket of securities or securities indices during the specified period, in return for periodic payments based on a fixed or variable interest rate or the total return from other underlying assets.

*Credit Derivatives.* The market value of the Fund's investments in credit derivatives and/or premiums paid therefor as a buyer of credit protection will not exceed 10% of the Fund's Managed Assets. The notional amount of the credit exposure to which the Fund is subject when it sells credit protection will not exceed 33⅓% of the Fund's Managed Assets. In managing credit risk and, in certain instances, to increase total return, the Fund may utilize credit derivatives, such as a credit default swap, in one of two ways. It may either "buy" credit protection, in which case, it would attempt to mitigate the risk of default or credit quality deterioration in all or a portion of its underlying portfolio of preferred and debt securities or in one or more individual holdings. This use of credit derivatives is similar in key respects to what is typically called a "fair value hedge". Alternatively, the Fund may sell "credit protection, in which case the Fund would use credit derivatives in an attempt to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer. This is analogous to what is often referred to in futures and options markets as an "anticipatory hedge". The Fund will only "sell" credit protection with respect to securities in which it would be authorized to invest directly.

When the Fund is a buyer of credit protection, the fair market value of its interest in such derivatives will be collateralized by the counterparty with high quality, liquid securities in accord with industry practice. When the Fund buys credit protection, the underlying issuer(s) or obligor(s) as well as the counterparty to the transaction will each be treated as an issuer for purposes of complying with the Fund's issuer diversification and industry concentration and guidelines, absent regulatory guidance to the contrary.

When the Fund is a seller of credit protection, the Fund is generally required to pay the par (or other agreed-upon) value of a referenced underlying security to the counterparty in the event of a default on or downgrade of the security and/or a similar credit event. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the contract. If no default occurs, the Fund keeps the stream of payments and has no payment obligations. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its net assets, the fund would be subject to investment exposure on the par (or other agreed-upon) value it had undertaken to pay. Credit derivatives, such as credit default swaps, may also be structured based on an index or the securities of a basket of issuers, rather than a single issuer, and may be customized with respect to the default event that triggers purchase or other factors (for example, a particular number of defaults within a basket, or defaults by a particular combination of issuers within the basket, may trigger a payment obligation).

In those instances where the Fund uses credit derivatives as a seller of credit protection, the Fund will separately segregate with its custodian high quality, liquid investments having a value, at all times, through exercise at least equal to the Fund's potential payment obligation under the credit derivatives to which it is a party. When the Fund is a seller of credit protection, it may be required to collateralize its obligation to the counterparty. When the Fund sells credit protection, the underlying issuer(s) or obligor(s) as well as the counterparty to the transaction will be treated as an issuer for purposes of complying with the Fund's issuer diversification and industry concentration guidelines, absent regulatory guidance to the contrary. The notional amount of the credit exposure to which the Fund is subject when it sells credit protection will not exceed 33⅓% of the Fund's total assets.

*New Issues and Follow-On Offerings.* In addition to purchasing securities in the secondary market, the Fund intends to seek investment opportunities in new issues and follow-on or secondary offerings of preferred securities. The Adviser, as an institutional investor, may have access to new issues and secondary offerings that may not be fully available to retail investors. By investing in such offerings, the Adviser may be able to secure favorable terms for the Fund, such as attractive pricing relative to other securities available in the secondary market. The Adviser has developed relationships with issuers and underwriters that it believes could afford the Fund competitive advantages in evaluating and managing these investment opportunities in preferred securities.

*Investment Companies.* The Fund may also invest in securities of open-end or closed-end investment companies, including ETFs, that invest primarily in securities of the types in which the Fund may invest directly. The Fund may invest in the securities of ETFs in excess of the limits imposed under the 1940 Act, pursuant to exemptive orders obtained by certain ETFs and their sponsors from the SEC. An ETF is a fund that holds a portfolio of securities generally designed to track the performance of a securities index, including industry, sector, country and region indexes. ETFs and registered closed-end investment companies generally trade on a securities exchange and their shares may, at times, trade at a premium or discount to their net asset value. As a shareholder in an investment company, the Fund will bear its pro rata portion of that investment company's expenses, and will remain subject to payment of the Fund's advisory and administrative fees with respect to assets invested in such underlying investment companies. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the Fund will incur brokerage costs when purchasing and selling shares of ETFs or an exchanged-traded closed-end investment company. Securities of other investment companies may be leveraged, in which case the value and/or yield of such securities will tend to be more volatile than securities of unleveraged vehicles.

*Temporary Defensive Policy, Cash Equivalents and Short Term Investments.* For temporary defensive purposes or to keep cash on hand fully invested, and following the offering of the Common Shares pending investment in securities that meet the Fund's investment objective, the Fund may invest up to 100% of its Managed Assets in cash, cash equivalents, government securities and short-term fixed income securities. When and to the extent the Fund assumes a temporary defensive position, the Fund may not pursue or achieve its investment objective.

#### **USE OF LEVERAGE**

The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through Borrowings, Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33 $\frac{1}{3}$ % of its Managed Assets (including the amount borrowed). The Fund expects to enter into a Credit Facility shortly after the Fund's commencement of operations, as described below under "Credit Facility." After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under the Credit Facility in an initial aggregate amount up to approximately 33 $\frac{1}{3}$ % (as determined immediately after borrowing) of the value of its Managed Assets. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of Fund securities.

There is no assurance that the Fund will utilize leverage or, if leverage is utilized, that it will be successful in enhancing the level of its distributions or total return. The net asset value of the Fund's Common Shares will be reduced by the issuance or incurrence costs of any leverage. Through leveraging, the Fund will seek to obtain a higher return for Common Shareholders than if the Fund did not utilize leverage. Leverage is a speculative technique and there are special risks and costs associated with leverage. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

Under the 1940 Act, the Fund generally is not permitted to borrow money if the principal amount of such Borrowings, at the time of issuance, exceeds 33 $\frac{1}{3}$ % of the Fund's total assets less liabilities other than the Borrowings. In addition, the Fund may not be permitted to declare any cash dividend (except for dividends payable in Common Shares) or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total assets, less liabilities other than the Borrowings, is at least 300% of the principal amount of any Borrowings (after deducting the amount of any such dividend or distribution) or other asset coverage requirements imposed under the terms of the borrowing. The terms of any Borrowing may also impose more stringent limitations on the Fund's ability to declare dividends or other distributions. If the Fund borrows, the Fund intends, to the extent possible, to prepay all or a portion



of the principal amount of the Borrowing to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and entitle the debt holders to elect a majority of the Board of Directors. Certain types of Borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverages or portfolio composition or otherwise.

Under the 1940 Act, the Fund is not permitted to issue Preferred Shares if, immediately after such issuance, the liquidation value of the outstanding Preferred Shares exceeds 50% of the Fund's total assets (including the proceeds from the issuance) less liabilities other than Borrowings (*i.e.*, the value of the Fund's assets must be at least 200% of the liquidation value of the outstanding Preferred Shares). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's assets less liabilities other than Borrowings is at least 200% of such liquidation value after deducting the amount of such dividend or distribution. If the Fund issues Preferred Shares, the Fund intends, to the extent possible, to purchase or redeem Preferred Shares from time to time to the extent necessary in order to maintain coverage of any Preferred Shares of at least 200%. If the Fund has Preferred Shares outstanding, two of the Fund's Directors will be elected by the holders of Preferred Shares, voting separately as a class. The remaining Directors of the Fund will be elected by holders of Common Shares and Preferred Shares voting together as a single class. In the event the Fund failed to pay dividends on Preferred Shares for two years, holders of Preferred Shares would be entitled to elect a majority of the Directors of the Fund. See "Description of Shares—Preferred Shares." The Fund has no current intention to issue Preferred Shares.

The Fund may enter into Reverse Repurchase Agreements involving the transfer by the Fund of portfolio securities to a financial institution with an agreement to repurchase such securities on a future date at a specified price. In return, the financial institution provides financing to the Fund equal to the discounted value of such securities. The use by the Fund of Reverse Repurchase Agreements effects a form of economic leverage, because the proceeds derived from such Reverse Repurchase Agreements may be invested in additional securities. At the time the Fund enters into a Reverse Repurchase Agreement, the Fund will "cover" its exposure under the Reverse Repurchase Agreement by designating on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). As a result, a Reverse Repurchase Agreement will not be considered a senior security under the 1940 Act. However, even to the extent that the Fund segregates liquid assets, enters into offsetting transactions or otherwise covers such transactions, the amount of financing the Fund may initially obtain through Reverse Repurchase Agreements will not exceed 33 $\frac{1}{3}$ % of the Fund's Managed Assets. The Fund has no current intention to use Reverse Repurchase Agreements for leverage.

The Fund may be subject to certain restrictions imposed by either guidelines of one or more rating agencies which may issue ratings for leverage or, if the Fund borrows from a lender, by the lender. These restrictions may impose asset coverage or portfolio composition requirements that are more stringent than those currently imposed on the Fund by the 1940 Act. With respect to any Borrowings, the Fund may be required to prepay outstanding amounts or incur a penalty rate of interest upon the occurrence of certain events of default under its lending arrangements. The Fund expects that any Borrowings would contain customary covenants that, among other things, likely would limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations.

*Effects of Leverage.* Assuming that leverage will represent up to 33 $\frac{1}{3}$ % of the Fund's Managed Assets and charge interest or involve payment at a rate set by an interest rate transaction at an annual average rate of approximately 1.25%, the income generated by the Fund's portfolio (net of estimated expenses) must exceed 1.31% in order to cover such interest payments or payment rates and other expenses specifically related to leverage. Of course, these numbers are merely estimates, used for illustration. Actual dividend rates, interest, or payment rates may vary frequently and may be significantly higher or lower than the rate estimated above.

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on Common Share total return, assuming investment portfolio total returns (comprised of income and changes in the value of investments 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 expected to be experienced by the Fund. The table assumes leverage in an aggregate amount equal to 33⅓% of the Fund's Managed Assets. See "Use of Leverage—Leverage Risk."

If the Fund uses leverage, the amount of fees paid to the Adviser for its services will be higher than if the Fund does not use leverage because the fees paid are calculated on Managed Assets, which include assets purchased with leverage. Therefore, the Adviser has a financial incentive to use leverage, which creates a conflict of interest between the Adviser and Common Shareholders, as only the Common Shareholders would bear the fees and expenses incurred through the Fund's use of leverage. The Fund's willingness to use leverage, and the extent to which leverage is used at any time, will depend on many factors, including among other things, the Adviser's assessment of the yield curve, interest rate trends, market conditions and other factors. See "Summary of Fund Expenses."

Assumed Portfolio Total Return (net of expenses) . . . . .	-10%	-5%	0%	5%	10%
Common Share Total Return . . . . .	-15.6%	-8.1%	-0.6%	6.9%	14.4%

Common Share total return is comprised of two elements – the Common Share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying interest expenses on the Fund's Borrowings as described above and dividend payments on any Preferred Shares issued by the Fund) and gain and losses on the value of the securities the Fund owns. As required by the rules of the SEC, the table assumes the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the income it receives on its investment is entirely offset by losses in the value of those securities (including the proceeds from entering into a Reverse Repurchase Agreement).

*Credit Facility.* The Fund expects to enter into definitive agreements with respect to a Credit Facility shortly after the Fund's commencement of operations. The Fund is currently negotiating with commercial banks and other financial institutions to arrange a Credit Facility pursuant to which the Fund would expect to be entitled to borrow in amounts up to approximately 33⅓% (as determined immediately after borrowing) of the Fund's Managed Assets, from time to time in accordance with the terms of the Credit Facility. Any such borrowings, as well as the issuance of debt securities or other forms of indebtedness, would constitute financial leverage and would be subject to the 300% asset coverage requirements imposed by the 1940 Act described above with respect to the amount of the borrowings and may limit the Fund's ability to declare dividends and distributions or repurchase its capital stock. Such a facility is not expected to be convertible into any other securities of the Fund. Outstanding amounts are expected to be prepayable by the Fund prior to final maturity without significant penalty and there are not expected to be any sinking fund or mandatory retirement provisions. Outstanding amounts would be payable at maturity or such earlier times as required by the agreement. The Fund may be required to prepay outstanding amounts under the facility or incur a penalty rate of interest in the event of the occurrence of certain events of default. The Fund would be expected to indemnify the lenders under the facility against liabilities they may incur in connection with the facility. The Fund expects that the lenders under the facility would require the Fund to provide customary indemnifications for liabilities the lenders may incur in connection with the facility. Based on the Fund's understanding of other similar financings, such indemnifications could include for taxes paid on behalf of the Fund or for costs and expenses incurred by the lender for any litigation related to the Fund's obligations under the facility or its use of the proceeds of any loans made by the lender. If the Fund does not borrow the full amount under the Credit Facility, it may be charged a commitment fee on the aggregate undrawn commitment amount. However, the Fund expects to be fully drawn under the Credit Facility and therefore does not expect to be subject to any undrawn commitment fees.



In addition, the Fund expects that such a Credit Facility would contain covenants that, among other things, likely will limit the Fund's ability to pay dividends in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and may require asset coverage ratios in addition to those required by the 1940 Act. The Fund does not expect to have any assets on deposit with the lender. The Fund may be required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. The Fund expects that any credit facility would have customary covenant, negative covenant and default provisions. The Fund expects to enter into an agreement with the lender, whereby the lender may exercise control over the pledged collateral (including substitution rights) under certain events of default. There can be no assurance that the Fund will enter into an agreement for a Credit Facility on terms and conditions representative of the foregoing, or that additional material terms will not apply. In addition, if entered into, any such Credit Facility may in the future be replaced or refinanced by one or more Credit Facilities having substantially different terms or by the issuance of Preferred Shares or debt securities.

*Leverage Risk.* Utilization of leverage is a speculative investment technique and involves certain risks to Common Shareholders. These include the possibility of higher volatility of the net asset value of and distributions on the Common Shares and potentially more volatility in the market value of the Common Shares. So long as the Fund is able to realize a higher net return on its investment portfolio than the then-current cost of any leverage together with other related expenses, the effect of the leverage will be to cause Common Shareholders to realize higher net return than if the Fund were not so leveraged. On the other hand, to the extent that the then-current cost of any leverage, together with other related expenses, approaches the net return on the Fund's investment portfolio, the benefit of leverage to Common Shareholders will be reduced, and if the then-current cost of any leverage were to exceed the net return on the Fund's portfolio, the Fund's leveraged capital structure would result in a lower rate of return to Common Shareholders than if the Fund were not so leveraged. Any decline in the net asset value of the Fund's investments will be borne entirely by Common Shareholders. Therefore, if the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value to Common Shareholders than if the Fund were not leveraged. Such greater net asset value decrease will also tend to cause a greater decline in the market price for the Common Shares. To the extent that the Fund is required or elects to redeem any Preferred Shares or prepay any Borrowings or Reverse Repurchase Agreements, the Fund may need to liquidate investments to fund such redemptions or prepayments. Liquidation at times of adverse economic conditions may result in capital loss and reduce returns to Common Shareholders.

