EATON VANCE LTD DURATION INCOME FUND
Form N-14 8C
August 28, 2009

As filed with the Securities and Exchange Commission on August 27, 2009

1933 Act File No. ____________

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-14

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933 [X]

Pre-Effective Amendment No. ___ [ ]

Post-Effective Amendment No. ___ [ ]

EATON VANCE LIMITED DURATION INCOME FUND

(Exact name of Registrant as Specified in Charter)

Two International Place, Boston, MA 02110
(Address of Principal Executive Offices)

(617) 482-8260
(Registrant's Telephone Number)

MAUREEN A. GEMMA
Two International Place, Boston, MA 02110
(Name and Address of Agent for Service)
Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of the registration statement.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Titles of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fees (1)(2)
Common Stock $0.01 par value	4,200,000	$15.06	$63,252,000	$3,529.46

(1) Estimated solely for the purposes of calculation the filing fee, pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Transmitted prior to filing.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

EATON VANCE LIMITED DURATION INCOME FUND (the Registrant)

CONTENTS OF REGISTRATION STATEMENT ON FORM N-14

This Registration Statement contains the following papers and documents:

EATON VANCE CREDIT OPPORTUNITIES FUND

September 14, 2009

Dear Shareholder:

We cordially invite you to attend a Special Meeting of Shareholders of Eaton Vance Credit Opportunities Fund (the Acquired Fund) on November 13, 2009, to consider a proposal to approve an Agreement and Plan of Reorganization to merge the Acquired Fund into Eaton Vance Limited Duration Income Fund (the Acquiring Fund). In the transaction, the common shares of the Acquired Fund will be exchanged for common shares of the Acquiring Fund, and the holders of auction preferred shares (APS) of the Acquired Fund will receive cash equal to the liquidation preference of such shares (the Reorganization). The enclosed combined Proxy Statement and Prospectus describes the Reorganization in detail. We ask you to read the enclosed information carefully and to submit your vote promptly.

After consideration and recommendation by the Acquired Fund s investment adviser, Eaton Vance Management, the Board of Trustees of the Acquired Fund has determined that it is in the best interest of the Acquired Fund to merge into the Acquiring Fund. Common shareholders of the Acquired Fund will benefit from the Reorganization because they will become common shareholders of a larger, more diversified fund that has the same investment objectives and similar policies and restrictions as the Acquired Fund. The Acquiring Fund also has lower total operating expenses. As noted above, holders of Acquired Fund APS will receive cash in full liquidation of their APS holdings.

We realize that most shareholders will not be able to attend the meeting and vote their shares in person. However, the Acquired Fund does need your vote. You can vote by ***mail, telephone,*** or over the ***Internet***, as explained in the enclosed material. If you later decide to attend the meeting, you may revoke your proxy and vote your shares in person. By voting promptly, you can help the Acquired Fund avoid the expense of additional solicitation.

If you would like additional information concerning this proposal, please call one of our service representatives at 1-800-262-1122 Monday through Friday 8:00 a.m. to 6:00 p.m., Eastern Time. ***Your participation in this vote is extremely important.***

Sincerely,

Payson F. Swaffield
President

Your vote is important please return your proxy card promptly.

Shareholders are urged to sign and mail the enclosed proxy in the enclosed postage prepaid envelope or vote by telephone or over the Internet by following the enclosed instructions. Your vote is important whether you own a few shares or many shares.

EATON VANCE CREDIT OPPORTUNITIES FUND

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 13, 2009

To the shareholders of the Eaton Vance Credit Opportunities Fund (the Acquired Fund):

A shareholder meeting for the Acquired Fund will be held at Two International Place, Boston, Massachusetts, on November 13, 2009, at 3:00 p.m., Eastern Time, to consider the following:

1. A proposal to approve an Agreement and Plan of Reorganization between the Acquired Fund and Eaton Vance Limited Duration Income Fund (the Acquiring Fund), the termination of the Acquired Fund s registration under the Investment Company Act of 1940, as amended, and the dissolution of the Acquired Fund under applicable state law. Under this Agreement, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Acquired Fund in exchange for an equal aggregate value of newly-issued common shares of beneficial interest of the Acquiring Fund, with par value of $0.01 per share, and cash consideration equal to the aggregate liquidation preference of the Acquired Fund s auction preferred shares.

   The Board of Trustees of the Acquired Fund recommends that you vote FOR this proposal.

2. Any other business that may properly come before the meeting and any adjourned or postponed sessions thereof.

Shareholders of record as of the close of business on August 31, 2009, are entitled to vote at the meeting or any adjournment thereof.

By order of the Board of Trustees,

Maureen A. Gemma
Secretary

September 14, 2009

IMPORTANT

Shareholders can help the Board of Trustees of the Acquired Fund avoid the necessity and additional expense of further solicitations, which may be necessary to obtain a quorum, by promptly returning the enclosed proxy or voting by telephone or over the Internet. The enclosed addressed envelope requires no postage if mailed in the United States and is included for your convenience.

PROXY STATEMENT of
Eaton Vance Credit Opportunities Fund
(the Acquired Fund)

PROSPECTUS for
Common Shares of
Eaton Vance Limited Duration Fund
(the Acquiring Fund)

Two International Place
Boston, Massachusetts 02110

We are sending you this combined Proxy Statement and Prospectus (Proxy Statement/Prospectus) in connection with the Special Meeting of Shareholders (the Special Meeting) of the Acquired Fund, a Massachusetts business trust registered as a closed-end management investment company, to be held on November 13, 2009 (the Meeting Date) at 3:00 p.m., Eastern Time, at Two International Place, Boston, Massachusetts 02110. This document is both the Proxy Statement of the Acquired Fund and the Prospectus of the Acquiring Fund. (The Acquired Fund and the Acquiring Fund hereinafter are sometimes referred to as a Fund or collectively as the Funds). A proxy is enclosed with the foregoing Notice of a Special Meeting of Shareholders for the benefit of shareholders who wish to vote, but do not expect to be present at the Special Meeting. Shareholders also may vote by telephone or via the Internet. The proxy is solicited on behalf of the Board of Trustees of the Acquired Fund.

This Proxy Statement/Prospectus relates to the proposed reorganization of the Acquired Fund into the Acquiring Fund (the Reorganization). The Agreement and Plan of Reorganization (the Plan) is attached as Appendix A. The Plan provides as follows:

- In the Reorganization, the Acquired Fund will transfer all of its assets and liabilities to the Acquiring Fund;
- The Acquiring Fund will issue common shares to the Acquired Fund equal in value to the net assets of the Acquired Fund attributable to its common shares immediately prior to the Reorganization;
- The Acquiring Fund will pay cash consideration to the Acquired Fund equal in value to the aggregate liquidation preference of the Acquired Fund auction preferred shares (APS) immediately prior to the Reorganization;
- The Acquired Fund will distribute the Acquiring Fund common shares so received to its common shareholders in proportion to their holdings immediately prior to the Reorganization;
- The Acquired Fund will distribute the cash consideration so received to its APS holders in proportion to their holdings immediately prior to the Reorganization;
- The Acquired Fund will then terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act) and dissolve under applicable state law; and
- After the Reorganization, the Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Proxy Statement/Prospectus.

The common shares of the Acquired Fund are listed on the New York Stock Exchange (NYSE) under the ticker symbol EOE). The common shares of the Acquiring Fund are listed on the NYSE Amex under the ticker symbol EVV and will continue to be so listed after the Reorganization. Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

As described in this Proxy Statement/Prospectus, in approving the Reorganization, the Board of Trustees of each Fund determined that the Reorganization is in the best interest of each Fund and that no dilution will occur as a result of the Reorganization. In reaching this determination, each Board considered the similarities between the Funds investment objectives and policies, the lower total operating expenses that would be realized by the Acquired Fund common shareholders after the Reorganization, the economies that would be realized by allocating Fund expenses over a larger asset base after the Reorganization, that the Acquired Fund APS will be liquidated and that the Reorganization is expected to be tax-free to the Funds and their shareholders, as well as other factors.

Each proxy will be voted in accordance with its instructions. If no instruction is given, an executed proxy will authorize the persons named as proxies, or any of them, to vote in favor of each matter. A written proxy is revocable by the person giving it prior to exercise by a signed writing filed with the Fund s proxy tabulator, D.F. King, 48 Wall Street, New York, NY 10005, or by executing and delivering a later dated proxy, or by attending the meeting and voting the shares in person. Proxies voted by telephone or over the Internet may be revoked at any time in the same manner that proxies voted by mail may be revoked. This Proxy Statement/Prospectus is initially being mailed to shareholders on or about September 14, 2009. Supplementary solicitations may be made by mail, telephone, telegraph, facsimile or electronic means.

The Trustees have fixed the close of business on August 31, 2009 as the record date (Record Date) for the determination of the shareholders entitled to notice of and to vote at the meeting and any adjournments or postponements thereof. The Acquired Fund shareholders at the close of business on the Record Date will be entitled to one vote for each share of the Acquired Fund held.

This Proxy Statement/Prospectus sets forth concisely the information that you should know before investing. You should read and retain this Proxy Statement/Prospectus for future reference. To ask questions about this Proxy Statement/Prospectus, please call our toll-free number at 1-800-262-1122 Monday through Friday 8:00 a.m. to 6:00 p.m., Eastern time.

The following documents are on file with the Securities and Exchange Commission (SEC) or are available at no charge by calling Eaton Vance Management at 1-800-262-1122. The documents are incorporated by reference (and therefore legally part of) this Proxy Statement/Prospectus.

- The Acquiring Fund s annual report to shareholders dated April 30, 2009
- The Acquired Fund s annual report to shareholders dated April 30, 2009
- A Statement of Additional Information dated September 14, 2009 that relates to this Proxy Statement/Prospectus and the Reorganization, and contains additional information about the Acquired Fund and the Acquiring Fund

Shares of the Acquiring Fund are not deposits or obligations of, or guaranteed or endorsed by, any bank or other depository institution. These shares are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Shares of the Acquiring Fund have not been approved or disapproved by the Securities and Exchange Commission nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of this Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.

The date of this Proxy Statement/Prospectus is September 14, 2009.

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No dealer, salesperson or any other person has been authorized to give any information or to make any representation other than those contained in this Proxy Statement/Prospectus, and you should not rely on such other information or representations.