In addition, such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction and could result in a termination payment by or to the Fund. See "Use of Leverage—Interest Rate Derivative Transactions."

The use by the Fund of leverage through Reverse Repurchase Agreements would involve the risk that the market value of the securities acquired with the proceeds of the Reverse Repurchase Agreement may decline below the price of the securities the Fund has sold but is obligated to repurchase. Also, Reverse Repurchase Agreements involve the risk that the market value of the securities retained in lieu of sale by the Fund in connection with the Reverse Repurchase Agreement may decline in price. If the buyer of securities under a Reverse Repurchase Agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the Reverse Repurchase Agreement may effectively be restricted pending such decision. The use by the Fund of leverage through Reverse Repurchase Agreements also would involve the risk that the Fund could be required to sell securities at inopportune times or prices in order to repay leverage and the risk that the counterparty does not return the securities to the Fund.

*Interest Rate Derivative Transactions.* In order to seek to reduce the interest rate risk of the Fund's leverage through Borrowings, which typically have a floating-rate of interest, the Fund may, but is not required to, enter into interest rate swap transactions or Eurodollar strips to offset increases in short-term interest rates. The Fund also may initially enter into interest rate cap transactions to seek to reduce the interest rate risk of its leverage.

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. Depending on the state of interest rates in general, our use of interest rate swaps or caps could enhance or harm the overall performance of the Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than our rate of payment on the interest rate swap, this will reduce the performance of the Fund's Common Shares. If, on the other hand, short-term interest rates are higher than our rate of payment on the interest rate swap, this will enhance the performance of the Fund's Common Shares. Buying interest rate caps could enhance the performance of the Fund's Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net income of the Fund's Common Shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. In addition, if the counterparty to an interest rate swap or cap defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset dividend or interest payments. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such default could negatively impact the performance of the Fund's Common Shares. Although this will not guarantee that the counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) does not default, the Fund will not enter into an interest rate swap or cap transaction with any counterparty that the Adviser believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, the Adviser will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Fund's investments. 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 performance of the Common Shares.

The Fund will usually enter into swaps 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 maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily.

The Fund may choose or be required to prepay any Borrowings or principal amounts of Reverse Repurchase Agreements, or redeem some or all of any outstanding Preferred Shares. This prepayment or redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Such early termination could result in termination payment by or to the Fund.

In December 2012, the Commodity Futures Trading Commission ("CFTC") issued a final rule which requires certain interest rate swaps to be centrally cleared. Such clearing requirement may affect the Fund's ability to negotiate individualized terms and/or may increase the costs of entering into such derivative transactions (for example, by increasing margin or capital requirements).

## PRINCIPAL RISKS OF THE FUND

The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective.

*No Operating History.* The Fund is a newly organized, non-diversified, closed-end management investment company with no operating history.

*Investment Risk.* An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest. The Fund's Common Shares may be affected by such factors as liquidity and market supply and demand. In addition, the common shares of closed-end management investment companies frequently trade at a discount from their NAV. The Fund cannot assure you that its Common Shares will trade at a price higher than or equal to NAV.

*Market Risk.* The market values of securities owned by the Fund may decline, at times sharply and unpredictably. Under normal conditions, markets generally move in cycles over time, with periods of rising prices followed by periods of declining prices. These fluctuations could be a sustained trend or a drastic movement and the value of your investment may reflect these fluctuations. The Fund may utilize leverage, which magnifies this risk. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. See "Use of Leverage—Leverage Risk."

*Preferred and Subordinated Securities Risk.* Preferred and other subordinated securities rank lower than bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Distributions on some types of these securities may also be skipped or deferred by issuers without causing a default. Finally, some of these securities typically have special redemption rights that allow the issuer to redeem the security at par earlier than scheduled. If this occurs, the Fund may be forced to reinvest in lower yielding securities. There are various risks associated with investing in preferred securities, including:

Deferral and Omission Risk. Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer. In certain cases, deferring or omitting distributions may be mandatory. If the Fund owns a preferred security for which distributions are deferred, the Fund may well be required to recognize income for tax purposes although it has not yet received a corresponding distribution.

Call and Reinvestment Risk. During periods of declining interest rates, an issuer may be able to exercise an option to redeem its issue at par earlier than scheduled, which is generally known as call risk. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. If this occurs, the Fund may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity.

Limited Voting Rights Risk. Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may have the ability to elect a director or directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid-preferred security holders generally have no voting rights.

Special Redemption Rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to their scheduled call or maturity date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in U.S. federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by the Fund. The Dodd-Frank Act and other proposed regulatory changes affecting the financial services industries may increase issuers' incentives to call or redeem a security prior to its scheduled call or maturity date.

New Types of Securities. From time to time, preferred securities, including hybrid-preferred securities, have been, and may in the future be, offered having features other than those described herein. The Fund reserves the right to invest in these securities if the Adviser believes that doing so would be consistent with the Fund's investment objective and policies. If the Fund invests materially in these new types of securities, the Fund will provide information in its report to shareholders. Since the market for these instruments would be new, the Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity and high price volatility risks, these instruments may present other risks that are consistent with the risks disclosed in the Prospectus. The Dodd-Frank Act and proposed regulations affecting the financial services industries could lead to the issuance of new forms of preferred and hybrid-preferred securities with features such as automatic equity conversion and/or write downs from par value under certain circumstances. Such conversion or write-down features might be applied by regulators to existing securities as well.

The Dodd-Frank Act contains provisions which will make certain hybrid-preferred securities less attractive for issuing banks, which the Adviser believes is likely to result in a significant reduction in the availability of these types of securities and potentially in many outstanding issues being redeemed. These changes may negatively impact the prices of some securities, particularly those trading above their par values as the new legislation may make near-term redemptions at par possible. However, other securities may be positively affected, particularly those trading at discounts to par value. Such securities may experience an increase in market value from issuers' redemption activity. A longer-term consequence of the relevant provisions of the Dodd-Frank Act, which are to be phased in over a period of a few years, is the potential for some types of preferred securities in which the Fund intends to invest to become more scarce and potentially less liquid. In addition, proposals of the Basel Committee on Banking Supervision to update capital requirements for banks globally, if finalized and adopted in the United States, would further limit the attractiveness to issuing banks of a broader range of preferred security types and possibly have more significant consequences, including a smaller market of issues and less liquidity. It is not possible to predict the impact of the Dodd-Frank Act and these proposals on the Fund's ability to pursue its investment strategy. Although it is expected that over time new types of preferred securities in which the Fund may invest will be issued, the availability of such investments cannot be determined.

*Hybrid-Preferred Securities Risk.* Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. Hybrid-preferred securities typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the maximum deferral period is five years. Payments on hybrid-preferred securities may be deferred for extended periods of time without default consequences to the issuer. Deferral will have adverse tax consequences for an investor in the Fund. During a deferral period, an investor in the Fund will incur a tax liability on the deferred interest income which will continue to accrue on the hybrid-preferred security, even though it is not actually paid. Because the Fund values the deferred income in calculating its net asset value, the Adviser will also receive a fee on this deferred income. Hybrid-preferred securities are also subject to event risk, which encompasses the variety of events, including default, that could occur that can affect an issuer's ability to repay its debt obligations in a timely manner. Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. In some cases, when investing in these hybrid-preferred securities issued by trusts or other special purpose entities, the Fund may not have recourse against the operating company in the event that the trust or other special purpose entity cannot pay the obligation and therefore, the Fund may lose some or all of the value of its investments in the hybrid-preferred security. In addition, in the event of the bankruptcy or dissolution of such an entity, the Fund may lose the value of some or all of its investment in the hybrid-preferred security, as investors in such securities would be paid only after all payments are made to senior debt holders.

*Credit Risk.* Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability to make such payments. Credit risk may be

heightened for the Fund because the Fund may invest in “high yield” or “high risk” securities; such securities, while generally offering higher yields than investment grade securities with similar maturities, involve greater risks, including the possibility of default or bankruptcy, and are regarded as predominantly speculative with respect to the issuer’s capacity to pay dividends and interest and repay principal.

*Interest Rate Risk.* Interest rate risk is the risk that preferred and other income-producing securities will decline in value because of rising market interest rates. When market interest rates rise, the market value of such securities generally will fall. Preferred securities with longer periods before maturity (if any) or longer durations may be more sensitive to interest rate changes.

*Duration Risk.* Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and increase in value by 3% if interest rates fall 1%. Because the Fund initially expects to have a long duration, it will be more sensitive to interest rate or yield changes. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Because of events affecting the bond markets and interest rate changes, the duration of the portfolio might not meet its target duration at all times. Duration differs from maturity in that it considers potential changes to interest rates, and a security’s coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund’s duration, including investments in floating-rate and fixed-to-floating-rate securities and interest rate and other hedging transactions such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

*Floating-Rate and Fixed-to-Floating-Rate Securities Risk.* The market value of floating-rate securities is a reflection of discounted expected cash flows based on expectations for future interest rate resets. The market value of such securities may fall in a declining interest rate environment and may also fall in a rising interest rate environment if there is a lag between the rise in interest rates and the reset. This risk may also be present with respect to fixed-to-floating-rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating-rate and fixed-to-floating-rate securities will decline due to lower coupon payments on floating-rate securities.

*Liquidity Risk.* The Fund may invest, without limit, in illiquid securities. From time to time, certain securities held by the Fund may have limited marketability and may be difficult to sell at favorable times or prices. It is possible that certain securities held by the Fund will not be able to be sold in sufficient amounts or in a sufficiently timely manner to raise the cash necessary to meet any potentially large redemption requests by Fund shareholders.

*Concentration Risk.* The Fund intends to invest 25% or more of its total assets in the financials sector. This policy makes the Fund more susceptible to adverse economic or regulatory occurrences affecting the financials sector.

*Financials Sector Risk.* Because the Fund invests 25% or more of its total assets in the financials sector, it will be more susceptible to adverse economic or regulatory occurrences affecting this sector, such as changes in interest rates, loan concentration and competition. In many countries, companies in the financials sector are regulated by governmental entities, which can increase costs for new services or products and make it difficult to pass increased costs on to consumers. In certain areas, deregulation of financial companies has resulted in increased competition and reduced profitability for certain companies. The profitability of many types of financial companies may be adversely affected in certain market cycles, including periods of rising interest rates, which may restrict the availability and increase the cost of capital, and declining economic conditions, which may cause credit losses due to financial difficulties of borrowers. Because many types of financial companies are vulnerable to these economic cycles, the Fund’s investments in these companies may lose significant value during such periods.

The financial services industries also are subject to relatively rapid changes as a result of industry consolidation trends which may result in distinctions between different financial service segments (for example, banking, insurance and brokerage businesses) becoming less clear. In the recent past, the financial services industries have experienced considerable financial distress, which has led to the implementation of government programs designed to ease that distress.

*REITs Risk.* Investments in REITs expose the Fund to risks similar to investing directly in real estate. The value of these underlying investments may be affected by changes in the value of the underlying real estate, the quality of the property management, the creditworthiness of the issuer of the investments, and changes in property taxes, interest rates and the real estate regulatory environment. Investments in REITs are also affected by general economic conditions.

*Foreign Investment Risk.* Investments in foreign securities involve certain risks not involved in domestic investments. Securities markets in certain foreign countries are not as developed, efficient or liquid as securities markets in the United States. Therefore, the prices of foreign securities can be volatile. Certain foreign countries may impose restrictions on the ability of issuers of foreign securities to make payments of principal and interest to investors located outside the country, due to blockage of foreign currency exchanges or otherwise. In addition, the Fund will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Fund to lose money on its investments in foreign securities. Furthermore, certain investments in foreign securities also may be subject to foreign withholding taxes, and dividend income the Fund receives from foreign securities may not be eligible for reduced rates of taxation that may be applicable to QDI.

Investing in these foreign securities involves certain risks not involved in domestic investments, including, but not limited to:

- future foreign economic, financial, political and social developments;
- different legal systems;
- the possible imposition of exchange controls or other foreign governmental laws or restrictions;
- less governmental supervision;
- regulation changes;
- changes in currency exchange rates;
- less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices;
- high and volatile rates of inflation;
- fluctuating interest rates; and
- different accounting, auditing and financial record-keeping standards and requirements.

In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as:

- growth of gross domestic product;
- rates of inflation;
- capital reinvestment;
- resources;
- self-sufficiency; and
- balance of payments position.



To the extent the Fund has investments in a geographic region or country, the Fund will be subject to the risks of adverse changes in that region or country. In addition, income from the Fund's investments in certain foreign securities may also be subject to foreign withholding taxes, which would reduce the Fund's return on those securities.

As a result of these potential risks, the Adviser may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Fund may invest in countries in which foreign investors, including the Adviser, have had no or limited prior experience.

*Currency Risk.* Although the Fund will report its net asset value and pay dividends in U.S. dollars, foreign securities often are purchased with, and make dividend or interest payments in, foreign currencies. Therefore, when the Fund invests in foreign securities, it will be subject to foreign currency risk, which means that the Fund's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. Certain foreign countries may impose restrictions on the ability of issuers of foreign securities to make payments of principal, interest or dividends to investors located outside the country, due to blockage of foreign currency exchanges or other factors. The Fund's transactions in foreign currencies may increase or accelerate the Fund's recognition of ordinary income and may affect the timing or character of the Fund's distributions.

*Non-Diversification Risk.* The Fund is non-diversified, which means that it may invest in the securities of fewer issuers than a diversified fund. As a result, it may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, may experience increased volatility and may be highly concentrated in certain securities.

*Convertible Securities Risk.* Although to a lesser extent than with nonconvertible fixed-income securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. A unique feature of convertible securities is that as the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis, and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the convertible securities tend to rise as a reflection of the value of the underlying common stock.

*High Yield Securities Risk.* The Fund may invest in securities that are rated below investment grade. Securities rated below investment grade are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and these bonds are commonly referred to as "junk bonds." These securities are subject to a greater risk of default. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market values of lower grade securities tend to be more volatile than investment grade securities.

Lower-rated securities, or equivalent unrated securities, may be considered speculative with respect to the issuer's continuing ability to make principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities, and the Fund's ability to achieve its investment objective may, to the extent it is invested in lower-rated securities, be more dependent upon such creditworthiness analysis than would be the case if it were investing in higher quality securities. An issuer of these securities has a currently identifiable vulnerability to default and the issuer may be in default or there may be present elements of danger with respect to principal or interest.



The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect the price at which the Fund could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the net asset value of the Fund's shares. Adverse publicity and investor perceptions may decrease the values and liquidity of high yield securities.

It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of those securities and adversely affect the ability of the issuers of those securities to repay principal or interest on those securities. New laws and proposed new laws may adversely impact the market for lower-rated securities.

Rating agencies are private services that provide ratings of the credit quality of debt obligations, including convertible securities. Appendix B to the SAI describes the various ratings assigned to financial obligations by Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's Ratings Group, a subsidiary of The McGraw Hill Companies ("S&P") and Fitch, Inc. ("Fitch"). Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks or the liquidity of securities. Rating agencies may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. Credit rating agencies may be paid by the companies whose securities they analyze and grade. To the extent that the issuer of a security pays a rating agency for the analysis of its security, an inherent conflict of interest may exist that could affect the reliability of the rating. The Fund will not necessarily sell a security when its rating is reduced below what its rating was at the time of purchase. The Adviser does not rely solely on credit ratings, and develops its own analysis of issuer credit quality. The ratings of a security may change over time. S&P, Moody's and Fitch monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, securities held by the Fund could receive a higher rating (which would tend to increase their value) or a lower rating (which would tend to decrease their value) during the period in which they are held.

Because the Fund may invest in high yield securities, the Fund's success in achieving its investment objective may depend more heavily on the Adviser's analysis than if the Fund invested exclusively in higher-quality and rated securities. The Adviser will attempt to reduce the risks of investing in lower rated securities through active portfolio management, credit analysis and attention to current developments and trends in the economy and the financial markets.

*Selection Risk.* Selection risk is the risk that the securities selected by Fund management will underperform the markets, the relevant indices or the securities selected by other funds with similar investment objectives and investment strategies. This means you may lose money.

*Management Risk.* The Fund is an actively managed portfolio and its success depends upon the investment skills and analytical abilities of the Adviser to develop and effectively implement strategies that achieve the Fund's investment objective. Subjective decisions made by the Adviser may cause the Fund to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

*Leverage Risk.* Leverage is a speculative technique and there are special risks and costs associated with leveraging. If the Fund utilizes leverage, the fees paid to the Adviser for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's Managed Assets, which include the principal amount of outstanding Borrowings and the liquidation preference of Preferred Shares, if any, and the proceeds of any Reverse Repurchase Agreements.

*Risk of Market Price Discount from Net Asset Value.* Shares of closed-end funds frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value could decrease as a result of investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. We cannot predict whether the Common Shares will trade at, above or below net asset value. Net asset value will be reduced

immediately following the offering of the Common Shares by the amount of the sales load and the amount of organizational and offering expenses paid by the Fund, to the extent such expenses are not borne by the Adviser. Whether investors will realize gains or losses upon the sale of the shares will depend not upon the Fund's net asset value but entirely upon whether the market price of the shares at the time of sale is above or below the investor's purchase price for the shares. Because the market price of the shares will be determined by factors such as relative supply of and demand for shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, we cannot predict whether the shares will trade at, above or below net asset value, or at below or above the initial public offering price.

### **ADDITIONAL RISK CONSIDERATIONS**

*Potential Conflicts of Interest Risk.* The Adviser provides investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Adviser intends to engage in such activities and may receive compensation from third parties for its services. The Adviser is not under any obligation to share any investment opportunity with the Fund. As a result, other clients of the Adviser with similar strategies may compete with the Fund for appropriate investment opportunities. The results of the Fund's investment activities may differ from those of other accounts managed by the Adviser, and it is possible that the Fund could sustain losses during periods in which one or more of the other accounts managed by the Adviser achieve profits. The Adviser has informed the Fund's Board of Directors that the investment professionals associated with the Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund's business and affairs. The Adviser has adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the accounts managed by the Adviser in a fair and equitable manner.

*Dependence on Key Personnel Risk.* The Adviser is dependent upon the experience and expertise of certain key personnel in providing services with respect to the Fund's investments. If the Adviser were to lose the services of these individuals, its ability to service the Fund could be adversely affected. As with any managed fund, the Adviser might not be successful in selecting the best-performing securities or investment techniques for the Fund's portfolio and the Fund's performance may lag behind that of similar funds. In addition, the performance of the Fund may also depend on the experience and expertise of individuals who become associated with the Adviser in the future.

*Portfolio Turnover Risk.* The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. Although the Fund cannot accurately predict its annual portfolio turnover rate, it may be greater than 100%. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when the Fund's investment strategy so dictates. Higher portfolio turnover rates would result in corresponding increases in brokerage commissions and may generate short-term capital gains that are taxable as ordinary income to Common Shareholders when distributed to such shareholders.

*Risk of Anti-Takeover Provisions.* Certain provisions of the Fund's Charter and Bylaws could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to modify the Fund's structure. The provisions may have the effect of depriving you of an opportunity to sell your shares at a premium over prevailing market prices and may have the effect of inhibiting conversion of the Fund to an open-end investment company. These include provisions for staggered terms of office for Directors, super-majority voting requirements for merger, consolidation, liquidation, termination and asset sale transactions, amendments to the Charter and conversion to open-end status. See "Description of Shares" and "Certain Provisions of the Charter and Bylaws."

*Derivatives Risk.* The use of interest rate and other hedging transactions is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses resulting from increasing short-term interest rates on any leverage it incurs or any securities it holds. A decline in interest rates may result in a decline in the

value of the swap or cap, which may result in a decline in the net asset value of the Fund. A sudden and dramatic decline in interest rates may result in a significant decline in the net asset value of the Fund. Depending on the state of interest rates in general, the use of interest rate and other hedging transactions could enhance or harm the overall performance of the Common Shares. For specific risks associated with interest rate and other hedging transactions, see “Use of Leverage—Interest Rate Derivative Transactions.”

Forward Currency Contracts. In the event the Fund enters into forward currency contracts for hedging purposes, the Fund will be subject to currency exchange rates risk. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates also can be affected unpredictably by intervention of U.S. or foreign governments or central banks, or the failure to intervene, or by currency controls or political developments in the United States or abroad. The Fund’s success in these transactions will depend principally on the ability of the Adviser to predict accurately future foreign currency exchange rates.

Options. There are various risks associated with writing covered put and call options. In effect, the Fund forgoes, during the life of the option, the opportunity to profit from increases in the market value of the underlying security or securities held by the Fund with respect to which a call option was written above the sum of the premium and the exercise price. For index options, this will depend, in part, on the extent of correlation of the performance of the Fund’s portfolio securities with the performance of the relevant index. The imperfect correlation between the value of such instruments and the underlying assets of the Fund creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying assets in the Fund’s portfolio. Although this strategy will generally limit the Fund’s ability to benefit from the full appreciation potential of its stock investments underlying the options, the Fund retains the risk of loss (less premiums received) if the value of these stock invests declines. This combination of potentially limited appreciation and full depreciation over time may lead to erosion in the value of the Fund’s portfolio, and the Fund’s performance may be lower than it otherwise would have been if it did not write covered put and call options.

Futures. The sale of a futures contract limits the Fund’s risk of loss from a decline in the market value of portfolio holdings correlated with the futures contract prior to the futures contract’s expiration date. In the event the market value of the portfolio holdings correlated with the futures contract increases rather than decreases, however, the Fund will realize a loss on the futures position and a lower return on the portfolio holdings than would have been realized without the purchase of the futures contract. The purchase of a futures contract may protect the Fund from having to pay more for securities as a consequence of increases in the market value for such securities during a period when the Fund was attempting to identify specific securities in which to invest in a market the Fund believes to be attractive. In the event that such securities decline in value or the Fund determines not to complete an anticipatory hedge transaction relating to a futures contract, however, the Fund may realize a loss relating to the futures position. The primary risks associated with the use of futures contracts and options are (a) the imperfect correlation between the change in market value of the instruments held by the Fund and the price of the futures contract or option; (b) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the Adviser’s inability to predict correctly the direction of securities prices, interest rates, currency exchange rates and other economic factors; and (e) the possibility that the counterparty will default in the performance of its obligations.

“Eurodollar strip” means a consecutive series of equal amounts of quarterly Eurodollar futures contracts at each settlement date. A Eurodollar strip may range from six-months to ten-years to final contract expiration. Engaging in Eurodollar strips entails the risks described above.

Credit Derivatives. The Fund may enter into credit derivatives such as credit default swap agreements and similar agreements. The credit default swap agreement or similar instrument may have

as reference obligations one or more securities that are not currently held by the Fund. The protection “buyer” in a credit default contract may be obligated to pay the protection “seller” an up-front payment or a periodic stream of payments over the term of the contract, provided generally that no credit event on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the “par value” (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund recovers nothing if the swap is held through its termination date. However, if a credit event occurs, the Fund may elect to receive the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. As a seller, the Fund generally receives an up-front payment or a fixed rate of income throughout the term of the swap, which typically is between six months and three years, provided that there is no credit event. If a credit event occurs, generally the seller must pay the buyer the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. Credit derivatives such as credit default swaps and similar instruments involve greater risks than if the Fund had invested in the reference obligation directly, since, in addition to general market risks, they are subject to illiquidity risk, counterparty risk (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) and credit risk. A buyer also will lose its investment and recover nothing should no credit event occur and the swap is held to its termination date. If a credit event were to occur, the value of any deliverable obligation received by the seller, coupled with the up-front or periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Fund. When the Fund acts as a seller of a credit default swap or a similar instrument, it is exposed to many of the same risks of leverage since, if a credit event occurs, the seller may be required to pay the buyer the full notional value of the contract net of any amounts owed by the buyer related to its delivery of deliverable obligations.

In December 2012, the CFTC issued a final rule which requires index-based credit default swaps to be centrally cleared. Such clearing requirement may affect the Fund’s ability to negotiate individualized terms and/or may increase the costs of entering into such credit default swap transactions (for example, by increasing margin or capital requirements). Clearing mandates with respect to other types of credit default swaps have not yet been issued by the regulators, but could have additional impact on the Fund’s ability to use credit default swap transactions as part of its investment strategy.

Total Return Swap Agreements. Total return swap agreements are contracts in which one party agrees to make periodic payments to another party based on the change in market value of the assets underlying the contract, which may include a specified security, basket of securities or securities indices during the specified period, in return for periodic payments based on a fixed or variable interest rate or the total return from other underlying assets. Total return swap agreements may be used to obtain exposure to a security or market without owning or taking physical custody of such security or investing directly in such market. Total return swap agreements may effectively add leverage to the Fund’s portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap.

Total return swap agreements are subject to the risk that a counterparty will default on its payment obligations to the Fund thereunder. Swap agreements also bear the risk that the Fund will not be able to meet its obligation to the counterparty. Generally, the Fund will enter into total return swaps on a net basis (*i.e.*, the two payment streams are netted against one another with the Fund receiving or paying, as the case may be, only the net amount of the two payments). The net amount of the excess, if any, of the Fund’s obligations over its entitlements with respect to each total return swap will be accrued on a daily basis, and an amount of liquid assets having an aggregate net asset value at least equal to the accrued excess will be segregated by the Fund.

Recent legislation has called for a new regulatory framework for the derivatives market. The impact of the new regulations are still unknown, but has the potential to increase the costs of using derivatives, may limit the availability of some forms of derivatives or the Fund's ability to use derivatives, and may adversely affect the performance of some derivative instruments used by the Fund.

Additional risks associated with derivatives trading include:

Counterparty Risk. The Fund is subject to the risk that a counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) will not perform its obligations under the related contracts. Although the Fund intends to enter into transactions only with counterparties which the Adviser believes to be creditworthy, there can be no assurance that a counterparty will not default and that the Fund will not sustain a loss on a transaction as a result.

In the event of the counterparty's bankruptcy, insolvency, dissolution, liquidation, winding-up or other analogous proceeding, the Fund's collateral may be subject to the conflicting claims of the counterparty's creditors, and the Fund may be exposed to the risk of a court treating the Fund as a general unsecured creditor of the counterparty, rather than as the owner of the collateral. The counterparty risk for cleared derivatives is generally lower than for uncleared OTC derivative transactions since generally a clearing organization becomes substituted for each counterparty to a cleared derivative contract and, in effect, guarantees the parties' performance under the contract as each party to a trade looks only to the clearing house for performance of financial obligations. However, there can be no assurance that the clearing house, or its members, will satisfy its obligations to the Fund. In addition, in the event of a bankruptcy of a clearing house, the Fund could experience a loss of the funds deposited with such clearing house as margin and of any profits on its open positions.

The Fund is subject to the risk that issuers of the instruments in which it invests and trades may default on their obligations under those instruments, and that certain events may occur that have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which the Fund invests will not default, or that an event that has an immediate and significant adverse effect on the value of an instrument will not occur, and that the Fund will not sustain a loss on a transaction as a result.

Liquidity Risk. Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets the Fund may not be able to close out a position without incurring a loss. Although both OTC and exchange-traded derivatives markets may experience the lack of liquidity, OTC non-standardized derivative transactions are generally less liquid than exchange-traded instruments. The illiquidity of the derivatives markets may be due to various factors, including congestion, disorderly markets, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. In addition, the liquidity of a secondary market in an exchange-traded derivative contract may be adversely affected by certain limits established by the exchanges, including "speculative position limits," which limit the size of the Adviser's aggregate position, held on behalf of all accounts owned or managed by the Adviser, in certain contracts, and "daily price fluctuation limits," which limit the amount of fluctuation in an exchange-traded contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days. If it is not possible to close an open derivative position entered into by the Fund, the Fund would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such a situation, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The absence of liquidity may also make it more difficult for the Fund to ascertain a market value for such instruments. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to effectively hedge its portfolio.

OTC Trading Risk. Because derivatives traded in OTC markets are not guaranteed by an exchange or clearing corporation and generally do not require payment of margin, to the extent that the Fund has unrealized gains in such instruments or has deposited collateral with its counterparties the Fund is at risk that its counterparties will become bankrupt or otherwise fail to honor its obligations. In addition, significant disparities may exist between “bid” and “asked” prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges also are not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions.

Tracking/Correlation Risk. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Fund from achieving the intended hedging effect or expose the Fund to risk of loss.

Volatility Risk. The Fund could suffer losses related to its derivative positions as a result of unanticipated market movements, which losses are potentially unlimited.

Regulatory Risk. The derivatives markets have become subject to comprehensive statutes, regulations and clearing, reporting, recordkeeping, registration and margin requirements. In particular, in the United States the Dodd-Frank Act was signed into law in July 2010. The Dodd-Frank Act requires most OTC derivatives to be executed on a regulated market and cleared through a central counterparty, which may result in increased margin requirements and costs for the Fund. The Adviser has claimed an exclusion from the definition of the term “commodity pool operator” with respect to the Fund in accordance with CFTC Rule 4.5 and, as a result, the Adviser is not subject to registration or regulation as a commodity pool operator under the Commodity Exchange Act (“CEA”). In order to maintain the exclusion, the Fund must invest no more than a prescribed level of its liquidation value in futures and certain other instruments, and the Fund must not market itself as providing investment exposure to such instruments. If the Fund is no longer able to claim the exclusion, the Adviser may be subject to the CFTC registration requirements, and the disclosure and operations of the Fund would need to comply with all applicable regulations governing commodity pools. Compliance with these additional registration and regulatory requirements may increase operating expenses. Other potentially adverse regulatory initiatives could also develop. The Adviser has registered as a commodity trading advisor.

In addition, the derivatives market is subject to a changing regulatory environment. In particular, adoption of derivatives legislation by the United States Congress, including the Dodd-Frank Act, could have an adverse effect on the Fund’s ability to use derivative instruments. The Dodd-Frank Act provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. The extent and the impact of the regulation is not yet known and may not be known for some time. The new regulations could, among other things, restrict the Fund’s ability to engage in derivatives transactions and/or increase the costs of such derivatives transactions (for example, by increasing margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result.