PROPOSAL 1

APPROVE AGREEMENT AND PLAN OF REORGANIZATION

The Board of each Fund, including the Trustees who are not interested persons (as defined in the Investment Company Act of 1940, as amended (the 1940 Act)) of the Fund (the Independent Trustees), has approved the Plan for the Reorganization of the Acquired Fund into the Acquiring Fund. If the shareholders of the Acquired Fund approve the Plan, then Acquiring Fund common shares and cash consideration will be issued to the holders of the Acquired Fund common shares and APS, respectively, in exchange for substantially all of the assets of the Acquired Fund and the assumption of substantially all of the liabilities of the Acquired Fund. The Acquired Fund will then terminate its registration under the 1940 Act and dissolve under applicable state law. The aggregate net asset value (NAV) of the Acquiring Fund common shares received in the Reorganization will equal the aggregate NAV of the Acquired Fund common shares held immediately prior to the Reorganization (though common shareholders may receive cash for their fractional shares). The cash consideration received in the Reorganization will equal the aggregate liquidation preference of the Acquired Fund APS held immediately prior to the Reorganization.

The Reorganization seeks to combine two similar Funds to achieve certain economies of scale and other operational efficiencies. The Reorganization has been considered by the Board of Trustees of each Fund. In reaching the decision to recommend that the shareholders of the Acquired Fund vote to approve the Reorganization, the Trustees, including the Independent Trustees, concluded that the Reorganization would be in the best interest of the Acquired Fund s shareholders and that the interests of existing shareholders would not be diluted as a consequence thereof. In making this determination, the Trustees considered a number of factors, including the following:

Similar Objectives, Restrictions and Policies. The Acquired Fund and the Acquiring Fund have the same investment objectives and similar policies and restrictions. While the Acquired Fund invests at least 80% of its total assets in (a) publicly and privately issued debt securities and (b) bank loans and loan participations, including senior secured, second lien secured and other types of secured and unsecured loan obligations, the Acquiring Fund invests at least 25% of its total assets in each of (1) mortgage backed securities and (2) below investment grade investments, including senior loans and high yield bonds.

The Acquiring Fund has a lower risk profile than the Acquired Fund because by prospectus the Acquiring Fund maintains a weighted average portfolio credit quality of investment grade. The Acquired Fund does not have similar investment restrictions and as of May 22, 2009 had a weighted average portfolio credit quality of B-. If the Acquired Fund and the Acquiring Fund merge, Acquired Fund shareholders would be invested in a portfolio with a higher average credit quality and would have less exposure to second lien loans. Because the Acquiring Fund is significantly larger than the Acquired Fund, the acquisition of the Acquired Fund s assets would have an immaterial impact on the Acquiring Fund s credit quality and asset allocation.

Lower Fund Fees and Expenses. After the Reorganization, Acquiring Fund shareholders would realize modest savings in Fund operating expenses, while the former common shareholders of the Acquired Fund would realize a decrease in Fund operating expenses of approximately 0.49% annually. After the Acquiring Fund s contractual expense reimbursement expires in 2011, former common shareholders of the Acquired Fund would continue to benefit from total operating expenses that are approximately 0.44% lower annually than the Acquired Fund s current total operating expenses.

Relative Performance. The Acquiring Fund s total return for the one-year, three-year, and life-of-fund periods ended May 31, 2009 substantially exceeded that of the Acquired Fund. However, as of May 31, 2009, the distribution rate on the common shares of the Acquired Fund exceeded that on the common shares of the Acquiring Fund. As of May 31, 2009, the distribution rate on common shares of the Acquired Fund was 12.93% and on the Acquiring Fund was 10.48%. The Acquired Fund s relatively higher distribution rate is attributable to its higher concentration in second lien loans and other lower investment quality assets.

Trading Discounts to NAV; Exchange Listing. As of May 29, 2009, the Acquired Fund s common shares were trading at a discount to NAV of -8.28% while the Acquiring Fund s common shares were trading at a discount to NAV of -9.02%. Since mid-2006, the Acquired Fund s common shares generally have traded at a smaller discount or a greater premium to NAV than the Acquiring Fund s common shares largely due to the Acquired Fund s lower net asset value per share and higher distribution rate. There can be no assurance, that after the Reorganization, the common shares of the combined fund (the Combined Fund) will trade at a higher premium to NAV, or at a smaller discount to NAV than is currently the case for the Acquiring Fund s common shares. While the Acquired Fund common shares trade on the NYSE and the Acquiring Fund common shares trade on the NYSE Amex, moving to the NYSE Amex is not expected to have a substantive impact on the former common shareholders of the Acquired Fund.

Economies of Scale and Other Benefits. The Combined Fund offers economies of scale that may lead to lower fixed expenses on a per share basis for common shareholders. Such economies may be realized with respect to exchange listing fees, printing fees, costs for legal, auditing, custodial and administrative services, and miscellaneous fees. In addition, the greater asset size of the Combined Fund may result in greater diversification of portfolio holdings.

No Dilution. After the Reorganization, each former shareholder of the Acquired Fund will own shares of the Acquiring Fund equal to the aggregate value of his or her shares of the Acquired Fund immediately prior to the Reorganization. Because shares of the Acquiring Fund will be issued at NAV in exchange for the assets of the Acquired Fund, that, net of the liabilities of the Acquired Fund assumed by the Acquiring Fund, will equal the aggregate value of those shares, the Acquiring Fund s NAV will be unchanged. Thus, the Reorganization will not result in any dilution to shareholders.

No Tax Consequences. The Acquired Fund expects to obtain an opinion of counsel that the Reorganization will be tax-free for federal income tax purposes. Shareholders will not recognize a taxable gain or loss on the receipt of shares of the Acquiring Fund in liquidation of their interest in the Acquired Fund. Their tax basis in the Acquiring Fund shares received in the Reorganization will be the same as their tax basis for their Acquired Fund shares, and the tax holding period will be the same. The Acquiring Fund s tax basis for the assets received in the Reorganization will be the same as the Acquired Fund s basis immediately before the Reorganization, and the Acquiring Fund s tax holding period for those assets will include the Acquired Fund s holding period. Furthermore, it is not anticipated that the Reorganization will preclude utilization of any of the capital loss carryovers of either Fund. The receipt of cash consideration by the Acquired Fund APS holders is a taxable exchange, but because the consideration generally should equal each such shareholder s tax basis in the APS being exchanged, no gain or loss is expected to be recognized by such shareholders.

Effect on Eaton Vance. The Board also considered that the Funds investment adviser, Eaton Vance Management (Eaton Vance , or the Adviser), will benefit from the Reorganization. After the Reorganization, Eaton Vance will continue to collect advisory fees on the Acquired Fund s assets acquired by the Acquiring Fund pursuant to the Reorganization. The Acquired Fund commenced operations three years after the Acquiring Fund and Eaton Vance is currently waiving a greater portion of the Acquired Fund s advisory fee as compared to the Acquiring Fund pursuant to the contractual fee waivers in place. Accordingly, the Acquiring Fund currently has a higher effective fee rate than the Acquired Fund and will continue to do so through May 31, 2014, when the Acquired Fund s waiver expires. As a result, assuming the Reorganization occurred on May 31, 2009, Eaton Vance estimates that it would collect an additional $58,000, $87,000, $87,000, $58,000 and $29,000 in advisory fees for the years ended 2010, 2011, 2012, 2013 and 2014 respectively. There is no impact to advisory fees in subsequent years as the Acquired Fund s contractual waiver expires on May 31, 2014 and thereafter the Acquired Fund and the Acquiring Fund are subject to the same advisory fee rate.

Liquidation of Acquired Fund APS. As discussed below in greater detail, since mid-February 2008 the market for APS has become generally illiquid and investors have not been able to sell their securities through the auction process. As a result of the Reorganization, Acquired Fund APS holders will receive cash in exchange for their APS, thus liquidating their APS holdings in their entirety.

Terms of the Plan. The Trustees considered the terms and conditions of the Plan and the costs associated with the Reorganization to be borne by the Acquired Fund common shareholders, estimated to be approximately $400,000.

The Board of the Acquired Fund recommends that shareholders of the Acquired Fund approve the Fund s proposed Reorganization at the Special Meeting to be held on November 13, 2009.

Shareholder approval of the Reorganization requires, with respect to the Acquired Fund, the vote of the holders of at least a majority of the common shares and APS, voting together. Subject to the requisite approval of the shareholders of the Acquired Fund with regard to the Reorganization, it is expected that the closing date of the Reorganization will be on the Acquired Fund APS dividend payment date immediately following the Special Meeting.

Summary

Comparison of the Funds. The following is a summary of certain information contained elsewhere in this Proxy Statement/Prospectus and is qualified in its entirety to the more complete information contained herein and in the Statement of Additional Information. Shareholders should read the entire Proxy Statement/Prospectus carefully.

Investment Objectives and Policies. Each Fund is a registered, diversified closed-end management investment company under the 1940 Act.

- *Acquired Fund:* Under normal market conditions, at least 80% of the Acquired Fund s total assets will be invested in (1) publicly and privately issued bonds and other debt securities (Bonds) including Bonds, commonly known as junk bonds that are of below investment grade quality (rated below Baa3- by Moody s Investors Service, Inc. (Moody s) or below BBB- by Standard & Poor s Rating Group (S&P) or Fitch Ratings (Fitch) (each a Rating Agency) or, if unrated, determined by the investment adviser to be of comparable quality) (Non-Investment Grade Bonds) and (2) loans and loan participations (collectively, Loans), including senior secured floating rate Loans (Senior Loans), second lien secured floating rate Loans (Second Lien Loans), and other types of secured and unsecured Loans with fixed and variable interest rates.
- *Acquiring Fund:* The Acquiring Fund invests its at least 25% of its total assets in each of (1) mortgage-backed securities that are issued, backed or otherwise guaranteed by the U.S.
  Government or its agencies or instrumentalities or that are issued by private issuers (MBS) and (2) investments rated below investment grade (as defined above), which include (but are not limited to) Senior Loans and high yield bonds.
- *Acquired Fund:* The Acquired Fund may purchase and sell derivative instruments (which derive their value by reference to another instrument, security or index) for investment purposes, such as obtaining investment exposure to an investment category; risk management purposes, such as hedging against fluctuations in securities prices or interest rates; diversification purposes; or to change the duration of the Fund. The Acquired Fund may invest in the following types of derivative instruments: purchase or sale of futures contracts on securities, indices, other financial instruments or currencies; options on futures contracts and exchange-traded and over-the-

counter options on securities, indices or currencies; interest rate swaps; credit default swaps; total return swaps; forward rate contracts and options thereon; structured notes; foreign exchange hedging instruments; and derivatives based on various Loan and Bond indices. In order to help protect the soundness of derivative transactions and outstanding derivative positions, Eaton Vance requires derivative counterparties to have a minimum credit rating of A from Moody's (or comparable rating from another Rating Agency) and monitors such rating on an on-going basis.