*Investment in Other Investment Companies Risk.* To the extent the Fund invests a portion of its assets in other investment companies, including open-end funds, closed-end funds, ETFs and other types of funds, those assets will be subject to the risks of the purchased funds’ portfolio securities. As a shareholder in an investment company, the Fund will bear its pro rata portion of that investment company’s expenses, and will remain subject to payment of the Fund’s advisory and administrative fees with respect to assets invested in such underlying investment companies. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. Risks associated with investments in closed-end funds also generally include the risks described in this prospectus associated with the Fund’s structure as a closed-end fund, including market risk, leverage risk, risk of market price discount from net asset value, risk of anti-takeover provisions and non-diversification. The Fund’s investments in other funds also are subject to the ability of the managers of those funds to achieve the funds’ investment objectives.



In addition, investments in closed-end funds may be subject to the following risks:

Dilution Risk. Strategies employed by a closed-end fund, such as rights offerings, may, under certain circumstances, have the effect of reducing its share price and the Fund's proportionate interest.

Foreign Closed-End Fund Risk. Risks associated with investments in closed-end funds registered under foreign law may be different than those of investments in U.S. registered closed-end funds. Foreign registered funds are subject to a different regulatory regime that may be less rigorous than in the United States in areas such as governance and financial reporting requirements. There also may be less publicly available information about such funds, and investments in these funds may carry special tax consequences. In addition, foreign closed-end funds are generally subject to the risks of investing in other types of foreign securities.

Investing in ETFs will give the Fund exposure to the securities comprising the index on which the ETF is based and will expose the Fund to risks similar to those of investing directly in those securities. Shares of ETFs and registered closed-end investment companies are traded on exchanges and may trade at either a premium or discount to net asset value. The Fund will pay brokerage commissions in connection with the purchase and sale of shares of ETFs and registered closed-end funds.

Market Disruption Risk. Global financial markets have recently experienced periods of unprecedented turmoil. The debt and equity capital markets in the United States and around the world were negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broader market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system were also experiencing severe economic distress materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. These events contributed to severe market volatility and caused severe liquidity strains in the credit markets. Volatile financial markets can expose the Fund to greater market and liquidity risk. Risks to a robust resumption of growth persist: a weak consumer weighed down by too much debt and increasing joblessness, the growing size of the Federal budget deficit and national debt, and the threat of inflation.

The instability in the financial markets has led governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable.

Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The long-term implications of government ownership and disposition of these assets are unclear, and may have positive or negative effects on the liquidity, valuation and performance of the Fund's portfolio holdings.

The aftermath of the wars in Iraq and Afghanistan, instability in the Middle East and terrorist attacks around the world have resulted in recent market volatility and may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of terrorism or similar events in the future on the U.S. economy and securities markets.

The current financial market situation, as well as various social and political tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets; and may cause further economic uncertainties or deterioration in the United States and worldwide. The prolonged continuation or further deterioration of the current U.S. and global economic downturn could adversely impact the Fund's portfolio.



## HOW THE FUND MANAGES RISK

*Investment Limitations.* The Fund has adopted certain investment limitations designed to limit investment risk that are fundamental and may not be changed without the approval of the holders of a “majority of the outstanding” (as defined below) Common Shares and, if issued, Preferred Shares voting together as a single class, and the approval of the holders of a “majority of the outstanding” the Preferred Shares voting as a separate class. Under these limitations, the Fund may not: (1) issue senior securities (including borrowing money for other than temporary purposes) except in conformity with the limits set forth in the 1940 Act or pursuant to exemptive relief therefrom, or pledge, mortgage or hypothecate its assets other than to secure such issuances or borrowings or in connection with permitted investment strategies provided that, notwithstanding the foregoing, the Fund may borrow up to an additional 5% of its total assets for temporary purposes; (2) act as an underwriter of securities issued by other persons, except insofar as the Fund may be deemed an underwriter in connection with the disposition of securities; (3) purchase or sell real estate, except that the Fund may invest in securities of companies that deal in real estate or are engaged in the real estate business, including REITs, and loans and other securities secured by real estate or interests therein, and the Fund may hold and sell real estate acquired through default, liquidation, or other distributions of an interest in real estate as a result of the Fund’s ownership of such securities and loans; (4) make loans to other persons except through the lending of securities held by it or in connection with permitted investment strategies (but not to exceed a value of one-third of total assets), through the use of repurchase agreements, by the purchase of debt securities and in connection with permitted investment strategies; or (5) invest more than 25% of its total assets in securities of issuers in a single industry, except that (i) this limitation will not be applicable to the purchase of Government Securities and (ii) the Fund will invest, under normal market conditions, more than at least 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and REIT industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. Under these limitations, the Fund may purchase and sell commodities or commodity contracts, including futures contracts, to the maximum extent permitted by law. Further information about and exceptions to these limitations are contained in the SAI under “Investment Objective and Policies” and “Investment Restrictions.” For these purposes when used with respect to particular shares of the Fund, a “majority of the outstanding” shares means the lesser of (a) 67% or more of the Fund’s shares present at a shareholders meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (b) more than 50% of the shares.

The Fund may become subject to guidelines that are more limiting than its investment restrictions in order to obtain and maintain ratings from NRSROs on any Preferred Shares that it issues. The Fund does not anticipate that such guidelines would have a material adverse effect on the Fund’s Common Shareholders or the Fund’s ability to achieve its investment objective. See “Investment Objective and Policies” in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

*Management of Investment Portfolio and Capital Structure to Limit Leverage Risk.* The Fund may take certain actions if short-term interest rates increase or market conditions otherwise change (or the Fund anticipates such an increase or change) and the Fund has incurred leverage which begins (or is expected) to adversely affect Common Shareholders. In order to attempt to offset such a negative impact of leverage on Common Shareholders, the Fund may attempt to shorten the average maturity of its overall investment portfolio or may reduce its Borrowings or any Reverse Repurchase Agreements or extend the maturity of any outstanding Preferred Shares. The Fund may also attempt to reduce the leverage by redeeming or otherwise purchasing any Preferred Shares. As explained above under “Use of Leverage—Leverage Risk,” the success of any such attempt to limit leverage risk depends on the Adviser’s ability to accurately predict interest rate or other market changes. Because of the difficulty of making such predictions, the Fund may never attempt to manage its capital structure in the manner described in this paragraph.

*Derivative Transactions.* The Fund may enter into derivative transactions to manage risk. See “Additional Risk Considerations—Derivatives Risk.”

*Limitations on Borrowings, Preferred Shares and Reverse Repurchase Agreements.* The Fund is limited under Section 18 of the 1940 Act in the level of Borrowings it may make and the amount of Preferred Shares it may issue to 33⅓% and 50%, respectively, of its total assets (including the amount borrowed). See “Description of Shares—Limited Issuance of Preferred Shares and Borrowings.” A Reverse Repurchase Agreement would not be subject to the asset coverage limitations imposed by Section 18 of the 1940 Act to the extent that the Fund segregates liquid assets, enters into offsetting transactions or otherwise covers such transactions. As a result, if the Fund enters into Reverse Repurchase Agreements, it would be permitted to leverage more of its assets than would be permissible through the use of Borrowings and/or the issuance of Preferred Shares. At the time the Fund enters into a Reverse Repurchase Agreement, the Fund will “cover” its exposure under the Reverse Repurchase Agreement by designating on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). As a result, a Reverse Repurchase Agreement will not be considered a senior security under the 1940 Act. However, even to the extent that the Fund segregates liquid assets, enters into offsetting transactions or otherwise covers such transactions, the amount of financing the Fund may initially obtain through Reverse Repurchase Agreements will not exceed 33⅓% of the Fund’s Managed Assets. The Fund has no current intention to use Reverse Repurchase Agreements for leverage. The Fund, however, has no current intention to utilize leverage through the issuance of Preferred Shares or the use of Reverse Repurchase Agreements.

## **MANAGEMENT OF THE FUND**

The business and affairs of the Fund are managed under the direction of the Board of Directors. The members of the Board of Directors (the “Directors”) approve all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund’s agreement with its Adviser, administrator, custodian and transfer agent. The management of the Fund’s day-to-day operations is delegated to its officers, the Adviser and the Fund’s administrator, subject always to the investment objective and policies of the Fund and to the general supervision of the Directors. The names and business addresses of the Directors and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under “Management of the Fund” in the SAI.

### **Investment Adviser**

Flaherty & Crumrine Incorporated, with offices located at 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101, has been retained to provide investment advice, and, in general, to conduct the management and investment program of the Fund under the overall supervision and control of the Directors of the Fund. The Adviser, a registered investment adviser, was formed in 1983, and its clients include pension plans, endowment funds and institutional investors and investment companies, including open-end and closed-end funds. As of February 28, 2013, the Adviser had \$5.2 billion of assets under management.

### **Investment Advisory Agreement**

Under its Investment Advisory Agreement with the Fund, the Adviser furnishes a continuous investment program for the Fund’s portfolio, makes the day-to-day investment decisions for the Fund, and generally manages the Fund’s investments in accordance with the stated policies of the Fund, subject to the general supervision of the Board of Directors of the Fund. The Adviser will be responsible for the management of the Fund’s portfolio.

The Fund will pay the Adviser a monthly fee for its advisory services equal to an annual rate of 0.575 of 1.00% on the first \$200 million of the Fund’s average daily Managed Assets, and 0.50 of 1.00% on the Fund’s average daily Managed Assets above \$200 million. In addition to the monthly management fee, the Fund pays all other costs and expenses of its operations, other than those that other parties have agreed

to bear. The expenses to be borne by the Fund include taxes, interest, brokerage costs and commissions and stock exchange fees; fees of directors of the Fund who are not officers, directors or employees of the Adviser (provided that the Fund shall reimburse the Adviser for the travel and out-of-pocket expenses or an appropriate portion thereof of directors, officers and employees of the Adviser in connection with attendance at meetings of the Board of Director or committee thereof); SEC fees; state Blue Sky qualification fees; charges of the custodian, any subcustodians and transfer and dividend-paying agent; expenses in connection with the Plan; insurance premiums; outside auditing and legal expenses; costs of maintenance of the Fund's existence; costs attributable to investor services, including, without limitation, fees to the Fund's shareholder servicing agent, telephone and personnel expenses; costs of printing stock certificates; costs of shareholders' reports and meetings of the shareholders of the Fund and of the officers or Board of Directors of the Fund; membership fees in trade associations; stock exchange listing fees and expenses; expenses in connection with the offering and sale of any shares of common stock or preferred stock proposed to be issued by the Fund, including in each case travel related expenses of service providers; litigation and other extraordinary or non-recurring expenses.

If the Fund utilizes leverage, the fees paid to the Adviser for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's Managed Assets, which is Fund's net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of Preferred Shares issued by the Fund, if any, and the proceeds of any Reverse Repurchase Agreements entered into by the Fund. The Fund's investment management fees and other expenses are paid only by the Common Shareholders and not by holders of Preferred Shares, if any. See "Use of Leverage."

A discussion regarding the considerations of the Fund's Board of Directors for approving the Investment Advisory Agreement will be included in the Fund's first semi-annual report to shareholders.

## **Portfolio Managers**

The Fund's portfolio managers are:

*Donald F. Crumrine CFA, Director and Chief Executive Officer.* Mr. Crumrine co-founded Flaherty & Crumrine in 1983. He has managed portfolios of preferred securities since 1973 and at Flaherty & Crumrine since 1983. Mr. Crumrine is actively involved in the day-to-day management of all client portfolios and in client service and marketing efforts. He also serves as Chairman of the Board, Chief Executive Officer and a Director of Flaherty & Crumrine's U.S. closed-end funds. Mr. Crumrine earned a B.S. in Finance from the University of Southern California and his M.B.A. from the Wharton School at the University of Pennsylvania.

*Robert M. Ettinger CFA, Director and President.* Mr. Ettinger has managed preferred securities at Flaherty & Crumrine since 1985. Mr. Ettinger and Mr. Chadwick have the primary responsibility of implementing investment strategies and act as traders. He also serves as President of Flaherty & Crumrine's U.S. closed-end funds. Mr. Ettinger earned his B.A. in Economics from UCLA and his M.B.A. from the Wharton School at the University of Pennsylvania.

*R. Eric Chadwick CFA, Director and Vice President.* Mr. Chadwick has managed preferred securities at Flaherty & Crumrine since 1998. Mr. Chadwick and Mr. Ettinger have the primary responsibility of implementing investment strategies and also act as traders. He also serves as Chief Financial Officer, Vice President and Treasurer of Flaherty & Crumrine's U.S. closed-end funds. Mr. Chadwick earned his B.S. in Economics from the University of Kansas and his M.B.A. from the UCLA Anderson School of Management.

*Bradford S. Stone, Director and Vice President.* Mr. Stone joined Flaherty & Crumrine in May 2003 after a 20-year career on Wall Street. Since 2006, he has been a member of the firm's portfolio management team and is responsible for macroeconomic and quantitative research and analysis. In addition, he directs the credit research group. He also serves as Vice President and Assistant Treasurer of Flaherty & Crumrine's U.S. closed-end funds. Mr. Stone earned his A.B. in Economics from Dartmouth College and his M.B.A. from the Wharton School at the University of Pennsylvania.

See “Management of the Fund—Compensation of Directors and Certain Officers” and “Investment Management and Other Services” in the SAI for further information about the Fund’s portfolio managers’ compensation, other accounts managed by the portfolio managers and the portfolio managers’ ownership of securities in the Fund.

### **Administrator, Transfer Agent and Custodian**

BNY Mellon Investment Servicing (US) Inc. (“BNY Mellon”), serves as the Fund’s administrator (the “Administrator”). The Administrator calculates the net asset value of the Fund’s Common Shares and generally assists in all aspects of the Fund’s administration and operation. As compensation for the Administrator’s services, the Fund pays the Administrator an aggregate monthly fee at the annual rate of: 0.10% on the first \$200 million of the Fund’s average daily total managed assets, 0.04% on the next \$300 million of the Fund’s average daily total managed assets, 0.03% on the next \$500 million of the Fund’s average daily total managed assets and 0.02% on the Fund’s average daily total managed assets over \$1 billion. For purposes of calculating such fee, the Fund’s total managed assets means the total assets of the Fund (including any assets attributable to any Fund auction rate preferred stock that may be outstanding or otherwise attributable to the use of leverage) minus the sum of accrued liabilities (other than debt, if any, representing financial leverage).

BNY Mellon also serves as the Fund’s transfer agent, dividend disbursing agent and registrar (“transfer agent”).

The Bank of New York Mellon (the “Custodian”) is the Fund’s Custodian.

### **Investor Support Services**

The Fund has retained Destra Capital Investments LLC (“Destra” or the “Servicing Agent”), a registered broker-dealer, to provide investor support services in connection with the on-going operation of the Fund. Such services include providing ongoing contact with respect to the Fund and its performance with financial advisors that are representatives of broker-dealers and other financial intermediaries, communicating with the stock exchange specialist for the Fund’s Common Shares, and with the closed-end fund analyst community regarding the Fund on a regular basis, and developing and maintaining a website for the Fund.