- *Acquiring Fund*. The Acquiring Fund may purchase or sell derivative instruments (which derive their value from another instrument, security or index) for risk management purposes, such as hedging against fluctuations in securities prices or interest rates; diversification purposes; or changing the duration of the Fund. Transactions in derivative instruments may include the purchase or sale of futures contracts on securities, indices and other financial instruments, credit- linked notes, tranches of collateralized loan obligations, options on futures contracts, and exchange-traded and over-the-counter options on securities or indices, and interest rate, total return and credit default swaps. The Acquiring Fund may invest up to 10% of its gross assets in long credit default swap positions on below investment grade corporate securities, Senior Loans and/or indices relating to such investments. The Acquiring Fund may enter into forward commitments to purchase generic MBS, with the total amount of such outstanding commitments not to exceed 10% of its total net assets. In addition, the Acquiring Fund may enter into forward commitments to sell generic MBS with the total amount of outstanding commitments not to exceed 50% of the Fund s holdings of MBS. Counterparties to these agreements are required to have an investment grade credit quality rating at the time of investment.

Guidelines of a Rating Agency that rates any preferred shares issued by a Fund may limit the Funds ability to engage in deriviative transactions.

For more information about the Funds investment objectives or policies see the table following Comparison of the Funds: Investment Objectives and Policies below.

Purchase and Sale of Fund Shares. Purchase and sale procedures for the common shares of each Fund are identical. Investors typically purchase and sell common shares of the Funds through a registered broker-dealer on the New York Stock Exchange (NYSE) for the Acquired Fund or the NYSE Amex for the Acquiring Fund, or may purchase or sell common shares through privately negotiated transactions with existing shareholders. The Acquired Fund and the Acquiring Fund currently have APS outstanding. When initially offered, it was contemplated that each Fund s APS would be purchased and sold at separate auctions conducted on a regular basis (unless the Fund elected, subject to certain conditions, to declare a special dividend period). However, since mid-February 2008 the functioning of the auction markets for certain types of auction rate securities (including APS) have been disrupted by an imbalance between buy and sell orders. As a result of this imbalance, auctions for APS have not cleared and APS generally have become illiquid. There is no current expectation that these circumstances will change following the Reorganization and it is possible that the APS markets will never resume normal functioning.

Redemption Procedures. Redemption procedures for the Acquired Fund and the Acquiring Fund are also similar. The common shares of each Fund have no redemption rights. However, the Board of each Fund may consider open market share repurchases of, or tendering for, common shares to seek to reduce or eliminate any discount in the market place of the common shares from the NAV thereof. Each Fund s ability to repurchase, or tender for, its common shares may be limited by 1940 Act asset coverage requirements and by the Rating Agency rating its APS. Although a Fund will not ordinarily redeem APS, it may be required to redeem APS if, for example, it does not meet an asset coverage ratio required by law or in order to correct a failure to meet the Rating Agency guidelines in a timely manner.

Comparison of the Funds:
Investment Objectives and Policies

The investment objectives for each Fund is identical. Each Fund has similar investment policies and risks. Set forth below is a comparison of the Funds, including their investment objectives, policies and other pertinent factors.

	Acquired Fund	**Acquiring Fund**
Business	Diversified, closed-end management investment company organized as a Massachusetts business trust.	
Investment objective	The primary investment objective is to provide a high level of current income with a secondary objective to seek capital appreciation.	
Net assets attributable to common shares as of May 31, 2009	$50.1 million	$1.5 billion
Listing (common shares)	NYSE (ticker symbol EOE)	NYSE Amex (ticker symbol EVV)
APS	One series, rated AA from Fitch	Five series, rated AAA by Fitch
Fiscal year end	April 30	
Investment adviser (Adviser)	Eaton Vance	
Portfolio managers	Scott H. Page (since inception) Andrew N. Sveen (since 4/23/2007) Payson F. Swaffield (since inception) Michael W. Weilheimer (since inception) All are Vice Presidents of Eaton Vance.	Christine M. Johnston (since 3/1/2007) Catherine C. McDermott (since 1/30/2008) Scott H. Page (since inception) Susan Schiff (since inception) Payson F. Swaffield (since inception) Mark S. Venezia (since 3/16/2004) Michael W. Weilheimer (since inception) All are Vice Presidents of Eaton Vance.
Primary investments	The Acquired Fund invests in credit-related investments. The Fund invests	The Acquiring Fund invests primarily in two investment categories: (1) MBS; and (2)

its total assets in the following categories of credit-related investments (collectively, the Fund s principal investment categories): (1) publicly and privately issued Non-Investment Grade Bonds and (2) Loans, including Senior Loans, Second Lien Loans and other types of secured and unsecured Loans with fixed and variable interest rates.	investments related below investment grade, which include, but are not limited to Senior Loans and high yield bonds.

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	Acquired Fund	**Acquiring Fund**
Allocation of assets	The Adviser has broad discretion to allocate the Acquired Fund s assets between and within its principal investment categories and to change allocations over time as conditions warrant. The Acquired Fund is not obligated to hold investments in each category and may at times focus its investments in a single category or in a particular type of investment within a single category.	The Adviser has broad discretion to allocate the Acquiring Fund s assets among the principal asset classes; provided that, under normal market conditions, at least 25% of its assets will be invested in each investment category.
Credit quality	The Acquired Fund may invest in credit-related investments of any credit quality. The Acquired Fund will not invest more than 15% of its total assets in interest-bearing investments that, at the time of purchase, are not current on their interest payment obligations.	The Acquiring Fund maintains an average dollar weighted average portfolio credit quality of investment grade (BBB- or above).
Duration	The Acquired Fund does not maintain fixed duration or maturity policies, and may invest in securities and obligations of any duration or maturity	The Acquiring Fund maintains a duration of between two and five years (including the effect of leverage).
Mortgage backed securities (MBS)	The Acquired Fund does not invest in MBS.	The Acquiring Fund invests only in MBS that are backed by a guarantee of the U.S. Government (or one of its agencies or instrumentalities), although certain of these instruments may be privately issued. MBS represent participation interests in pools of fixed-rate and adjustable-rate mortgage loans. Unlike conventional debt obligations, MBS provide monthly payments derived from the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. The Adviser

invests primarily in MBS that have had a history of refinancing opportunities (so called "seasoned MBS"). Seasoned MBS tend to have a higher collateral to debt ratio than other MBS because a greater percentage of the underlying debt has been repaid and the collateral property may have appreciated in value. The Adviser may discontinue the practice of focusing on seasoned MBS at any time. The Adviser expects that under current market conditions many of the MBS held by the Fund will be premium bonds acquired at prices that exceed their par or principal value.

	Acquired Fund	Acquiring Fund
Senior Loans	Each Fund invests in Senior Loans. Senior Loans are floating rate Loans made to corporations and other non-governmental entities and issuers. Senior Loans typically hold a senior position in the capital structure of the issuing entity, are typically secured with specific collateral and typically have a claim on the assets and/or stock of the borrower that is senior to that held by subordinated debt holders and stockholders of the borrower. The proceeds of Senior Loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, dividends, and, to a lesser extent, to finance internal growth and for other corporate purposes. Senior Loans typically have rates of interest that are redetermined daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. Base lending rates in common usage today are primarily the London-Interbank Offered Rate (LIBOR), and secondarily the prime rate offered by one or more major U.S. banks (the Prime Rate) and the certificate of deposit (CD) rate or other base lending rates used by commercial lenders. The Senior Loans held by a Fund typically have a dollar-weighted average period until the next interest rate adjustment of approximately 90 days or less. In the experience of the Adviser, the average life of Senior Loans over the last decade has been two to four years because of prepayments. For the Acquired Fund only, floating rate debt investments with the characteristics of Senior Loans, such as debtor-in-possession or DIP Loans, and derivative instruments based on indices of Senior Loans (*e.g.,* AMIs are, for purposes of the Fund's investment policies, considered Senior Loans. Each Fund may purchase and retain in its portfolio Senior Loans where the borrowers have experienced, or may be perceived to be likely to experience, credit problems, including default, involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, a Fund may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan. Each Fund primarily purchases Senior Loans by assignment from a participant in the original syndicate of lenders or from subsequent assignees of such interests. A Fund may also purchase participations in the original syndicate making Senior Loans. Loan participations typically represent direct participations in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. Each Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, a Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated	

with an interposed bank or other financial intermediary.

	Acquired Fund	Acquiring Fund
Second Lien Loans, other secured and unsecured Loans	Each Fund may invest in Second Lien Loans, other secured loans and unsecured loans. These are Loans made by public or private corporations or other non-governmental entities and issuers for a variety of purposes. The Acquired Fund may invest in these instruments as part of its primary investment strategy. Second Lien Loans are second in right of payment to one or more Senior Loans of the related borrower. Second Lien Loans typically are secured by a second priority security interest or lien to or on specified collateral securing the borrower's obligation under the Loan and typically have similar protections and rights as Senior Loans. Second Lien Loans, like Senior Loans, typically have adjustable floating rate interest payments. Secured Loans other than Senior Loans and Second Lien Loans may rank lower in right of payment to one or more Senior Loans and Second Lien Loans of the borrower and typically are secured by a lower priority security interest or lien to or on specified collateral securing the borrower's obligation under the Loan, and typically have more subordinated protections and rights than Senior Loans and Second Lien Loans. Secured Loans may become subordinated in right of payment to more senior obligations of the borrower issued in the future. Such secured Loans may have fixed or adjustable floating rate interest payments. Unsecured Loans generally have lower priority in right of payment compared to holders of secured debt of the borrower. Unsecured Loans are not secured by a security interest or lien to or on specified collateral securing the borrower's obligation under the Loan. Unsecured Loans by their terms may be or may become subordinate in right of payment to other obligations of the borrower, including Senior Loans, Second Lien Loans and other secured Loans. Unsecured Loans may have fixed or adjustable floating rate interest payments.	
Foreign investments	The Acquired Fund may invest without limitation in securities and obligations of both domestic and foreign issuers and obligors, except that the Fund will not invest in securities or obligations of issuers or obligors located in emerging markets. The Acquired Fund seeks to hedge its exposures to foreign currencies but may, at the discretion of	The Acquiring Fund may invest up to 15% of its total assets in foreign investments denominated in Euros, sterling, Swiss francs and Canadian dollars. The Fund may invest without limit in U.S. dollar denominated investments of non U.S. issuers. The Acquiring Fund seeks to hedge its exposures to foreign currencies but may, at the discretion of the Adviser, at

the Adviser, at any time limit or eliminate foreign currency hedging activity.	any time limit or eliminate foreign currency hedging activity.

	Acquired Fund	Acquiring Fund
Investment in investment companies and other pooled investment vehicles	The Acquired Fund may invest in other investment companies and/or other pooled investment vehicles holding primarily credit-related investments. The Acquired Fund may invest up to 10% of its total assets in other registered investment companies and up to 20% of its total assets collectively in private investment funds and other pooled investment vehicles holding primarily credit-related investments. For this purpose, registered investment companies means investment companies that are registered under the 1940 Act, and "private investment funds" means privately offered pooled investment funds that are excluded from the definition of investment company under the 1940 Act by operation of Section 3(c)(1) or 3(c)(7) thereof. Investments by the Acquired Fund in private investment funds and other pooled investment vehicles are collectively limited to not more than 20% of the Fund assets. Pooled vehicles in which the Acquired Fund may invest include mortgage REITs and master limited partnerships, business development companies and other entities holding primarily credit-related investments.	Upon the approval of the Board, the Acquiring Fund may invest more than 10% of its total assets in one or more other management investment companies (or may invest in affiliated investment companies) to the extent permitted by the 1940 Act.

	Acquired Fund	Acquiring Fund
Distressed Debt Obligations	The acquired Fund may invest in Distressed Debt Obligations . Distressed Debt Obligations include Bonds, Loans and other debt obligations of issuers that are experiencing financial distress are obligations are the subject of bankruptcy proceedings or otherwise in default as to the repayment of principal or interest or are rated in the lowest rating categories (Ca or lower by Moody s pr CC or lower by S&P and Fitch) or, if unrated, considered by the Adviser to be of comparable quality. The Acquired Fund will make investments in Distressed Debt Obligations in circumstances in which the Adviser determines that the purchase price of the debt is attractive relative to the level of risk assumed. In addition to pre-existing outstanding debt obligations of issuers undergoing financial distress, Distressed Debt Obligations also include "debtor-in-possession" or DIP Loans newly issued in connection with special situation restructuring and refinancing transactions. DIP Loans are Loans to a debtor-in-possession in a proceeding under the U.S. bankruptcy code that have been approved by the bankruptcy court. DIP Loans are typically fully secured by a lien on the debtor s otherwise unencumbered assets or secured by a junior lien on the debtor s encumbered assets (so long as the Loan is fully secured based on the most	The Acquiring Fund may invest up to 5% of its total assets in DIP Loans.

recent current valuation or appraisal
report of the debtor).

	Acquired Fund	Acquiring Fund
Derivative instruments[1]	The Acquired Fund may purchase and sell derivative instruments (which derive their value by reference to another instrument, security or index) for investment purposes, such as obtaining investment exposure to an investment category; risk management purposes, such as hedging against fluctuations in securities prices or interest rates; diversification purposes; or to change the duration of the Fund. The Acquired Fund currently intends to invest in the following types of derivative instruments, although it retains the flexibility in the future to invest in other such instruments: purchase or sale of futures contracts on securities, indices, other financial instruments or currencies; options on futures contracts and exchange-traded and over-the-counter options on securities, indices or currencies; interest rate swaps; credit default swaps; total return swaps; forward rate contracts and options thereon; structured notes; foreign exchange hedging instruments; and derivatives based on various Loan and Bond indices. In order to help protect the soundness of derivative transactions and outstanding derivative positions, the investment adviser requires derivative counterparties to have a minimum credit rating of A from Moody or another Rating Agency and monitors such rating on an on-going basis.	The Acquiring Fund may purchase or sell derivative instruments (which derive their value from another instrument, security or index) for risk management purposes, such as hedging against fluctuations in securities prices or interest rates; diversification purposes; or changing the duration of the Fund. Transactions in derivative instruments may include the purchase or sale of futures contracts on securities, indices and other financial instruments, credit-linked notes, tranches of collateralized loan obligations, options on futures contracts, and exchange-traded and over-the-counter options on securities or indices, and interest rate, total return and credit default swaps. The Acquiring Fund may invest up to 10% of its gross assets in long credit default swap positions on below investment grade corporate securities, Senior Loans and/or indices relating to such investments. Counterparties to these agreements are required to have an investment grade credit quality rating at the time of investment. During periods of limited availability of Seasoned MBS, the Acquiring Fund may enter into forward commitments to purchase generic MBS, with the total amount of such outstanding commitments not to exceed 10% of its total net assets. In addition, the Acquiring fund may enter into forward commitments to sell generic MBS with the total amount of outstanding commitments not to exceed 50% of the Fund s holdings of MBS.
Leverage	Each Fund uses leverage to seek opportunities for increased net income. Each Fund has created leverage by issuing APS. The use of leverage involves special risks. See	

Leverage Risk under Risk Factors and Special Considerations below.

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

[1] Guidelines of a Rating Agency that rates any preferred shares issued by the Fund may limit the Fund's ability to engage in such transactions.

	Acquired Fund	Acquiring Fund
Selling securities short	The Acquired Fund may hold short positions in credit-related securities and instruments either for hedging or non-hedging purposes.	The Acquiring Fund may sell securities short, including entering into short sales against the box for hedging purposes.
When-issued securities and forward commitments	Each Fund may purchase securities on a forward commitment or when-issued basis, which means that payment and delivery occur on a future settlement date. The price and yield of such securities are generally fixed on the date of commitment to purchase. However, the yield on a comparable security when the transaction is consummated may vary from the yield on the security at the time that the purchase was made. The Acquiring Fund does not enter into forward commitment or when-issued transactions for the purpose of investment leverage. Each Fund may invest in U.S. Government securities which include (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuance: U.S.	
Other government securities	Treasury bills (maturities of one year or less), U.S. Treasury notes (maturities of one year to ten years) and U.S. Treasury bonds (generally maturities of greater than ten years) and (2) obligations issued or guaranteed by U.S. Government agencies and instrumentalities which are supported by any of the following: (a) the full faith and credit of the U.S. Treasury, (b) the right of the issuer to borrow an amount limited to a specific line of credit from the U.S. Treasury, (c) discretionary authority of the U.S. Government to purchase certain obligations of the U.S. Government agency or instrumentality or (d) the credit of the agency or instrumentality. Each Fund may also invest in any other security or agreement collateralized or otherwise secured by U.S. Government securities. Agencies and instrumentalities of the U.S. Government include but are not limited to: Federal Land Banks, Federal Financing Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Farm Credit Banks, Federal Home Loan Banks, FHLMC, FNMA, GNMA, Student Loan Marketing Association, United States Postal Service, Small Business Administration, Tennessee Valley Authority and any other enterprise established or sponsored by the U.S. Government. Because the U.S. Government generally is not obligated to provide support to its instrumentalities, a Fund will invest in obligations issued by these instrumentalities only if the Adviser determines that the credit risk with respect to such obligations is minimal. The Acquired Fund invests in such securities during temporary periods for defensive purposes in order to preserve principal and limit undue investment risk.	
Asset backed	Each Fund may invest in asset-backed securities, which are payment claims that are	

securities	securitized in the form of negotiable paper that is issued by a financing company (generically called a Special Purpose Vehicle or SPV). These securitized payment claims are, as a rule, financial assets brought into a pool according to specific diversification rules. An SPV is a company founded for the purpose of securitizing these claims and its assets are this diversified asset pool. On this basis, marketable securities are issued which, due to diversification, generally represent a lower level of risk than the underlying assets individually. The redemption of the securities issued by the SPV takes place out of the cash flow generated by the collected claims. An SPV may issue multiple securities with different priorities to the cash flows generated and the underlying assets. Asset-backed securities may be issued by the U.S. Government, its agencies or instrumentalities, other governmental issuers or by private issuers. The types of assets that may underlie these instruments include, but are not limited to, the following (1) for non-mortgage asset-backed securities: automobile loans, credit card receivables, equipment leases (including aircraft), franchise loans, student loans, and catastrophe bonds; and (2) for mortgage-related asset-backed securities: home equity loans, manufactured housing loans, commercial mortgage loans and residential mortgage loans.

	Acquired Fund	Acquiring Fund
Collateralized debt obligations (CDOs)	Each Fund may invest in CDOs. A CDO is a structured credit security issued by an SPV created to apportion the risk and return characteristics of a pool of underlying assets consisting of debt obligations, typically non-investment grade Loans and/or Non-Investment Grade Bonds. A CDO's assets are used as collateral to support various debt and equity tranches issued by the SPV. A key feature of the CDO structure is the prioritization of the cash flows from a pool of debt securities among several classes of CDO holders, thereby creating a series of obligations with varying interest rates, risk levels and expected maturities. CDOs generally are secured by an assignment to a trustee under the indenture pursuant to which the securities are issued by the CDO, with its assets as collateral. Payments received on the underlying debt obligations generally are made to the trustee under the indenture. CDOs generally are designed to be retired as the underlying debt obligations are repaid. In the event of sufficient early prepayments, the class or series of a CDO first to mature generally will be retired. Therefore, although in most cases the issuer of a CDO will not supply additional collateral in the event of such prepayments, sufficient collateral normally exists to secure the CDO tranches that remain outstanding. The credit quality of CDO securities depends primarily upon the quality of the underlying assets and the level of credit support and/or enhancement provided. The underlying assets (e.g., debt obligations) of a CDO are subject to prepayments, which shorten the weighted average maturity and may lower the return of the securities issued by the CDO. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of CDO securities also may change because of changes in market value, that is changes in the market s perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or fund providing the credit support or enhancement.	

	Acquired Fund	Acquiring Fund
Collateralized mortgage obligations (CMOs)	The Acquired Fund does not invest in CMOs.	The Acquiring Fund may invest in CMOs. The CMO classes in which the Acquiring Fund may invest include sequential and parallel pay CMOs, including planned amortization class and target amortization class securities. CMOs are issued by either the U.S. government (or one of its agencies or instrumentalities) or private issuers. In choosing among CMO classes, the Adviser will evaluate the total income potential of each class and other factors. CMOs operate similarly to CDOs. Because the interest and principal payments on the underlying mortgages are not passed through to holders of CMOs, CMOs of varying maturities may be secured by the same pool of mortgages, the payments on which are used to pay interest to each class and to retire successive maturities in sequence. The Adviser will consider privately issued CMOs or other mortgage-backed securities as possible investments for the Acquiring Fund only when the mortgage collateral is insured, guaranteed or otherwise backed by the U.S. Government or one or more of its agencies or instrumentalities.
Collateralized loan obligations (CLOs)	The Acquired Fund does not invest in CLOs.	The Acquiring Fund may invest in CLOs. A CLO is a type of CDO that invests primarily in leveraged loans as collateral underlying the obligations of the SPV. CLOs operate similarly to CDOs.