The Fund pays the Servicing Agent an annual amount equal to (i) 0.12% (12 bps) of the Fund’s “Average Net Assets” (as defined below) through the first year of the Fund’s agreement with the Servicing Agent and (ii) 0.10% (10 bps) of the Fund’s Average Net Assets for the remainder of the term of the agreement. For these purposes, “Average Net Assets” are the average daily net assets available to the Fund’s common shareholders.

## **DIVIDENDS AND DISTRIBUTIONS**

### **Dividends and Distributions to Shareholders**

The Fund’s policy, which may be changed by the Fund’s Board of Directors, will be to distribute throughout the year, primarily in the form of regular monthly distributions, substantially all (on an annual basis) of its net investment income (that is, income other than net realized long-term and short-term capital gains) and its net realized short-term capital gains, if any, to the holders of the Common Shares. The tax treatment and characterization of the Fund’s distributions may vary significantly from time to time because of the varied nature of the Fund’s investments. Although the Fund intends to make distributions monthly, the ultimate tax characterization of the Fund’s distributions made in a taxable year cannot be determined finally until after the end of that taxable year.

Initial distributions to common shareholders are expected to be declared approximately 45 days and paid approximately 60 to 90 days, after the completion of the offering of Common Shares. Realized long term capital gains, if any, are expected to be distributed annually. Distributions can only be made from

net investment income after making any required payments on any interest rate transactions. The Fund's ability to maintain a level distribution rate will depend on a number of factors, including the stability of income received from its investments. The net income of the Fund consists of all income accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. At times, to maintain a stable level of distributions, the Fund may pay out less than all of its net investment income or pay out accumulated undistributed income, or return capital, in addition to current net investment income. To permit the Fund to maintain a more stable monthly distribution, the Fund may initially distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund's net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's net asset value. See "Taxation."

### **Dividend Reinvestment and Cash Purchase Plan**

Each Common Shareholder of the Fund will be deemed to have elected to be a participant in the Dividend Reinvestment and Cash Purchase Plan (the "Plan"), unless the Shareholder specifically elects in writing to receive all dividends and distributions of capital gains in cash, paid by check, mailed directly to the record holder by or under the direction of BNY Mellon as the Fund's dividend disbursing agent (the "Plan Agent"). The Plan Agent, as transfer agent for the Fund, will open an account for each Common Shareholder under the Plan in the same name as the Common Shares currently held by the Common Shareholder are registered. Whenever the Fund declares a capital gains distribution or dividend payable either in Common Shares or cash, as Common Shareholders may have elected, participating Common Shareholders will take the dividend or distribution entirely in Common Shares and the Plan Agent will automatically receive the Common Shares, including fractions, for the Common Shareholder's account.

Under the Plan, whenever the market price per Share on the Valuation Date (as defined below) is equal to or exceeds the net asset value per Share on the Valuation Date, participants will be issued new Common Shares at the higher of net asset value or 95% of the then current market price. The Valuation Date is the dividend or capital gains distribution payment date or, if that date is not a NYSE trading day, the immediately preceding trading day. If the net asset value of the Common Shares on the Valuation Date exceeds the sum of the market price of the Common Shares on the Valuation Date plus an estimate of the brokerage commission that would be charged on a per share basis on an open-market purchase of Common Shares on such Date (the "Commission"), or if the Fund declares a dividend or capital gains distribution payable only in cash, the Plan Agent will, as agent for the participants, buy Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts on, or shortly after, the payment date and prior to the next ex-dividend date for the Common Shares.

If, following the commencement of open market purchases, the then current market price of the Common Shares plus any estimated brokerage Commission exceeds the net asset value per share most recently determined, the Plan Agent will endeavor to terminate purchases in the open market and immediately notify the Fund of such occurrence. As soon as practicable after such notification, the Fund or its designee will verify that the then current market price of the Common Shares plus Commission exceeds the net asset value per share most recently determined, and if this is the case, the Fund shall satisfy the remainder of the dividend or capital gains distribution that is not payable only in cash by issuing Common Shares. These remaining Common Shares will be issued by the Fund at a price equal to the net asset value per share most recently determined or, if that net asset value is less than 95% of the market price (at the time of verification), then Common Shares will be issued at 95% of such market price. However, if at the time of its verification the Fund determines that the net asset value per share most recently determined exceeds the then current market price plus Commission, the Fund will direct the Plan Agent to resume buying Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts. Should the then current market price of the Fund's Common Shares plus any brokerage Commission again exceed the net asset value per share most recently determined, the Fund will again follow the procedures set forth in this paragraph.

In a case where the Plan Agent has terminated open market purchases and the Fund has issued Common Shares to satisfy the remainder of the dividend or capital gains distribution, the number of Common Shares received by the participant in respect of the dividend or distribution will be based on the weighted average of prices paid for Common Shares purchased in the open market and the price at which the Fund issues remaining Common Shares. To the extent that the Plan Agent is unable to terminate its open market purchases, and if before the Plan Agent has completed its purchases, the market price exceeds the net asset value of the Common Shares, the average per Share purchase price paid by the Plan Agent may exceed the net asset value of the Common Shares, resulting in the acquisition of fewer Common Shares than if the dividend or capital gains distribution had been paid in Common Shares issued at the net asset value. The Plan Agent will apply all cash received as a dividend or capital gains distribution to purchase Common Shares on the open market as soon as practicable on or after the payment date of the dividend or capital gains distribution, but in any event prior to the next ex-dividend date for the Fund's Common Shares, except when necessary to comply with applicable provisions of the Federal securities laws.

Participants in the Plan have the option of making additional cash payments to the Plan Agent, semi-annually, in any amount from \$100 to \$3,000, for investment in Common Shares. The Plan Agent will use all funds received from participants to purchase Common Shares in the open market on or about February 15 and August 15 of each year. Any voluntary cash payments received more than 30 days prior to these dates will be returned by the Plan Agent and interest will not be paid on any uninvested cash payments. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Plan Agent, it is suggested that participants send in voluntary cash payments to be received by the Plan Agent approximately ten days before February 15 or August 15, as the case may be. A participant may withdraw voluntary cash payments by written notice, if the notice is received by the Plan Agent not less than 48 hours before the payment is to be invested.

For all purposes of the Plan: (a) market price of Common Shares on a particular date shall be the most recent sales price on the NYSE during that trading day, or if no sales occurred on the NYSE on that trading day, then the last sales price on the NYSE on the close of the previous trading day or, if no sales occurred on the NYSE on such previous trading day, then the mean between the bid and asked quotations for the Common Shares on the NYSE on the date of calculation and (b) net asset value per Share on a particular date shall be the most recently determined prior to the time of calculation as determined by or on behalf of the Fund. Notwithstanding the foregoing, however, for purposes of determining the market price of Common Shares on the Valuation Date, market price shall be the last sales price on the NYSE on the Valuation Date or, if no sales occurred on the Valuation Date, then the mean between the closing bid and asked quotations for the Common Shares on the NYSE on the Valuation Date.

A Common Shareholder may terminate her or his account under the Plan by notifying the Plan Agent in writing. A termination will be effective immediately if notice is received by the Plan Agent not less than 10 days prior to any dividend or distribution record date; otherwise such termination will be effective, with respect to any subsequent dividends or distributions, on the first trading day after the dividend or distribution paid for the record date has been credited to the Common Shareholder's account. Upon termination of the Plan with respect to the reinvestment of dividends and distributions generally, the Plan Agent will cause a certificate or certificates for the full Common Shares held for the Common Shareholder under the Plan and cash adjustment for any fraction to be delivered, without charge to her or him. If the Common Shareholder elects by notice to the Plan Agent in advance of such termination to have the Plan Agent sell part or all of her or his Common Shares and remit the proceeds to her or him, the Plan Agent is authorized to deduct a fee equal to \$5.00 plus brokerage commissions for this transaction from the proceeds.

In the case of Common Shareholders, such as banks, brokers or nominees, which hold Common Shares for others who are beneficial owners ("Nominee Holders"), the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by each Nominee Holder as representing the total amount registered in the Nominee Holder's name and held for the account of



beneficial owners who participate in the Plan. Common Shares may be purchased through any of the underwriters, acting as broker or, after the completion of this offering, acting as dealer.

There is no charge to participants for reinvesting dividends or capital gains distributions. The Plan Agent's service fee for handling the reinvestment of such dividends and capital gains distributions will be paid by the Fund. The Common Shareholder will bear a proportionate share of brokerage commissions on all open market purchases.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. The Plan may be amended or terminated by the Fund as applied to any dividend or capital gains distribution paid subsequent to written notice of the change or termination sent to Plan participants at least 30 days prior to the record date for the dividend or capital gains distribution. The Plan may be amended or terminated by the Plan Agent, with the Fund's prior written consent, on at least 30 days' written notice to Plan participants. Notwithstanding the preceding two sentences, the Plan Agent or the Fund may amend or supplement the Plan at any time or times when necessary or appropriate to comply with applicable law or rules or policies of the SEC or any other regulatory authority. Any amendment or supplement to the Plan shall be deemed to be accepted by the Common Shareholder unless, prior to the effective date thereof, the Plan Agent receives written notice of the termination of the Common Shareholder account under the Plan in accordance with the terms thereof. Any such amendment may include an appointment by the Plan Agent in its place and stead of a successor agent under these terms and conditions, with full power and authority to perform any or all of the acts to be performed by the Plan Agent under these terms and conditions. Upon any such appointment of a successor agent for the purposes of receiving dividends and distributions, the Fund will be authorized to pay to such successor agent, for Common Shareholder accounts, all dividends and distributions payable on the Common Shares held in the Common Shareholder's name or under the Plan for retention or application by such successor agent as provided in these terms and conditions.

All correspondence concerning the Plan should be directed to the Plan Agent by telephone at 1-866-351-7446.

The automatic reinvestment of dividends will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions. See "Taxation."

### **CLOSED-END STRUCTURE**

The Fund is a newly organized, non-diversified closed-end management investment company. Closed-end investment companies differ from open-end investment companies (open-end funds or mutual funds) in that closed-end investment companies generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that if you wish to sell your shares of a closed-end investment company you must trade them on the market like any other stock at the prevailing market price at that time. In an open-end fund, if the shareholder wishes to sell shares, the fund will redeem or buy back the shares at "net asset value." Open-end funds generally offer new shares on a continuous basis to new investors, and closed-end investment companies generally do not. The continuous inflows and outflows of assets in an open-end fund can make it difficult to manage the fund's investments. By comparison, closed-end investment companies are generally able to stay fully invested in securities that are consistent with their investment objectives, and also have greater flexibility to make certain types of investments, and to use certain investment strategies, such as leverage and investments in illiquid securities.

Shares of closed-end investment companies frequently trade at a discount to their net asset value. See "Principal Risks of the Fund—Risk of Market Price Discount from Net Asset Value." Because of this possibility and the recognition that any such discount may not be in the best interest of shareholders, the Fund's Board of Directors might consider from time to time engaging in open market repurchases, tender offers for shares at net asset value or other programs intended to reduce the discount. We cannot guarantee or assure, however, that the Fund's Board of Directors will decide to engage in any



of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in shares trading at a price equal or close to net asset value per share. See “Repurchase of Shares.” The Board of Directors may also consider converting the Fund to an open-end fund, which would require a vote of the shareholders of the Fund.

## **REPURCHASE OF SHARES**

Shares of closed-end investment companies often trade at a discount to net asset value, and the Fund’s shares may also trade at a discount to their net asset value, although it is possible that they may trade at a premium above net asset value. The market price of the Common Shares will be determined by such factors as relative demand for and supply of shares in the market, the Fund’s net asset value, general market and economic conditions and other factors beyond the control of the Fund.

Although Common Shareholders will not have the right to redeem their shares, the Fund may take action to repurchase shares in the open market or make tender offers for its shares at net asset value. During the pendency of any tender offer, the Fund will publish how Common Shareholders may readily ascertain the net asset value. For more information see “Repurchase of Shares” in the SAI. Repurchase of the Common Shares may have the effect of reducing any market discount to net asset value.

There is no assurance that, if action is undertaken to repurchase or tender for shares, such action will result in the shares trading at a price which approximates their net asset value. Although share repurchases and tenders could have a favorable effect on the market price of the shares, you should be aware that the acquisition of shares by the Fund will decrease the total assets of the Fund and, therefore, have the effect of increasing the Fund’s expense ratio and may adversely affect the ability of the Fund to achieve its investment objective. To the extent the Fund may need to liquidate investments to fund repurchases of shares, this may result in portfolio turnover which will result in additional expenses being borne by the Fund. The Board of Directors currently considers the following factors to be relevant to a potential decision to repurchase shares: the extent and duration of the discount, the liquidity of the Fund’s portfolio, the impact of any action on the Fund or its shareholders and market considerations. Any share repurchases or tender offers will be made in accordance with the requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”), and the 1940 Act. See “Taxation” for a description of the potential tax consequences of a share repurchase.

## **TAXATION**

The following discussion offers only a brief outline of the U.S. federal income tax consequences of investing in the Fund and is based on the U.S. federal tax laws in effect on the date hereof. Such tax laws are subject to change by legislative, judicial or administrative action, possibly with retroactive effect. For more detailed information regarding tax considerations, see the SAI. There may be other tax considerations applicable to particular investors, including foreign shareholders (as defined later in this section). Investors should consult their own tax advisers for more detailed information and for information regarding the impact of state, local and foreign taxes on an investment in the Fund.

*Taxation of the Fund.* The Fund intends to elect to be treated as, and intends to qualify annually for treatment as a regulated investment company (a “RIC”) under Subchapter M of the Code. In order for the Fund to qualify as a RIC, it must meet an income and asset diversification test each year. To satisfy the income test, the Fund must derive at least 90% of its gross income for each taxable year from (i) dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures, or forward contracts) derived with respect to its business of investing in such stock, securities, or currencies and (ii) net income derived from interests in “qualified publicly traded partnerships” (as defined in the Code). To satisfy the asset diversification test, the Fund must diversify its holdings so that at the end of each quarter of the Fund’s taxable year, (a) at least 50% of the value of its total assets consists of cash and cash items (including receivables), U.S. Government securities, securities of other RICs, and

other securities limited, with respect to any one issuer, to a value note greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Fund's total assets is invested in the securities (other than those of the U.S. Government or other RICs) of any one issuer or of two or more issuers which the Fund controls and which are engaged in the same, similar or related trades or businesses, or in the securities of one or more qualified publicly traded partnerships.

In general, for purposes of the 90% gross income requirement described above, income derived from a partnership will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership that would be qualifying income if realized directly by the Fund.

For each taxable year that the Fund otherwise qualifies as a RIC, it will not be subject to U.S. federal income tax on that part of its investment company taxable income (as that term is defined in the Code without regard to the deduction for dividends paid) and net capital gain (the excess of net long-term capital gain over net short-term capital loss, in each case determined with reference to any loss carryforwards) that it distributes to its shareholders, if it distributes at least 90% of the sum of its investment company taxable income and any net tax-exempt interest income for that year in the form of deductible dividends. The Fund intends to make sufficient distributions of its investment company taxable income and net tax-exempt interest income, if any, each taxable year to meet this requirement.