	Acquired Fund	Acquiring Fund
Mortgage rolls	The Acquired fund does not enter into mortgage rolls.	The Acquiring Fund may enter into mortgage dollar rolls in which the Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period, the Acquiring Fund forgoes principal and interest paid on the mortgage-backed securities. The Acquiring Fund is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the drop) as well as by the interest earned on the cash proceeds of the initial sales. A covered roll is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. The Acquiring Fund will only enter into covered rolls. Covered rolls are not treated as a borrowing or other senior security and will be excluded from the calculation of the Acquiring Fund s borrowings and other senior securities.
Credit linked notes (CLNs)	Each Fund may invest in CLNs, a form of debt note where the payment of principal is based on the performance of a specified reference obligation. CLNs are typically collateralized with a portfolio of high quality debt obligations. CLNs are issued from a trust or other SPV that pays a fixed or floating coupon during the life of the note. At maturity, note holders receive par unless the referenced credit obligation defaults or declares bankruptcy, in which case they receive an amount determined by the recovery rate.	
Commercial paper	Each Fund may invest in commercial paper. Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or	

	bank holding companies, finance companies and other issuers.
Securities Lending	Each Fund may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. Loans of securities will be made only to organizations whose credit quality or claims paying ability is considered by the Adviser to be at least investment grade and when the expected returns, net of administrative expenses and any finders' fees, justifies the attendant risk. All securities loans will be collateralized on a continuous basis by cash or liquid securities having a value, marked to market daily, of at least 100% of the market value of the loaned securities. The financial condition of borrowers will be monitored by the Adviser on an ongoing basis. Each Fund will receive amounts equivalent to any interest or other distributions paid on securities while they are on loan, and the Fund will not be entitled to exercise any voting or other beneficial rights on loaned securities. Each Fund intends to exercise its right to terminate loans and thereby regain these rights whenever the Adviser considers it to be in the Fund's interest to do so, taking into account the related loss of reinvestment income and other factors.
Reverse repurchase agreements	Each Fund may enter into reverse repurchase agreements. Under a reverse repurchase agreement, a Fund temporarily transfers possession of a portfolio instrument to another party, such as a bank or broker-dealer, in return for cash. At the

	Acquired Fund	**Acquiring Fund**
	same time, the Fund agrees to repurchase the instrument at an agreed upon time (normally within seven days) and price, which reflects an interest payment. Each Fund may enter into such agreements when it is able to invest the cash acquired at a rate higher than the cost of the agreement, which would increase earned income.	
Swaps	Each Fund may purchase or sell swap contracts to hedge against fluctuations in securities prices, interest rates or market conditions, to change the duration of the overall portfolio or to mitigate default risk. In addition, the Acquired Fund may purchase or sell swap contracts to obtain investment exposure. The Acquiring Fund may sell credit default swaps to gain exposure to blow investment grade corporate securities, Senior Loans and/or indices relating to such investments. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) on different securities, baskets of securities, indices or other instruments, which returns are calculated with respect to a notional value, i.e., the designated reference amount of exposure to the underlying instruments. The Acquired Fund enters into swaps primarily on a net basis while the Acquiring Fund enters into swaps only on a net basis, i.e., the two payment streams are netted out, 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 a Fund s swap obligations over its entitlements will be maintained in a segregated account by the Fund's custodian. The investment adviser requires counterparties to have a minimum credit rating of A from Moody's (or comparable rating from another Rating Agency), in the case of the Acquired Fund, and investment grade, in the case of the Acquiring Fund, and monitors such rating on an on-going basis. If the other party to a swap contract defaults, a Fund s risk of loss will consist of the net amount of payments that the Fund is contractually entitled to receive. Under such circumstances, the Fund will have contractual remedies pursuant to the agreements related to the transaction. Swap instruments are not exchange-listed securities and may be traded only in the over-the-counter market. *Interest rate swaps*. Interest rate swaps involve the exchange by a Fund with another party of respective commitments to pay or receive interest (e.g., an exchange of fixed rate payments for floating rate payments). *Total return swaps.* Total return swaps are contracts in which one party agrees to	

make payments of the total return from the designated underlying asset(s), which may include securities, baskets of securities, or securities indices, during the specified period, in return for receiving payments equal to a fixed or floating rate of interest or the total return from the other designated underlying asset(s).

Currency swaps. The Acquired Fund may enter into currency swaps. Currency swaps involve the exchange of the two parties respective commitments to pay or receive fluctuations with respect to a notional amount of two different currencies (e.g., an exchange of payments with respect to fluctuations in the value of the U.S. dollar relative to the Japanese yen).

Credit default swaps. When a Fund is the buyer of a credit default swap contract, the Fund is entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign corporate issuer, on the debt obligation. In return, the Fund would normally pay the counterparty a periodic stream of payments over the

	Acquired Fund	Acquiring Fund
	term of the contract provided that no event of default has occurred. If no default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it normally receives a stream of payments but is obligated to pay upon default of the referenced debt obligation. As the seller, the Fund would add the equivalent of leverage to its portfolio because, in addition to its total assets, the Fund would be subject to investment exposure on the notional amount of the swap. The Fund may enter into credit default swap contracts and baskets thereof for investment and risk management purposes, including diversification. The Acquired Fund may purchase or sell insurance through credit default swaps. The Acquiring Fund may invest up to 10% of gross asset in long credit default swaps on high yield bonds, Senior Loans and/or related indices.	
Futures and related options	Each Fund may purchase and sell various kinds of financial futures contracts and options thereon to seek to hedge against changes in interest rates or for other risk management purposes. Futures contracts may be based on various debt securities and securities indices (such as the Municipal Bond Index traded on the Chicago Board of Trade). A Fund will only purchase or sell futures contracts or related options in compliance with the rules of the Commodity Futures Trading Commission. These transactions involve transaction costs. Rating Agency guidelines on the APS may limit use of these transactions.	
Equity Interests	The Acquired Fund may hold equity interests acquired in conjunction with investments in Bonds or Loans of the same or a related issuer, which may include equity interests embedded in or attached to a Bond or a Loan, equity interests that are separate investments in which the Acquired Fund has the ability to invest by virtue of its ownership of a Bond or Loan of the same or a related issuer, and equity interests received in respect of ownership of a Bond or a Loan in connection with a financial restructuring or reorganization. Such investments may include, among other equity interests, common and	The Acquiring Fund may acquire warrants and other equity securities as part of a unit combining a Senior Loan and equity securities of a borrower or its affiliates. The acquisition of such equity securities will only be incidental to the Acquiring Fund s purchase of a Senior Loan. The Acquiring Fund may also acquire equity securities or debt securities (including non-dollar denominated debt securities) issued in exchange for a Senior Loan or issued in connection with the debt restructuring or reorganization of a borrower, or if such acquisition, in the judgment of the Adviser, may enhance the value of a Senior Loan or would otherwise be consistent with the

	preferred stock, warrants and stock participation rights. The Acquired Fund s investments in other investment companies and other pooled investment vehicles will also generally be in the form of equity interest.	Acquiring Fund s investment policies. The Acquiring Fund s investments in other investment companies will also generally be in the form of equity interest.
Temporary defensive positions	Under unusual market conditions, each Fund may invest temporarily in cash or cash equivalents. Cash equivalents are highly liquid, short-term securities such as commercial paper, certificates of deposit, short-term notes and short-term U.S. Government obligations. These securities may be subject to federal income, state income and/or other taxes.	
Borrowings	Current Rating Agency guidelines prohibit the Funds from borrowing money unless the Rating Agency has advised the Fund in writing that any such action would not adversely affect the then-current rating of the APS and that any such action will be in accordance with guidelines established by the Rating Agency. Each Fund has entered into credit agreements with various financial institutions pursuant to which it may borrow money.	

The Acquired Fund may also invest in:

- Investment Grade Bonds - a wide variety of Bonds rated or determined by the Adviser to be of investment grade quality that are issued by corporations and other non-governmental entities and issuers.
- Private Debt Instruments The Acquired Fund may invest in privately issued secured and unsecured debt of both public and private companies in the form of Bonds or Loans that may have fixed or variable principal payments and various types of interest rate and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, and payment in kind features. Such debt investments may include equity features such as convertibility and attached warrants and stock participation rights. Private debt investments generally are of non-investment grade quality, frequently are unrated and present many of the same risks as investing in non- investment grade Loans and Non-Investment Grade Bonds. Because of the additional risks involved and their reduced liquidity, private debt investments generally pay higher interest rates or have other more favorable terms than otherwise comparable public debt instruments.
- Indexed Securities and Derivatives - The Acquired Fund may invest in indexed securities, structured notes and derivatives based on indices or financial indicators. Indexed securities are securities the redemption values and/or the coupons of which are indexed to the prices of a specific instrument or statistic. Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to inflation, other securities, securities indices, currencies or other financial indicators such as economic statistics and pre-payment rates. Various indices or financial indicators may also be invested in through the use of derivative instruments. The Acquired Fund may invest in inflation-indexed securities issued by the U.S. Treasury, foreign governments or other entities. These are fixed income securities whose principal value is periodically adjusted according to the rate of inflation in the United States or another reference country. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest may be paid on an increasing or decreasing principal value which has been adjusted for inflation. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds, even during a period of deflation. However, the current market value of the bonds is not guaranteed, and will fluctuate. The Fund may also invest in other bonds which may or may not provide a similar guarantee. If a guarantee of principal is not provided, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

Risk Factors and Special Considerations

The risk factors and other special considerations for investing in each Fund are set forth below. Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Because each Fund, under normal market conditions, invests a substantial amount of its assets in debt securities including Non Investment Grade Bonds, Senior Loans and other secured and unsecured loans any risks inherent in such investments are equally applicable to each Fund and will continue to apply to the Acquiring Fund after the Reorganization. Risks that are unique to a particular Fund are indicated as such below. Please see Exhibit B for a discussion of special risks associated with APS. The Reorganization itself is not expected to adversely affect the rights of shareholders of either of the Funds or to create additional risks.

Income Risk. The income investors receive from a Fund is based primarily on the interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, investors' income from a Fund could drop as well. Each Fund s income could also be affected adversely when prevailing short-term interest rates increase and the Fund is utilizing leverage, although this risk is mitigated to the extent the Fund s investments include floating-rate Loans and other floating-rate instruments.

Credit Risk. Credit risk is the risk that one or more debt obligations in a Fund s portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the obligation experiences a decline in its financial status. Credit risk involves two types: delinquency and default. Delinquency refers to interruptions in the payment of interest and principal. Default refers to the potential for unrecoverable principal loss from the sale of foreclosed collateral or a Fund's inherent right to forgive principal or modify a debt instrument. For the Acquiring Fund s investments in MBS, factors contributing to these risks include the effects of general and local economic conditions on home values, the financial conditions of homeowners, and other market factors. This risk is mitigated by a U.S. government agency's or instrumentality's guarantee of the underlying debt obligation.

Prepayment Risk. During periods of declining interest rates or for other purposes, borrowers may exercise their option to prepay principal earlier than scheduled, potentially causing a Fund to incur capital loss and/or to reinvest in lower yielding obligations. This is known as call or prepayment risk. Certain debt obligations, including Non Investment Grade Bonds, have call protection features that permit the issuer to redeem the security or instrument prior to a stated date only if certain prescribed conditions are met (call protection). An issuer may redeem a security or instrument if, for example, 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. Corporate Bonds typically have limited call protection. Loans and MBS typically have little or no call protection. For premium Bonds and premium Loans (Bonds and Loans priced above their par or principal value) held by a Fund, prepayment risk is enhanced.

Issuer Risk. The value of credit-related obligations may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

Senior Loans Risk. The risks associated with Senior Loans of below investment grade quality are similar to the risks of Non-Investment Grade Bonds, although Senior Loans are typically senior and secured in contrast to Non-Investment Grade Bonds, which are generally subordinated and unsecured. Senior Loans higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization. In addition, because their interest payments are adjusted for changes in short-term interest rates, investments in Senior Loans generally have less interest rate risk than Non-Investment Grade Bonds, which are typically fixed rate. Each Fund s investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. Such companies are more likely to default on their payments of interest and principal owed to a Fund, and such defaults could reduce the Fund s net asset value and income distributions. An economic downturn generally leads to a higher non-payment rate, and a debt obligation may lose significant value before a default occurs. Moreover, any specific collateral used to secure a Loan may decline in value or become illiquid, which would adversely affect the Loan s value.

Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Acquired Fund s or the Acquiring Fund's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted. Loans and other debt instruments are also subject to the risk of price declines due to increases in prevailing interest rates, although floating-rate debt instruments are substantially less exposed to this risk than fixed-rate debt instruments. Interest rate changes may also increase prepayments of debt obligations and require a Fund to invest assets at lower yields. No active trading market may exist for certain Loans, which may impair the ability of the Funds to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded Loans.

Non-Investment Grade Bonds Risk. Each Fund s investments in Non-Investment Grade Bonds are predominantly speculative because of the credit risk of their issuers. While normally offering higher yields, Non-Investment Grade Bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of Non-Investment Grade Bonds are more likely to default on their payments of interest and principal owed to a Fund, and such defaults will reduce the Fund's net asset value and income distributions. The prices of these lower rated obligations are more sensitive to negative developments than higher rated securities. Adverse business conditions, such as a decline in the issuer s revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates. Adverse publicity and changing investor perceptions may affect the ability to obtain prices for or to sell these securities.

MBS Risk. The value of the Acquiring Fund common shares may be adversely affected by fluctuations in interest rates and the prepayment of the mortgage loans underlying the MBS held by the Fund. Mortgage loans are most likely to be prepaid in a declining interest rate environment. Prepayment may reduce the Acquiring Fund s coupon distributions because the proceeds of a prepayment may be invested in lower-yielding securities. The Adviser has historically attempted to minimize prepayment risk by acquiring MBS with seasoned underlying mortgage loans that have had a history of refinancing opportunities. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS which in turn would lengthen the duration of the Fund s portfolio. This possibility is often referred to as extension risk. Extending the average life of an MBS increases the risk of depreciation due to future increases in market interest rates. The value of Fund common shares can also be adversely affected by the existence of premiums on the price of MBS it acquires.

Certain government agencies or instrumentalities, such as the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC), provide a guarantee as to timely payment of principal and interest for MBS each entity issues, backs or otherwise guarantees. Guarantees may or may not be backed by the full faith and credit of the U.S. government.

Risk of Second Lien Loans, Other Secured Loans and Unsecured Loans. Second Lien Loans, Secured Loan other than Senior Loans and Second Lien Loans and unsecured Loans are subject to the same risks associated with investment in Senior Loans and Non-Investment Grade Bonds. However, Second Lien Loans are second in right of payment to Senior Loans and therefore are subject to additional risk that the cash flow of the borrower and any property securing the Loan may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. Secured Loan other than Senior Loans and Second Lien Loans rank lower in right of payment than any outstanding Senior Loans and Second Lien Loans of the borrower and therefore are also subject to this additional risk. Because unsecured Loans have lower priority in right of payment to any higher ranking obligations of the borrower and are not backed by a security interest in any specific collateral, they are even more vulnerable to this additional risk. The lower the ranking of the Loan the greater the magnitude of price volatility that may be expected and the Loan may be less liquid. There is also a possibility that originators will not be able to sell participations in lower ranking Loans, which would create greater credit risk exposure.

Valuation of bonds and Loans. The Adviser normally uses an independent pricing service to value most Bonds and Loans held by the Funds. The Adviser may use the fair value method to value investments if market quotations for them are not readily available or are deemed unreliable, or if events occurring after the close of a securities market and before a Fund values its assets would materially affect net asset value. Because the secondary markets for certain investments may be limited, they may be difficult to value. Where market quotations are not readily available, valuation may require more research than for more liquid investments. In addition, elements of judgment may play a greater role in valuation in such cases than for investments with a more active secondary market because there is less reliable objective data available.

Derivatives Risk. Positions in derivatives may subject the Funds to substantial loss of principal in relation to each Fund's investment amount. The Funds also will be subject to credit risk with respect to the counterparties to the derivatives positions held by each Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, a Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other proceeding. A Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Effects of Financial Leverage. There can be no assurance that a financial leveraging strategy will continue to be utilized by the Funds or that, if utilized, it will be successful during any period in which it is employed. Leverage creates risks for common shareholders, including the likelihood of greater volatility of net asset value and market price of the common shares and the risk that fluctuations in distribution rates on any preferred shares and costs of borrowings may affect the return to common shareholders. To the extent the income derived from investments purchased with proceeds received from leverage exceeds the cost of leverage, a Fund s distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such proceeds is not sufficient to cover the cost of leverage, the amount available for distribution to common shareholders will be less than if leverage had not been used. In the latter case, the investment adviser in its best judgment may nevertheless determine to maintain the Fund s leveraged position if it deems such action to be appropriate. The costs of an offering of preferred shares and/or borrowing program will be borne by common shareholders and consequently will result in a reduction of the net asset value of common shares.

The fees paid to the investment adviser will be calculated on the basis of each Fund's gross assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fees will be higher when leverage is utilized. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, common shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that common shareholders effectively bear the entire advisory fee.

The APS issued by each Fund is currently rated by Rating Agencies. Each Fund may be subject to investment restrictions of the Rating Agencies as a result. Any bank lender in connection with a credit facility or commercial paper program may also impose specific restrictions as a condition to borrowing. Such restrictions imposed by a Rating Agency or lender may include asset coverage or portfolio composition requirements that are more stringent than those imposed on the Funds by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Adviser in managing each Fund s portfolio in accordance with its investment objectives and policies.

Financial leverage may also be achieved through the purchase of certain derivative instruments. Each Fund's use of derivative instruments exposes the Fund to special risks.

Interest Rate Risk. The value of Fund shares will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate investments held by each Fund can be expected to rise. Conversely, when interest rates rise, the value of fixed-rate investments held by each Fund can be expected to decline. Floating-rate investments held by a Fund may also fluctuate in value due to changes in interest rates because of a time lag between when interest rates rise and when rates on the investments are reset. Because U.S. interest rates have recently been at low levels by historical standards, there may be a greater than normal risk that a Fund s portfolio will decline in value due to rising interest rates. Fluctuations in the value of fixed-rate investments held by the Funds will not affect interest income received on the investments, but will be reflected in each Fund s net asset value. Fixed-rate investments with longer durations tend to be more sensitive to changes in interest rates than investments with shorter durations, usually making them more volatile. During periods when the Acquired Fund s portfolio of investments has an intermediate or longer term average dollar-weighted duration (including the effects of anticipated leverage), the common shares net asset value and market price per common share will tend to fluctuate more in response to changes in market interest rates than when the Fund holds primarily shorter duration investments. Because the Acquired Fund will normally have a dollar-weighted average duration of between two and four years (including the effects of leverage), the common shares net asset value and market price per common share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities and less than if the Fund invested mainly in longer-term debt securities. Each Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund s exposure to interest rate risk, although there can be no assurance that it will do so or that such strategies will be successful. The Acquired Fund is intended to have a relatively low level of interest rate risk.

Liquidity Risk. Each Fund may invest without limitation in securities and obligations for which there is no readily available trading market or which are otherwise illiquid, including certain Non-Investment Grade Bonds, Loans and, in the case of the Acquired Fund Distressed Debt Obligations. A Fund may not be able to readily dispose of illiquid securities and obligations at prices that approximate those at which the Fund could sell such securities and obligations if they were more widely traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities and obligations, thereby adversely affecting a Fund s net asset value and ability to make distributions.

Foreign Investment Risk; Foreign Currency Risk. The Acquired Fund may invest without limitation and the Acquiring Fund may invest up to 15% of its total assets in securities and obligations of foreign issuers and obligors denominated in U.S. dollars, Euros, Canadian dollars, British pounds and other currencies. Investment in foreign issuers may involve certain special risks due to increased exposure to foreign economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates in the case of investments denominated in foreign currencies, exchange control regulations (including currency blockage), expropriation or nationalization of assets, imposition of withholding taxes on payments, and possible difficulty in obtaining and enforcing judgments against foreign entities. Furthermore, issuers of foreign securities and obligations are subject to different, often less comprehensive, accounting, reporting and disclosure requirements than domestic issuers. The securities and obligations of some foreign companies and foreign markets are less liquid and at times more volatile than comparable U.S. securities, obligations and markets. Foreign brokerage commissions and other fees are also generally higher than in the United States. The laws of some foreign countries may limit the Fund s ability to invest in securities and obligations of certain issuers located in these foreign countries. There are also special tax considerations which apply to securities and obligations of foreign issuers and securities and obligations principally traded overseas.