The Fund also currently intends to distribute all realized net capital gain each year. If, however, the Fund's Board of Directors determines for any taxable year to retain all or a portion of the Fund's net capital gain, that decision will not affect the Fund's ability to qualify for treatment as a RIC, but will subject the Fund to a maximum tax rate of 35% of the amount retained. In that event, the Fund expects to designate the retained amount as undistributed capital gains in a notice to its Common Shareholders, who (i) will be required to include their proportionate shares of the undistributed amount in their gross income as long-term capital gain, and (ii) will be entitled to credit their proportionate shares of the tax paid by the Fund against their U.S. federal income tax liabilities, if any, and to claim refunds on a properly-filed U.S. tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund would be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the shareholder's gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence.

Failure to qualify as a RIC would likely materially reduce the investment return to its shareholders. If the Fund were to fail to meet the income, diversification or distribution test described above, the Fund could in some cases cure such failure, including by paying a Fund-level tax, paying interest, making additional distributions, or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any taxable year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates (even if such income were distributed to its shareholders), and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to shareholders as dividend income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment.

The Fund will be subject to a nondeductible 4% excise tax to the extent it fails to distribute by the end of any calendar year an amount at least equal to the sum of (i) 98% of its ordinary income for that calendar year (ii) 98.2% of its capital gain net income for the one-year period ending on October 31 of that calendar year (or, upon election of the Fund, for its taxable year if the Fund has a taxable year ending November 30 or December 31) and (iii) any ordinary income and capital gains from previous years that were not distributed during those years and on which the Fund paid no U.S. federal income tax. For this and other purposes, a distribution will be treated as paid by the Fund and received by the shareholders on December 31 if it is declared by the Fund in October, November or December of such year, made payable

to shareholders of record on a date in such a month and paid by the Fund during January of the following year. Any such distribution thus will be taxable to shareholders whose taxable year is the calendar year in the year the distribution is declared, rather than the year in which the distribution is received. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with the calendar year distribution requirement.

Certain of the Fund's investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) convert dividends that would otherwise constitute QDI into ordinary income, (ii) treat dividends that would otherwise be eligible for the DRD as ineligible for such treatment, (iii) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (iv) convert long-term capital gain into short-term capital gain or ordinary income, (v) convert an ordinary loss or deduction into a capital loss (the deductibility of which is more limited), (vi) cause the Fund to recognize income or gain without a corresponding receipt of cash, (vii) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (viii) adversely alter the characterization of certain complex financial transactions and (ix) produce income that will not be qualifying income for purposes of the income requirement that applies to RICs. While it may not always be successful in doing so, the Fund will seek to avoid or minimize the adverse tax consequences of its investment practices.

The Fund's transactions in non-U.S. currencies, non-U.S. currency-denominated debt obligations and certain non-U.S. currency options, futures contracts and forward contracts (and similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned.

The Fund's investments in non-U.S. securities may be subject to withholding and other taxes imposed by countries outside the United States. In that case, the Fund's yield on those securities would be decreased. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. If more than 50% of the Fund's assets at year-end consists of the stock or securities of foreign corporations, the Fund may elect to permit shareholders to claim a credit or deduction on their income tax returns for their pro rata portion of qualified taxes paid by the Fund to foreign countries in respect of foreign securities the Fund has held for at least the minimum period specified in the Code. In such a case, Common Shareholders will include in gross income from foreign sources their pro rata shares of such taxes. If the Fund does not meet this 50% test, shareholders of the Fund generally will not be entitled to claim a credit or deduction with respect to foreign taxes.

Equity investments by the Fund in certain "passive foreign investment companies" ("PFICs") could subject the Fund to a U.S. federal income tax (including interest charges) on distributions received from the company or on proceeds received from the disposition of shares in the company, even if such income is distributed to the Fund's shareholders. The Fund may make certain elections in order to avoid such tax, which may cause the Fund to recognize taxable income without a corresponding receipt of cash. The Fund may be required to liquidate other investments (including when it is not otherwise advantageous to do so) to meet its distribution requirements for qualification as a RIC. Because it is not always possible to identify a foreign corporation as a PFIC, the Fund may incur the tax and interest charges described above in some instances.

Some debt obligations (potentially including, in certain circumstances, preferred securities taxable as debt instruments for U.S. federal income tax purposes) acquired by the Fund, including any zero-coupon debt obligations, may be treated as debt obligations that are issued originally at a discount. Generally, the amount of the original issue discount is treated as interest income and is included in the Fund's income (and required to be distributed by the Fund) over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security. In addition, payment-in-kind securities will give rise to income which is required to be distributed and is taxable even though the Fund holding the security receives no interest payment in cash on the security during the year.

Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation, when the Fund may cease to accrue interest, original issue discount or market discount, when and to what extent the Fund may take deductions for bad debts or worthless securities and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund when, as and if it invests in such securities, in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and does not become subject to U.S. federal income or excise tax.

In certain situations, the Fund may, for a taxable year, defer all or a portion of its net capital loss realized after October and its late-year ordinary loss (defined as the excess of (i) the sum of post-October foreign currency losses, PFIC mark-to-market losses and other ordinary losses from the disposition of property and other post-December ordinary losses over (ii) the sum of post-October foreign currency gains, PFIC mark-to-market gains and other ordinary gains from the disposition of property and other post-December ordinary income) until the next taxable year in computing its investment company taxable income and net capital gain, which will defer the recognition of such realized losses. Such deferrals and other rules regarding gains and losses realized after October (or December) may affect the tax character of shareholder distributions.

The Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

*Distributions.* For U.S. federal income tax purposes, distributions of investment income are generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund owned or is considered to have owned the investments that generated them, rather than how long a shareholder has owned its shares. Distributions from the sale of investments that the Fund owned for more than one year and that are properly reported by the Fund as capital gain dividends are taxable to a shareholder as long-term capital gains. Distributions from the sale of investments that the Fund owned for one year or less are taxable to a shareholder as ordinary income. Long-term capital gain rates applicable to individuals are 15% for those with income at or below \$400,000 (\$450,000 if married and filing jointly), 20% for those with any income above those amounts that is net long-term capital gain or QDI, and 0% at certain income levels. The above income thresholds are adjusted annually for inflation.

Effective for taxable years beginning on or after January 1, 2013, the “net investment income” of individuals, estates and trusts is subject to a new 3.8% Medicare contribution tax, to the extent such income exceeds certain threshold amounts. Net investment income generally includes for this purpose dividends paid by the Fund, including any capital gain dividends, and net capital gains recognized on the sale, redemption or exchange of shares of the Fund. Shareholders are advised to consult their tax advisers regarding the possible implications of this additional tax on their investment in the Fund.

If a portion of the Fund’s income consists of qualifying dividends paid by U.S. corporations, a portion of the dividends paid by the Fund to corporate shareholders, if properly reported, may qualify for the DRD, provided holding period and other requirements are met by both the Fund and the shareholder. In addition, distributions of investment company taxable income reported by the Fund as derived from QDI will be taxed in the hands of individuals at the rates applicable to long-term capital gain, provided holding period and other requirements are met by both the Fund and the shareholder. Dividend income that the Fund receives from REITs will generally not be treated as QDI and will not qualify for the corporate DRD. It is unclear the extent to which distributions the Fund receives from its investments in certain preferred securities will be eligible for treatment as QDI or the corporate DRD. There can be no assurance of what portion, if any, of the Fund’s distributions will be eligible for the DRD or qualify as QDI.

Distributions, if any, in excess of the Fund's current and accumulated earnings and profits will first reduce the adjusted tax basis of a shareholder's shares and, after that basis has been reduced to zero, will constitute a capital gain to the shareholder (assuming the shares are held as a capital asset).

Distributions in excess of the Fund's minimum distribution requirements but not in excess of the Fund's earnings and profits will be taxable to shareholders and will not constitute nontaxable returns of capital. The Fund's capital loss carryovers, if any, carried from taxable years beginning before 2011 do not reduce current earnings and profits, even if such carryforwards offset current year realized gains.

A shareholder whose distributions are reinvested in Common Shares under the Plan will be treated as having received a dividend equal to either (i) if newly issued Common Shares are issued under the Plan, generally the fair market value of the newly issued Common Shares issued to the shareholder or (ii) if reinvestment is made through open-market purchases under the Plan, the amount of cash allocated to the shareholder for the purchase of Common Shares on its behalf in the open market. See "Dividends and Distribution—Dividend Reinvestment and Cash Purchase Plan" above.

*Sale or exchange of Fund shares.* The sale or other disposition of the Common Shares generally will be a taxable transaction for U.S. federal income tax purposes. Selling holders of Common Shares generally will recognize gain or loss in an amount equal to the difference between the sum of the amount of cash and the fair market value of any property received in exchange therefor and their respective bases in such Common Shares. If the Common Shares are held as a capital asset, the gain or loss generally will be a capital gain or loss.

Generally, a shareholder's capital gain or loss will be a long-term capital gain or loss if the shares have been held for more than one year. However, any loss realized upon a taxable disposition of Common Shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received by the holder (or amounts credited to the shareholder as undistributed capital gains) with respect to such shares. Also, any loss realized upon a taxable disposition of Common Shares may be disallowed if other substantially identical shares are acquired (including through the reinvestment of distributions, which could occur, for example, if the Common Shareholder is a participant in the Plan) within a 61-day period beginning 30 days before and ending 30 days after the date the original shares are disposed of. If disallowed, the loss will be reflected by an upward adjustment to the basis of the shares acquired. Capital losses may be subject to other limitations imposed by the Code.

From time to time, the Fund may make a tender offer for its Common Shares. Shareholders who tender all Common Shares held, or considered to be held, by them will be treated as having sold their shares and generally will realize a capital gain or loss. If a shareholder tenders fewer than all of its Common Shares, or fewer than all its tendered shares are accepted for repurchase, such shareholder may be treated as having received a taxable dividend upon the tender of its Common Shares. In such a case, there is a risk that non-tendering shareholders whose interests in the Fund increase as a result of such tender will be treated as having received a taxable distribution from the Fund. The extent of such risk will vary depending upon the particular circumstances of the tender offer, in particular whether such offer is a single and isolated event or is part of a plan for periodically redeeming the Common Shares of the Fund; if isolated, any such risk is likely remote. If the Fund repurchases Common Shares on the open market, such that a selling shareholder would have no specific knowledge that he or she is selling his or her shares to the Fund, it is less likely that shareholders whose percentage share interests in the Fund increase as a result of any such open-market sale will be treated as having received a taxable distribution from the Fund.

*Backup withholding.* The Fund may be required to withhold, for U.S. federal income taxes, 28% of all taxable dividends and redemption proceeds payable to shareholders who fail to provide the Fund with their correct taxpayer identification numbers or who otherwise fail to make required certifications, or if the Fund or a shareholder has been notified by the Internal Revenue Service (the "IRS") that such shareholder is subject to backup withholding. Corporate shareholders and other shareholders specified in the Code and the Treasury regulations promulgated thereunder are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld will be allowed as a refund or a credit against the shareholder's federal income tax liability if the appropriate information is timely provided to the IRS.

*Foreign shareholders.* Absent a specific statutory exemption, dividends other than capital gain dividends paid to a shareholder that is not a “United States person” within the meaning of the Code (a “foreign shareholder”) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate). Capital gain dividends and any amounts retained by the Fund which are designated as undistributed capital gains will generally not be subject to U.S. tax unless the foreign shareholder is a nonresident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements, in which case such amounts will generally be subject to tax at a rate of 30% (or lower applicable treaty rate). However, this 30% tax on capital gains of nonresident alien individuals who are physically present in the United States for more than the 182 day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for U.S. income tax purposes; in that case, he or she would be subject to U.S. income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens, rather than the 30% tax. The Fund may be required to withhold U.S. income tax on distributions to a foreign shareholder unless the foreign shareholder certifies his or her non-U.S. status under penalties of perjury or otherwise establishes an exemption (generally by providing an IRS Form W-8BEN). Effective for taxable years of a RIC beginning before January 1, 2014, a RIC is not required to withhold any amounts with respect to distributions of (i) U.S.- source interest income that would not have been subject to U.S. federal income tax if earned directly by an individual foreign shareholder, and (ii) net short-term capital gains in excess of net long-term capital losses, in each case to the extent the RIC properly reported such distributions in a written notice to shareholders. The exemption from withholding for interest-related and short-term capital gain dividends will expire for distributions with respect to taxable years of the RIC beginning on or after January 1, 2014. It is currently unclear whether Congress will extend these exemptions for distributions with respect to taxable years of a RIC beginning on or after January 1, 2014, or what the terms of such an extension would be, including whether such extension would have retroactive effect.

If any distributions received by a foreign shareholder from the Fund (or amounts which are designated as undistributed capital gains) are effectively connected to a trade or business within the United States, the rules described in the preceding paragraph would not apply, and such foreign shareholder would generally be taxed on such amounts at the same rates applicable to a U.S. shareholder. Also, such distributions (or undistributed capital gains) may be subject to a 30% branch profits tax in the hands of a foreign shareholder that is a corporation.

Very generally, special tax rules apply if the Fund holds, or, but for the operation of certain exceptions, would be treated as holding, “U.S. real property interests” (“USRPIs”) the fair market value of which equals or exceeds 50% of the sum of the fair market values of the Fund’s USRPIs, interests in real property located outside the United States, and other assets used or held for use in a trade or business. Such rules could result in U.S. tax withholding from certain distributions to a foreign shareholder. Furthermore, the foreign shareholder may be required to file a U.S. tax return and pay tax on such distributions—and, in certain cases, gain realized on sale of Fund shares—at regular U.S. federal income tax rates. The Fund does not expect to invest in a significant percentage of USRPIs, so these special tax rules are not likely to apply.

*Other tax matters.* A 30% withholding tax will be imposed on dividends paid after December 31, 2013, and redemption proceeds paid after December 31, 2016, to (i) foreign financial institutions including non-U.S. investment funds unless they agree to collect and disclose to the IRS information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, foreign financial institutions will need to (i) enter into agreements with the IRS that state that they will provide the IRS information, including the names, addresses and taxpayer identification numbers of direct and indirect U.S. account holders, comply with due diligence procedures with respect to the identification of U.S. accounts, report to the IRS certain information with respect to U.S. accounts maintained, agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and determine certain other information as to their



account holders, or (ii) in the event that an applicable intergovernmental agreement and implementing legislation are adopted, provide local revenue authorities with similar account holder information. Other foreign entities will need to either provide the name, address, and taxpayer identification number of each substantial U.S. owner or certifications of no substantial U.S. ownership unless certain exceptions apply or agree to provide certain information to other revenue authorities for transmittal to the IRS.

Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Common Shareholders should consult their tax advisers to determine the suitability of Common Shares as an investment through such plans and the precise effect of an investment on their particular tax situation.

Investors are advised to consult their own tax advisers with respect to the application to their own circumstances of the above-described general taxation rules and with respect to the state, local, foreign and other tax consequences to them of an investment in the Common Shares.