Each Fund s common shares are priced in U.S. dollars and Fund distributions are paid in U.S. dollars. To the extent a Fund s assets are denominated in currencies other than the U.S. dollar there is a risk that the value of such assets and/or the value of any distribution from such assets may decrease if the currency in which such assets or distributions are denominated falls in relation to the value of the U.S. dollar. Each Fund may seek to hedge its exposures to foreign currencies but may, at the discretion of the Adviser, at any time limit or eliminate foreign currency hedging activity. To the extent a Fund does not hedge (or is unsuccessful in seeking to hedge) its foreign currency risk, the value of the Fund s assets and income could be adversely affected by currency exchange rate movements.

Reinvestment Risk. Income from each Fund s portfolio will decline if and when that Fund invests the proceeds from matured, traded or called debt obligations into lower yielding instruments. A decline in income could affect the common shares' distribution rate and their overall return.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the common shares and distributions thereon can decline. In addition, during any periods of rising inflation, distribution rates of preferred shares would likely increase, which would tend to further reduce returns to common shareholders.

Other Investment Companies and Other Pooled Vehicles Risk. Investments in other investment companies held by the Funds and other pooled vehicles held by the Acquired Fund involve operating expenses and fees that are in addition to the expenses and fees borne by the Funds. Such expenses and fees attributable to a Fund s investment in another investment company or pooled vehicle are borne indirectly by common shareholders. Accordingly, investment in such entities involves expense and fee layering. To the extent management fees of private investment funds and other pooled vehicles in which the Acquired Fund may invest are based on total gross assets, it may create an incentive and therefore a potential conflict of interest for such entities' managers to employ financial leverage, thereby adding additional expense and increasing volatility and risk. Fees payable to advisers and managers of other investment companies in which the Funds invest and other pooled investment vehicles in which the Acquired Fund invests may include performance-based incentive fees calculated as a percentage of profits. Such incentive fees directly reduce the return that otherwise would have been earned by investors over the applicable period. A performance-based fee arrangement may create incentives for an adviser or manager to take greater investment risks in the hope of earning a higher profit participation. These investments may also be subject to the same investment-related risks as the Funds, including for example, financial leverage risk and manager risk. Certain private investment funds in which the Acquired Fund participates may involve capital call provisions under which the Acquired Fund is obligated to make additional investments at specified levels even if it would otherwise choose not to. Investments in private investment funds may have very limited liquidity. Often there will be no secondary market for such investments and the ability to redeem or otherwise withdraw from a private investment fund may be infrequent. Certain private investment funds may be subject to lock-up periods of a year or more. The valuation of investments in private investment funds often will be based upon valuations provided by the adviser or manager and it may not always be possible to effectively assess the accuracy of such valuations, particularly if the Acquired Fund holds substantial investments the values of which are determined by the adviser or manager based upon a fair valuation methodology. Incentive fees paid to the advisers and managers of pooled vehicles may cause conflicts in the fair valuation of investment holdings by a private investment fund's adviser or manager.

Asset Backed Securities Risk. The Funds may invest in certain asset-backed and structured credit securities (collectively, Asset-Backed Securities), including collateralized debt obligations (CDOs). The underlying assets (e.g., debt obligations) of a CDO are subject to prepayments, which shorten the weighted average maturity and may lower the return of the securities issued by the CDO. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of CDO securities also may change because of changes in market value, that is changes in the market's perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or fund providing the credit support or enhancement.

Distressed Debt Obligations Risk. The Acquired Fund may investment in Distressed Debt Obligations. Distressed Debt Obligations generally present the same risks as investment in Non-Investment Grade Bonds and Loans of below investment grade quality. However, in most cases, the risks of Distressed Debt Obligations are of greater magnitude because of the uncertainties of investing in an issuer undergoing financial distress. An issuer of Distressed Debt Obligations may be in bankruptcy or undergoing some other form of financial restructuring. Interest and/or principal payments on Distressed Debt Obligations may be in default. Distressed Debt Obligations present a risk of loss of principal value, including potentially a total loss of value. Distressed Debt Obligations may be highly illiquid and the prices for which Distressed Debt Obligations may currently be sold may represent a substantial discount to what the Adviser believes to be the ultimate value of such obligations.

Equity Risk. Common stocks represent the residual interest in the assets of an issuer after meeting all claims and the interests of any preferred stock outstanding. As such, common stock is inherently more risky than the Bonds and Loans of the issuer. Although publicly traded common stocks have historically generated higher average returns than fixed-income securities over the long term and particularly during periods of high or rising concern about inflation, common stocks also have experienced significantly more volatility in returns and may not maintain their real values during inflationary periods. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by a Fund. Also, the prices of common stocks are sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which a Fund has exposure. Common stock prices fluctuate for many reasons, including changes in investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise and borrowing costs increase.

Short Sales Risk. The Acquired Fund may make use of short sales for investment and risk management purposes, including when the Adviser anticipates that the market price of a security or instrument will decline or will underperform relative to the investments held in the Acquired Fund s portfolio. Short sales are transactions in which the Acquired Fund sells a security or other instrument (such as an option, forward, futures or other derivative contract) that it does not own. When the Acquired Fund engages in a short sale on a security, it must borrow the security sold short and deliver it to the counterparty. The Acquired Fund will ordinarily have to pay a fee or premium to borrow particular securities and be obligated to repay the lender of the security any dividends or interest that accrue on the security during the period of the loan. The amount of any gain from a short sale will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Acquired Fund pays in connection with the short sale. Short sales expose the Acquired Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Acquired Fund. The Acquired Fund will ordinarily engage in uncovered short sales, where it does not own or have the immediate right to acquire the security sold short at no additional cost. The Acquired Fund's loss on a short sale could theoretically be unlimited in a case where the Acquired Fund is unable, for whatever reason, to close out its short position. The Adviser s use of short sales in an attempt to improve performance or reduce overall portfolio risk may not be successful and may result in greater losses or lower positive returns. The Acquiring Fund may only engage in short sales against the box (*i.e.*, short sales of securities the Fund already owns.

Market Price of Common Shares. The shares of closed-end management investment companies often trade at a discount from their net asset value, and each Fund s Shares may likewise trade at a discount from net asset value. The trading price of each Fund s Shares may be less than the public offering prices. This risk may be greater for investors who sell their Shares in a relatively short period after completion of the public offering.

Management Risk. Each Fund is subject to management risk because it is an actively managed portfolio. Eaton Vance and the portfolio managers invest the assets of each Fund as they deem appropriate in implementing that Fund's investment strategy. Accordingly, the success of a Fund depends upon the investment skills and analytical abilities of Eaton Vance and the portfolio managers to develop and effectively implement investment strategies that achieve the Fund's investment objectives. There is no assurance that Eaton Vance and the portfolio managers will be successful in developing and implementing a Fund s investment strategy. Decisions made by Eaton Vance and the portfolio managers may cause a Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

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

Fees and Expenses for Common Shareholders of the Funds

The tables below are intended to provide a comparison of the fees and expenses of the Funds and the Combined Fund. The purpose of the tables is to assist the Acquired Fund common shareholders in understanding the various costs and expenses that they are expected to bear directly or indirectly as common shareholders of the Combined Fund following the Reorganization. The tables set forth:

(i) the fees, expenses and distributions (restated to reflect the dividends in effect at May 31, 2009) to holders of APS paid by the Acquired Fund common shareholders for the 12-months ended May 31, 2009;

(ii) the fees, expenses and distributions (restated to reflect the dividends in effect at May 31, 2009) to holders of APS paid by the Acquiring Fund common shareholders for the 12-months ended May 31, 2009; and

(iii) the *pro forma* fees, expenses and distributions to holders of APS that would have been paid by the Combined Fund common shareholders for the 12-months ended May 31, 2009, assuming the Reorganization and liquidation of the Acquired Fund s APS had been completed at the beginning of the period.

As the tables indicate, the *pro forma* total annual expenses of the Combined Fund would have been lower than the Acquired Fund s total annual expenses if the Reorganization occurred on May 31, 2009. Since May 1, 2009, the Acquired Fund has reduced the amount of its APS outstanding by 70.45% (as of May 31, 2009), and the Acquiring Fund has redeemed approximately two-thirds of its APS in 2008 and currently has 266,625,000 par value of APS outstanding. Also, upon the consummation of the Reorganization, the Acquired Fund s remaining APS will be liquidated. The Acquired Fund s former common shareholders will still realize lower expenses as a result of the Reorganization regardless of these changes in the amounts of APS outstanding.

The following tables show each Fund s expenses as a percentage of net assets attributable to common shares and reflect the APS outstanding as of May 31, 2009. As of such date, APS outstanding were as follows: 10.98% of the Acquiring Fund s total assets, 13.78% of the Acquired Fund s total assets, and 10.75% of the Combined Fund s total assets after the liquidation of the Acquired Fund s remaining APS.

	ACTUAL		**PRO FORMA**
	Acquired Fund	**Acquiring Fund**	**Combined Fund**
Common Shareholder Transaction Expenses(1)			
Sales Load (as a percentage of offering price)	None(2)	None(2)	None(2)
Dividend Reinvestment Plan Fees	None(3)	None(3)	None(3)

	ACTUAL Percentage of Net Assets Attributable to Common Shares(1)		**PRO FORMA**
(Unaudited)	**Acquired Fund**	**Acquiring Fund**	**Combined Fund**
Annual Expenses (as a percentage of net assets attributable to common shares)			
Management Fee (4)	1.29%	1.20%	1.20%
Other Expenses (6) (total including Interest Expense)	2.28%	1.67%	1.67%
Interest Expense	1.48%	1.48%	1.48%
Other Expenses (excluding Interest Expense)	0.80%	0.19%	0.19%
Total Annual Fund Operating Expenses	3.57%	2.87%	2.87%
Less Expense Reimbursement(5)	(0.35)%	(0.30)%	(0.29)%
Net Annual Fund Operating Expenses (net expense reimbursement)	3.22%	2.57%	2.57%
Dividends on APS(7)	0.71%(8)	0.07%(9)	0.07%(10)
Net Annual Fund Operating Expenses and Dividends on APS (net expense reimbursement)	3.93%	2.64%	2.64%
Net Annual Fund Operating Expenses (excluding Interest Expense, Dividends on APS and net expense reimbursement)	1.74%	1.09%	1.09%

(1) No expense information is presented with respect to APS because holders of APS do not bear any transaction or operating expenses of either Fund. As of May 31, 2009 the Acquiring Fund has 266,625,000 par value APS outstanding. The Acquired Fund s APS will be liquidated in the Reorganization.