The SAI summarizes further U.S. federal income tax considerations that may apply to the Fund and its shareholders and may qualify the considerations discussed herein. Fund distributions also may be subject to state and local taxes. You should consult with your own tax adviser regarding the particular consequences of investing in the Fund.

## **DESCRIPTION OF SHARES**

### **Common Shares**

The Fund is authorized to issue 240,000,000 shares of common stock, \$0.01 par value per share (“Common Shares”). The Board of Directors, with the approval of a majority of the Directors and without action by the Fund’s shareholders, may amend the Fund’s Charter to increase or decrease the total 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. The Common Shares have no preemptive, conversion, exchange, redemption or appraisal rights. Each share has equal voting, dividend, distribution and liquidation rights. The Common Shares outstanding are, and those offered hereby when issued will be, fully paid and nonassessable. Common Shareholders are entitled to one vote per share. All voting rights for the election of Directors are noncumulative, which means that the holders of more than 50% of the Common Shares can elect 100% of the Directors then nominated for election if they choose to do so and, in such event, the holders of the remaining Common Shares will not be able to elect any Directors. Distributions may be paid to the holders of Common Shares if, as and when authorized by the Board of Directors and declared by the Fund out of funds legally available therefor. Whenever Preferred Shares and Borrowings are outstanding, the Fund will not have the power to pay distributions on Common Shares unless all accrued dividends on the Preferred Shares and interest and principal payments on Borrowings have been paid, and unless the applicable asset coverage requirements under the 1940 Act would be satisfied after giving effect to the distribution. See “—Preferred Shares” and “—Limited Issuance of Preferred Shares and Borrowings” below. The Fund’s Common Shares have been approved for listing on the NYSE, subject to notice of issuance, under the symbol “DFP.” Under the rules of the NYSE applicable to listed companies, the Fund will be required to hold an annual meeting of shareholders in each year. The foregoing description and the description below under “Certain Provisions of the Charter and Bylaws” are subject to the provisions contained in the Fund’s Charter and Bylaws.

Net asset value will be reduced immediately following the offering of the Common Shares by the amount of the sales load and the amount of organizational and offering expenses paid by the Fund, to the extent such expenses are not borne by the Adviser. The Adviser has agreed to pay all of the Fund’s organizational expenses and offering expenses (other than sales load) to the extent that these organizational and offering expenses in the aggregate exceed \$0.05 per Common Share. See “Use of Proceeds.”



As of the date of this prospectus, the Adviser owned of record and beneficially shares of the Fund's Common Shares constituting 100% of the outstanding shares of the Fund, and thus, until the public offering of the shares is completed, will control the Fund.

### **Fund Net Asset Value**

The Fund will determine the net asset value of its shares each day that the NYSE is open for trading. Net asset value of our Common Shares is computed by dividing the value of all assets of the Fund (including accrued interest and dividends and current and deferred income tax assets), less all liabilities (including accrued expenses, distributions payable, any Borrowings, and liabilities under Reverse Repurchase Agreements) and less the liquidation preference of any outstanding Preferred Shares, by the total number of Common Shares outstanding.

For purposes of determining the net asset value per share of the Fund, securities principally traded on any exchange or similar regulated market reporting contemporaneous transaction prices are valued, except as indicated below, at the last sale price reflected on such principal market on the business day as of which such value is being determined as reported by sources as the Fund's Board of Directors deem appropriate. If there has been no sale on such day, the securities are valued at the mean of the bid and asked prices on such day, or if no asked price is available, the bid price may be used. If no bid or asked prices are quoted on such day, then the security is valued by such method as the Fund's Board of Directors shall determine in good faith to reflect its fair market value.

Readily marketable securities not traded principally on an exchange or similar regulated market, including listed securities or other assets whose primary market is believed by the Adviser to be OTC, are valued at the mean of the bid and asked prices as reported by sources as the Fund's Board of Directors deem appropriate to reflect their fair market value. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day, or if no asked price is available, at the bid price. Further, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the Adviser, pursuant to a delegation by the Board of Directors, to reflect the fair market value of such securities. In addition, certain swap agreements may be valued on the basis of the prices of the underlying reference assets.

Securities or assets for which market prices are unavailable, or for which the Adviser determines that bid and/or ask price or a counterparty valuation does not reflect market value, will be valued at fair value pursuant to procedures approved by the Fund's Board of Directors. Circumstances in which market prices may be unavailable include, but are not limited to, when trading in a security or asset is suspended, the exchange on which the security or asset is traded is subject to an unscheduled close or disruption or material events occur after the close of the exchange on which the security or asset is principally traded. In these circumstances, the Fund determines fair value in a manner that fairly reflects the market value of the security or asset on the valuation date based on consideration of any information or factors it deems appropriate. These may include, but are not limited to, recent transactions in comparable securities or assets, information relating to the specific security or asset and developments in the markets.

The Fund's use of fair value pricing may cause the net asset value of the Fund's Common Shares to differ from the net asset value that would be calculated using market quotations. Fair value pricing involves subjective judgments and it is possible that the fair value determined for a security may be materially different than the value that could be realized upon the sale of that security.

Short-term debt securities, which have a maturity date of 60 days or less, are valued at amortized cost, which approximates value. Investments in open-end mutual funds are valued at their closing net asset value.

Futures contracts and option contracts on futures contracts are valued on the basis of the settlement price for such contracts on the primary exchange on which they trade. Investments in OTC derivative instruments, such as interest rate swaps and options thereon ("swaptions"), are valued using prices supplied by a pricing service, or if such prices are unavailable, prices provided by a single broker or dealer

that is not the counterparty or, if no such prices are available, at a price at which the counterparty to the contract would repurchase the instrument or terminate the contract. Any interest rate swap transaction that the Fund enters into may, depending on the applicable interest rate environment, have a positive or negative value for purposes of calculating net asset value. Any cap transaction that the Fund enters into may, depending on the applicable interest rate environment, have no value or a positive value. In addition, accrued payments to the Fund under such transactions will be assets of the Fund and accrued payments by the Fund will be liabilities of the Fund.

In December 2012, CFTC issued a final rule which requires certain interest rate swaps to be centrally cleared. Such clearing requirement may affect the Fund's ability to negotiate individualized terms and/or may increase the costs of entering into such derivative transactions (for example, by increasing margin or capital requirements).

Because the Fund may hold securities that are primarily listed on foreign exchanges that trade on weekends or days when the Fund does not price its shares, the value of securities held in the Fund may change on days when you will not be able to purchase or sell Fund shares on the NYSE.

### **Preferred Shares**

The total number of Preferred Shares that the Fund currently has authority to issue is 10,000,000, \$0.01 par value per share. The Charter authorizes the Board of Directors to classify and reclassify any unissued Preferred Shares, as well as Common Shares, into other classes or series of stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by the Charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of Preferred Shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of Common Shares or otherwise be in their best interest.

*Limited Issuance of Preferred Shares and Borrowings.* Under the 1940 Act, the Fund could issue Preferred Shares with an aggregate liquidation preference of up to 50% of the value of the Fund's total assets (including the proceeds from the issuance) less liabilities other than Borrowings, measured immediately after issuance of the Preferred Shares. "Liquidation preference" means the original purchase price of the shares being liquidated plus any accrued and unpaid dividends. In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless the liquidation preference of the Preferred Shares is less than one-half of the value of the Fund's assets less liabilities other than Borrowings (determined after deducting the amount of such dividend or distribution) immediately after the distribution. Under the 1940 Act, the Fund generally is not permitted to borrow money if the principal amount of such Borrowings, at the time of issuance, exceeds 33 $\frac{1}{3}$ % of the Fund's total assets less liabilities other than the Borrowings. In addition, the Fund may not be permitted to declare any cash dividend (except for dividends payable in Common Shares) or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total assets, less liabilities other than the Borrowings, is at least 300% of the principal amount of any Borrowings (after deducting the amount of any such dividend or distribution) or other asset coverage requirements imposed under the terms of the borrowing. The terms of any Borrowing may also impose more stringent limitations on the Fund's ability to declare dividends or other distributions. If the Fund borrows, the Fund intends, to the extent possible, to prepay all or a portion of the principal amount of the Borrowing to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and entitle the debt holders to elect a majority of the Board of Directors. Certain types of Borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverages or portfolio composition or otherwise.

The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through Borrowings, Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33⅓% of its Managed Assets (including the amount borrowed). The Fund expects to enter into a Credit Facility shortly after the Fund's commencement of operations, as described above in "Use of Leverage - Credit Facility." After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under the Credit Facility in an initial aggregate amount up to approximately 33⅓% (as determined immediately after borrowing) of the value of its Managed Assets. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of Fund securities.

In addition, the Fund may be subject to certain restrictions imposed by guidelines of one or more NRSROs which may issue ratings for Preferred Shares, if any, or commercial paper or notes issued by the Fund. Such restrictions may be more stringent than those imposed by the 1940 Act.

*Distribution Preference.* Preferred Shares, if any, would have complete priority over the Fund's Common Shares. Currently, the Fund has no intention to issue Preferred Shares.

*Liquidation Preference.* In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Fund, holders of Preferred Shares, if any, will be entitled to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus accumulated and unpaid dividends thereon, whether or not earned or declared) before any distribution of assets is made to Common Shareholders.

*Voting Rights.* Preferred Shares are required to be voting shares and to have equal voting rights with Common Shares. Except as otherwise indicated in this prospectus or the SAI and except as otherwise required by applicable law, holders of Preferred Shares will vote together with Common Shareholders as a single class.

Holders of Preferred Shares, voting as a separate class, will be entitled to elect two of the Fund's Directors. The remaining Directors will be elected by Common Shareholders and holders of Preferred Shares, voting together as a single class. In the unlikely event that two full years of accrued dividends are unpaid on the Preferred Shares, the holders of all outstanding Preferred Shares, voting as a separate class, will be entitled to elect a majority of the Fund's Directors until all dividends in arrears have been paid or declared and set apart for payment. In order for the Fund to take certain actions or enter into certain transactions, a separate class vote of holders of Preferred Shares will be required, in addition to the combined single class vote of the holders of Preferred Shares and Common Shares.

*Redemption, Purchase and Sale of Preferred Shares.* The terms of the Preferred Shares may provide that they are redeemable at certain times, in whole or in part, at the original purchase price per share plus accumulated dividends. The terms may also state that the Fund may tender for or purchase Preferred Shares and resell any shares so tendered. Any redemption or purchase of Preferred Shares by the Fund will reduce the leverage applicable to Common Shares, while any resale of shares by the Fund will increase such leverage. See "Use of Leverage."

The discussion above describes the Board of Directors' present intention with respect to a possible offering of Preferred Shares. If the Board of Directors determines to authorize such an offering, the terms of the Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Fund's Charter.

#### **CERTAIN PROVISIONS OF THE CHARTER AND BYLAWS**

The Maryland General Corporation Law and the Fund's Charter and Bylaws contain provisions that could make it more difficult for a potential acquirer to acquire the Fund by means of a tender offer, proxy contest or otherwise. These provisions are designed to discourage certain coercive takeover practices and

inadequate takeover bids and to encourage persons seeking to acquire control of the Fund to negotiate first with the Board of Directors. The Fund believes that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

*Classified Board of Directors.* Upon the completion of the Fund's initial public offering, the Board of Directors will be divided into three classes of Directors serving staggered three-year terms. The initial terms for the Class I, Class II and Class III Directors will expire at the annual meetings of the Fund's shareholders held in 2014, 2015 and 2016, respectively, and when their respective successors are duly elected and qualify. Upon expiration of their initial terms, Directors of each class will be elected to serve for terms expiring at the third succeeding annual meeting of the Fund's shareholders and when their successors are duly elected and qualify, and each year one class of Directors will be elected by the shareholders. A classified board may render a change in control of the Fund or the removal of the Fund's incumbent management more difficult. The Fund believes, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of the Fund's management and policies.

*Election of Directors.* The Fund's Bylaws provide that Directors shall be elected by a plurality of the votes cast in the election of Directors. The Board of Directors may amend the Bylaws from time to time to alter the vote required to elect a Director.

*Number of Directors; Vacancies; Removal.* The Fund's charter provides that the number of Directors will be set only by the Board of Directors in accordance with the Fund's Bylaws. The Fund's Bylaws provide that a majority of the entire Board of Directors may at any time increase or decrease the number of Directors. However, unless the Fund's Bylaws are amended, the number of Directors cannot be less than three or more than twelve.

The Fund's charter provides that, at such time as the Fund has at least three independent directors and its Common Shares are registered under the Exchange Act, the Fund elects to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. For that reason, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the Directors remaining in office, even if the remaining Directors do not constitute a quorum, and any Director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

The Fund's charter provides that a Director may be removed only for cause and then only by the affirmative vote of at least eighty percent (80%) of the votes entitled to be cast in the election of Directors.

*Action by Shareholders.* Under the Maryland General Corporation Law, shareholder action can be taken only at an annual or special meeting of shareholders or, unless the charter provides for shareholder action by less than unanimous written consent (which is not the case for the Fund's charter), by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of the Fund's Bylaws regarding the calling of a shareholder-requested special meeting of shareholders discussed below, may have the effect of delaying consideration of a shareholder proposal until the next annual meeting of shareholders.

*Advance Notice Provisions for Shareholder Nominations and Shareholder Proposals.* The Fund's Bylaws provide that, with respect to an annual meeting of shareholders, the nomination of individuals for election as Directors and the proposal of other business to be considered by the Fund's shareholders may be made only (1) pursuant to the Fund's notice of the meeting, (2) by or at the direction of the Board of Directors or (3) by a shareholder who is a shareholder of record at the time the shareholder provides the notice required by the Fund's Bylaws and at the time of the annual meeting, who is entitled to vote at the meeting in the election of such individuals as Directors or on such other business and who has complied

with the advance notice requirements of, and provided the information required by, the Fund's Bylaws. With respect to special meetings of the Fund's shareholders, only the business specified in the notice of the meeting may be brought before the meeting. Nominations of individuals for election as Directors at a special meeting of shareholders may be made only (i) by or at the direction of the Board of Directors or (ii) if the special meeting has been called in accordance with the Fund's Bylaws for the purpose of electing directors, by any shareholder who is a shareholder of record both at the time the shareholder provides the notice required by the Fund's Bylaws and at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice requirements of, and provided the information required by, the Fund's Bylaws and applicable law.

*Calling of Special Meetings of Shareholders.* The Fund's Bylaws provide that special meetings of the Fund's shareholders may be called by the Board of Directors and certain of the Fund's officers. The Fund's Bylaws also provide that, subject to the satisfaction of certain procedural and informational requirements by the shareholder requesting the meeting, a special meeting of shareholders must be called by the secretary of the Fund upon the written request of shareholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. The Fund's secretary will inform the requesting shareholders of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Fund's proxy materials), and the requesting shareholders must pay the estimated cost before the secretary may prepare and mail notice of the special meeting.

*Approval of Extraordinary Corporate Action; Amendment of the Fund's Charter and Bylaws.* Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of shareholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter.

However, certain Charter amendments and transactions require supermajority Director and shareholder votes. Except as otherwise provided below, the affirmative vote of the holders of Common Shares and Preferred Shares entitled to cast at least 80% of the votes entitled to be cast by such shareholders, each voting as a separate class, in addition to the affirmative vote of at least 80% of the Board of Directors, shall be necessary to effect any of the following actions:

- any amendment to the Charter to make the Common Shares a redeemable security or to convert the corporation from a closed-end company to an open-end company (as such terms are defined in the 1940 Act) or any amendment to the purposes for which the Fund is formed, unless such amendment is approved by the vote of 80% of the Continuing Directors (as hereinafter defined), in which case the affirmative vote of a majority of the votes entitled to be cast by shareholders shall be required to approve such actions;
- any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund's assets;
- any proposal to liquidate or dissolve the Fund or any amendment to the Charter that would terminate the existence of the Fund, unless such proposal is approved by the vote of 80% of the Continuing Directors, in which case the affirmative vote of a majority of the votes entitled to be cast by shareholders shall be required to approve such actions;
- any proposal regarding the percentage of shareholder votes necessary to amend certain provisions of our charter, approve the dissolution of the Fund or approve extraordinary transactions; or
- any Business Combination, which is defined in the Charter as:
  - any merger, consolidation or statutory share exchange of the Fund with or into any other entity;

- any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions in any 12 month period) to or with any other person of any assets of the Fund having an aggregate Fair Market Value (as defined in our Charter) of \$1,000,000 or more except for portfolio transactions of the Corporation effected in the ordinary course of the Fund's business; or
- the issuance or transfer by the Fund (in one transaction or a series of transactions in any 12 month period) of any of the Fund's securities to any other entity in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of \$1,000,000 or more excluding sales of any securities of the Fund in connection with a public offering or private placement thereof, issuances of any securities of the Fund pursuant to a dividend reinvestment and/or cash purchase plan adopted by the Fund and issuances of any securities of the Fund upon the exercise of any share subscription rights distributed by the Fund.

The Charter provides that, if any Business Combination described above (other than the Business Combination described immediately above) is approved by a vote of 80% of the Continuing Directors, or all of the conditions set forth in the Charter regarding the consideration to be received in the Business Combination and related matters are satisfied, a majority of the votes entitled to be cast by shareholders shall be required to approve such transaction, if the transaction requires shareholder approval under Maryland law. If any other Business Combination is approved by a vote of 80% of the Continuing Directors, or all of the conditions set forth in the Charter regarding the consideration to be received in the Business Combination and related matters are satisfied, no shareholder vote shall be required to approve such transaction unless otherwise required by law.

Under the Charter, a "Continuing Director" means any member of the Board of Directors of the Fund who (A) is not an Interested Party or an Affiliate or an Associate (as these terms are defined in the Charter) of an Interested Party and has been a member of the Board of Directors for a period of at least 12 months (or since the Fund's commencement of operations, if that period is less than 12 months); or (B) is a successor of a Continuing Director who is not an Interested Party or an Affiliate or an Associate of an Interested Party and is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors; or (C) is elected to the Board of Directors to be a Continuing Director by a majority of the Continuing Directors then on the Board of Directors and who is not an Interested Party or an Affiliate or Associate of an Interested Party.

The Board of Directors has determined that the foregoing voting requirements, which are generally greater than the minimum requirements under Maryland law and the 1940 Act, are in the best interest of the Fund's shareholders generally.

Reference is made to the Charter and Bylaws of the Fund, on file with the SEC, for the full text of these provisions. These provisions could have the effect of depriving shareholders of an opportunity 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. On the other hand, these provisions may require persons seeking control of the Fund to negotiate with its management regarding the price to be paid for the shares required to obtain such control, they promote continuity and stability and they enhance the Fund's ability to pursue long-term strategies that are consistent with its investment objective.



## UNDERWRITING

Wells Fargo Securities, LLC and Raymond James & Associates, Inc. are acting as the representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and the Fund has agreed to sell to that underwriter, the number of Common Shares set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Number of Shares</u>
Wells Fargo Securities, LLC .....	7,225,000
Raymond James & Associates, Inc.....	6,875,000
Stifel, Nicolaus & Co., Inc.....	835,000
Crowell, Weedon & Co.....	90,000
The GMS Group, LLC .....	550,000
Henley & Company LLC.....	65,000
Hennion & Walsh, Inc. ....	575,000
Ladenburg Thalmann & Co. Inc.....	155,000
Maxim Group LLC .....	75,000
National Securities Corporation.....	300,000
Newbridge Securities Corporation .....	20,000
Pershing LLC .....	325,000
Wedbush Securities Inc.....	295,000
Wunderlich Securities, Inc.....	70,000
B.C. Ziegler & Company .....	105,000
Aegis Capital Corp. ....	20,000
Andrew Garrett, Inc. ....	20,000
Bernard Herold & Co., Inc.....	20,000
Brean Capital, LLC.....	20,000
D.A. Davidson & Co. ....	20,000
Feltl and Company .....	20,000
J.J.B. Hilliard, W.L. Lyons, LLC .....	20,000
The Huntington Investment Company .....	40,000
J. P. Turner & Company, L.L.C. ....	20,000
Joseph Gunnar & Co. LLC.....	20,000
Regal Securities, Inc.....	40,000
Revere Securities Corp. ....	20,000
R. M. Stark Co., Inc. ....	20,000
Source Capital Group, Inc. ....	40,000
Stockcross Financial Services, Inc.....	40,000
Wayne Hummer Investments L.L.C. ....	20,000
Westminster Financial Securities, Inc. ....	40,000
Total .....	<u>18,000,000</u>

The underwriting agreement provides that the obligations of the underwriters to purchase the Common Shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Common Shares (other than those covered by the over-allotment option described below) shown above if any of the Common Shares are purchased.

The underwriters propose to offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Common Shares to dealers at the public offering price less a concession not to exceed \$0.750 per share. The sales load the investors in the Fund will pay of \$1.125 per share is equal to 4.5% of the initial offering price. If all of the Common Shares are not sold at the initial offering price, the representatives may change the public offering price and other

selling terms. Common Shares must be paid for by investors on or before May 29, 2013. The representatives have advised the Fund that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

### **Additional Compensation**

The Adviser (and not the Fund) has agreed to pay to each of Wells Fargo Securities, LLC and Raymond James & Associates, Inc. from its own assets, a structuring fee for advice relating to the structure, design and organization of the Fund as well as services related to the sale and distribution of the Fund's Common Shares in the amount of \$4,594,473.25 and \$3,011,384.59, respectively. If the over-allotment option is not exercised, the structuring fee paid to Wells Fargo Securities, LLC and Raymond James & Associates, Inc. will not exceed 1.0210% and 0.6692%, respectively, of the total public offering price.

The Adviser (and not the Fund) has agreed to pay each of The GMS Group, LLC, Stifel, Nicolaus & Co., Inc. and Wedbush Securities Inc., from its own assets, an upfront sales incentive fee for advice related to the sale and distribution of the shares of Common Stock in the amount of \$108,187.50, \$293,750.00, and \$56,250.00, respectively. If the over-allotment option is not exercised, the sales incentive fee paid to each of The GMS Group, LLC, Stifel, Nicolaus & Co., Inc. and Wedbush Securities Inc. will not exceed 0.0240%, 0.0653%, and 0.0125%, respectively, of the total public offering price.

The Adviser has entered into a distribution agreement with Destra Capital Investments LLC ("Destra") under which Destra provides assistance to the Adviser with respect to distribution of the Common Shares. The fees due pursuant to this distribution agreement will be paid exclusively by the Adviser (and not the Fund). The Adviser has agreed to compensate Destra in the amount of up to \$784,006.46 (assuming full exercise of the over-allotment option) (which amount will not exceed 0.1742% of the total public offering price of the common shares sold in this offering). The Fund intends to treat certain offering related expenses of Destra under the distribution agreement as offering expenses of the Fund and to reimburse such expenses to the extent that they, together with all other offering expenses and organizational expenses in the aggregate, do not exceed \$0.05 per Common Share up to a maximum amount of \$400,000. Destra is a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. and may be deemed an "underwriter" for purposes of this offering under the Securities Act, although Destra will not purchase or resell any of the Common Shares in connection with the offering.

The Fund has also agreed to reimburse the underwriters for certain other expenses in connection with this offering in the aggregate amount not exceeding \$60,000, which is deemed underwriting compensation by FINRA.

The total amount of the underwriters' additional compensation payments by the Adviser described above will not exceed 4.5% of the total public offering price of the Common Shares offered hereby. The sum total of all compensation to the underwriters in connection with this public offering of Common Shares, including sales load and all forms of additional compensation or structuring or sales incentive fee payments, if any, to the underwriters and other expenses (including reimbursed expenses), will be limited to not more than 6.5685% of the total public offering price of the Common Shares sold in this offering.

The Fund has granted to the underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to 2,700,000 additional Common Shares at the public offering price less the sales load. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Common Shares approximately proportionate to that underwriter's initial purchase commitment.

The Fund and the Adviser have agreed, for a period of 180 days from the date of this prospectus, that they will not, without the prior written consent of Wells Fargo Securities, LLC and Raymond James & Associates, Inc., on behalf of the underwriters, with certain exceptions, dispose of or hedge any Common Shares or any securities convertible into or exchangeable for Common Shares, provided that the Fund may issue and sell Common Shares pursuant to the Fund's Dividend Reinvestment and Cash Purchase Plan.

To meet the NYSE distribution requirements for trading, the underwriters have undertaken to sell Common Shares in a manner such that shares are held by a minimum of 400 beneficial owners in lots of 100 or more, the minimum stock price will be at least \$4.00 at the time of listing on the NYSE, at least 1,100,000 Common Shares will be publicly held in the United States and the aggregate market value of publicly held shares in the United States will be at least \$60 million. The Fund's Common Shares have been approved for listing on the NYSE, subject to notice of issuance, under the symbol "DFP."

The following table shows the sales load that investors in the Fund will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional Common Shares.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per Share.....	\$ 1.125	\$ 1.125
Total .....	\$20,250,000	\$23,287,500

The Fund and the Adviser have agreed to indemnify the underwriters, certain of their affiliates and directors, officers, employees and agents of the underwriters, and each person who controls any underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, from certain liabilities in connection with disclosure that was not provided by the underwriters and is contained in the preliminary prospectus, the prospectus or the Fund's registration statement, in each case relating to the sale of its Common Shares and certain sales material, including amounts or expenses paid in settlement of such liabilities. The above indemnity is subject to the requirement and limitations of section 17(i) of the 1940 Act, which prohibits registered investment companies from indemnifying a principal underwriter from any liability to the investment company or its security holders to which such principal underwriter would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence, in the performance of its duties, or by reason of its reckless disregard of its obligations and duties under the underwriting agreement.

Certain underwriters may make a market in Common Shares after trading in Common Shares has commenced on the NYSE. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriters. No assurance can be given as to the liquidity of, or the trading market for, the Common Shares as a result of any market-making activities undertaken by any underwriter. This prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus must be delivered, with offers and sales of the Common Shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Wells Fargo Securities, LLC, on behalf of itself and the other underwriters, may purchase and sell the Common Shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Common Shares in excess of the number of Common Shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of Common Shares made in an amount up to the number of Common Shares represented by the underwriters' over-allotment option. In determining the source of Common Shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of Common Shares available for purchase in the open market as compared to the price at which they may purchase Common Shares through the over-allotment option.

Transactions to close out the covered syndicate short position involve either purchases of Common Shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of Common Shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the underwriters are

concerned that there may be downward pressure on the price of Common Shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of Common Shares in the open market while the offering is in progress.

The underwriters may impose a penalty bid. Penalty bids allow the underwriting syndicate to reclaim selling concessions allowed to an underwriter or a dealer for distributing Common Shares in this offering if the syndicate repurchases Common Shares to cover syndicate short positions or to stabilize the purchase price of the Common Shares.

Any of these activities may have the effect of preventing or retarding a decline in the market price of Common Shares. They may also cause the price of Common Shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. Other than this prospectus in electronic format, the information on any such underwriter's website is not part of this prospectus. The representatives may agree to allocate a number of Common Shares to underwriters for sale to their online brokerage account holders. The representatives will allocate Common Shares to underwriters that may make internet distributions on the same basis as other allocations. In addition, Common Shares may be sold by the underwriters to securities dealers who resell Common Shares to online brokerage account holders.

The Fund anticipates that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of the Fund's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may, from time to time, engage in transactions with or perform investment banking and advisory services for the Adviser and its affiliates in the ordinary course of business, for which such underwriters have received, and may expect to receive, customary fees and expenses.

Prior to the public offering of Common Shares, the Adviser or an affiliate purchased Common Shares from the Fund in an amount satisfying the net worth requirements of Section 14(a) of the 1940 Act.

The principal business address of Wells Fargo Securities, LLC is 550 South Tryon Street, Charlotte, NC 28202. The principal business address of Raymond James & Associates, Inc is 880 Carillon Parkway, St. Petersburg, Florida 33716.

#### **CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR**

The Bank of New York Mellon, whose principal business address is One Wall Street, New York, New York 10286, has been retained to act as custodian of the Fund's investments, and BNY Mellon Investment Servicing (US) Inc., whose principal business address is 4400 Computer Drive, Westborough, MA 01581, has been retained to serve as the Fund's transfer agent, dividend disbursing agent and registrar. Neither Bank of New York Mellon nor BNY Mellon Investment Servicing (US) Inc. has any part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

#### **REPORTS TO SHAREHOLDERS**

The Fund will send unaudited semi-annual and audited annual reports to its shareholders, including a list of investments held.

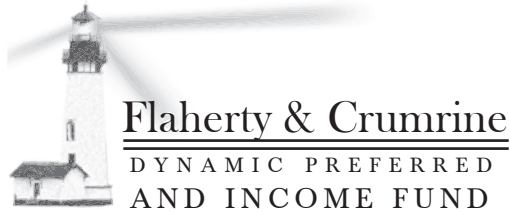
#### **VALIDITY OF THE COMMON SHARES**

The validity of the Common Shares offered hereby is being passed on for the Fund by Venable LLP (with respect to matters pertaining to Maryland law) and Willkie Farr & Gallagher LLP, and certain other legal matters will be passed on for the underwriters by Simpson Thacher & Bartlett LLP. Simpson Thacher & Bartlett LLP may rely as to certain matters of Maryland law on the opinion of Venable LLP.

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18,000,000 Shares



**Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated**

**Common Stock**  
**\$25.00 per Share**

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PROSPECTUS  
May 23, 2013

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**Wells Fargo Securities**  
**Raymond James**  
**Stifel**  
**Crowell, Weedon & Co.**  
**The GMS Group, LLC**  
**Henley & Company LLC**  
**Hennion & Walsh, Inc.**  
**Ladenburg Thalmann & Co. Inc.**  
**Maxim Group LLC**  
**National Securities Corporation**  
**Newbridge Securities Corporation**  
**Pershing LLC**  
**Wedbush Securities Inc.**  
**Wunderlich Securities**  
**B.C. Ziegler**

Until June 17, 2013 (25 days after the date of this prospectus), all dealers that buy, sell or trade the Common Shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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