(2) Shares of Funds purchased on the secondary market are not subject to sales charges but may be subject to brokerage commissions or other charges. The table does not include an underwriting commission paid by shareholders in the initial offering of each Fund.

(3) Each participant in a Fund s dividend reinvestment plan pays a proportionate share of the brokerage commissions incurred with respect to open market purchases in connection with such plan.

(4) Reflects the effective management fee rate. The advisory fees payable by the Acquired Fund and the Acquiring Fund are

computed at an annual rate of 0.75% and 0.75% of the Acquired Fund s average daily gross assets and Acquiring Fund s average weekly gross assets, respectively, and are payable monthlyThe amount of such fees during the period is stated above as a percentage of net assets attributable to a Fund s common shares. See The Funds Investment Adviser under Management of the Funds and Fund Service Providers .

(5) The Adviser has contractually agreed to reimburse the Acquired Fund for fees and other expenses at an annual rate of 0.20% of average daily gross assets of the Fund during the first five full years of its operations, 0.15% of the Fund s average daily gross assets in year six, 0.10% of the Fund s average daily net assets in year seven, and 0.05% of the Fund s average daily gross assets in year eight. The Acquired Fund commenced operations on May 31, 2006. The Adviser has contractually agreed to reimburse the Acquiring Fund for fees and other expenses at an annual rate of 0.20% of average weekly gross assets of the Fund during the first five full years of its operations, 0.15% of the Fund s average weekly gross assets in year six, 0.10% of the Fund s average weekly gross assets in year seven, and 0.05% of the Fund s average weekly gross assets in year eight. The Acquiring Fund commenced operations on May 30, 2003. In addition, each Fund has agreed to reduce its advisory fee from the period from May 1, 2008 through October 31, 2009 to the extent that the Fund s cost of the financing used to partially redeem its APS is greater than the dividends and remarketing fee that would have been incurred had such APS not been redeemed (the Incremental Cost). Such fee reduction is calculated as the lesser of (i) 50% of the Fund s advisory fee on assets attributable to the financing or (ii) the Incremental Cost. If at any time during the foregoing stated period the Adviser reduces its advisory fee pursuant to this Agreement, the Adviser will be entitled to recoup the amount of such reduction, provided that any such recoupment occur not later than November 30, 2009.

(6) Certain other transaction expenses relating to the Reorganization are not reflected in Other Expenses including, but not limited to: costs related to the preparation, printing and distributing of this Proxy Statement/Prospectus to shareholders; expenses incurred in connection with the preparation of the Plan and the registration statement on Form N-14; SEC filing fees; legal and audit fees; portfolio transfer taxes (if any); and any similar expenses incurred in connection with the Reorganization. Non-recurring legal fees are also excluded. In accordance with applicable SEC rules, the Board of each Fund reviewed the fees and expenses that will be borne directly or indirectly by the Funds in connection with the Reorganization. After considering various alternatives for allocating these costs, the Board agreed that the Acquired Fund will bear the expenses of the Reorganization.

(7) As provided by each Fund s By-Laws, the dividend rate on APS when APS auctions do not clear is the maximum applicable rate prescribed by the By-Laws. Such rate is described under Auction Risk in Appendix B.

(8) Reflects a dividend rate on APS in effect on May 31, 2009 of 1.79%.

(9) Reflects a blended dividend rate on all APS series in effect on May 31, 2009 of 0.41 %.

(10) Reflects a dividend rate on APS in effect on May 31, 2009 of 0.41 %. As noted above, the Combined Fund will have 266,625,000 par value APS outstanding and, as such, will pay APS dividends.

Example. The following example is intended to help you compare the costs of investing in the Combined Fund *pro forma* after the Reorganization with the costs of investing in the Acquired Fund and the Acquiring Fund without the Reorganization. An investor would pay the following expenses on a $1,000 investment in common shares, assuming: (i) the operating expense ratio for each Fund (as a percentage of net assets attributable to common shares) set forth in the table above for years 1 through 10 (adjusted for expense reimbursements, as applicable); (ii) dividends on APS as set forth in the table above; and (iii) a 5% annual return throughout the period. Figures have been adjusted to reflect the expense reimbursement as described in footnote (5) above and the APS dividend rates at May 31, 2009 described in footnotes (8), (9) and (10) above. As noted herein, the Combined Fund will have APS outstanding.

(Unaudited)

	1 Year	3 Years	5 Years	10 Years
Acquired Fund	$395	$1,203	$2,048	$4,267
Acquiring Fund	272	851	1,461	3,107
Pro Forma Combined Fund	272	851	1,461	3,107

The Example set forth above assumes the reinvestment of all dividends and distributions at NAV. The example should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the example.

Capitalization

With respect to the proposal, the following table sets forth the capitalization of each Fund as of May 31, 2009, and the *pro forma* combined capitalization of the Acquiring Fund as if the proposed Reorganization had occurred on that date. The table should not be relied upon to determine the amount of Acquiring Fund shares that will actually be received and distributed.

If the Reorganization had taken place on May 31, 2009:

	ACTUAL		**PRO FORMA***
(Unaudited)	Acquiring Fund	Acquired Fund	Combined Fund
Net assets consist of:			
Common shares (par value of $0.01 per share)	$1,533,257,945	$ 50,059,709	$1,583,317,654
Number of Common shares	112,462,747	7,274,487	116,131,838
Net asset value per share	$ 13.63	$ 6.88	$ 13.63
APS (including Accrued Dividends)	$267,691,500	$ 8,143,200	$267,691,500

* *Pro forma* Combined Fund figures include estimated Reorganization expenses to the Credit Opportunities Fund of $50,000.

Past Performance of Each Fund

As shown in the table below, the performance of the Acquiring Fund has exceeded that of the Acquired Fund for the one-year, three year and life-of-fund periods ended May 31, 2009. Each Fund s performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several factors, including changes in investor perceptions of each Fund or its investment adviser, market conditions, fluctuations in supply and demand for each Fund s shares and changes in each Fund s distributions.

Total Returns at 5/31/2009	**Acquired Fund**		**Acquiring Fund**	
	NAV	**Market Price**	**NAV**	**Market Price**
1 year	-46.03%	-48.80%	-6.57%	-8.31%
3 years	-19.28%	-22.83%	0.49%	-0.90%
5 years	n/a	n/a	3.10%	1.77%
Life of Fund*	-19.34%	-21.63%	3.58%	1.96%

* The Acquired Fund commenced operations on May 31, 2006. The Acquiring Fund commenced operations on May 30, 2003.

Market Yields at 5/31/09	**Acquired Fund**	**Acquiring Fund**
Market Yield(1)	12.93%	10.48%

(1) A Fund s market yield is calculated by dividing the last dividend paid per common share during the period by the share price at the end of the period and annualizing the result.

Information About Common Shares of the Funds

The outstanding common shares of each Fund are fully paid and nonassessable by the Fund (except as described under Governing Law below). The common shares of each Fund have no preemptive, conversion, exchange or redemption rights. Each common share has one vote, with fractional shares voting proportionately. Common shares are freely transferable. Set forth below is information about each Fund s common shares as of May 31, 2009.

Title of Class	Number of Shares
Acquired Fund common shares	7,274,487
Acquiring Fund common shares	112,462,745

Purchase and Sale. Purchase and sale procedures for the common shares of each of the Funds are identical. Investors typically purchase and sell common shares of the Funds through a registered broker-dealer on the NYSE for the Acquired Fund and on the NYSE Amex for the Acquiring Fund, thereby incurring a brokerage commission set by the broker-dealer. Alternatively, investors may purchase or sell common shares of the Funds through privately negotiated transactions with existing shareholders.

Common Share Price Data. The following table sets forth the high and low sales prices for common shares of each Fund on its respective exchange for each full quarterly period within the two most recent fiscal years and each full quarter since the beginning of the current fiscal year, along with the NAV and discount or premium to NAV for each quotation.

Acquired Fund Quarterly Period Ending	High Price/ Date	NAV	Premium (Discount)	Low Price/ Date	NAV	Premium (Discount)
April 30, 2009	$5.36 on 4/30/09	$6.15	-12.85%	$4.35 on 4/1/09	$5.29	-17.77%
January 31, 2009	$8.64 on 11/4/08	$8.66	-0.23%	$4.39 on 12/15/08	$5.85	-24.96%
October 31, 2008	$13.68 on 9/3/08	$14.43	-5.20%	$6.93 on 10/10/08	$10.33	-32.91%
July 31, 2008	$14.70 on 6/2/08	$15.06	-2.39%	$12.99 on 7/18/08	$14.60	-11.03%
April 30, 2008	$17.85 on 2/1/08	$16.06	11.15%	$13.61 on 4/10/08	$14.57	-6.59%
January 31, 2008	$18.00 on 11/8/07	$17.96	0.22%	$15.95 on 11/19/07	$17.81	-10.44%
October 31, 2007	$19.10 on 8/2/07	$18.14	5.29%	$16.65 on 8/16/07	$18.00	-7.50%
July 31, 2007	$21.14 on 5/7/07	$19.43	8.80%	$18.10 on 7/26/07	$18.51	-2.22%
April 30, 2007	$21.01 on 4/26/07	$19.36	8.52%	$19.20 on 2/9/07	$19.20	0.00%

Acquired Fund Quarterly Period Ending	High Price/ Date	NAV	Premium (Discount)	Low Price/ Date	NAV	Premium (Discount)
	$11.6 on 4/27/09	$12.71	-8.73%	$8.89 on 4/1/09	$11.30	-21.33%
January 31, 2009	$11.15 on 1/28/09	$11.72	-4.86%	$8.00 on 12/15/08	$10.66	-24.95%
October 31, 2008	$13.98 on 8/1/08	$15.86	-11.85%	$8.00 on 10/10/08	$13.04	-38.65%
July 31, 2008	$15.46 on 6/3/08	$16.47	-6.13%	$13.27 on 7/18/08	$15.95	-16.80%
April 30, 2008	$15.75 on 2/1/08	$16.70	-5.69%	$14.24 on 4/10/08	$15.96	-10.78%
January 31, 2008	$16.01 on 11/2/07	$17.58	-8.93%	$14.69 on 11/19/07	$17.14	-14.29%
October 31, 2007	$16.73 on 10/8/07	$17.61	-5.00%	$14.59 on 8/16/07	$17.34	-15.86%
July 31, 2007	$18.94 on 5/29/07	$18.26	3.72%	$16.55 on 7/26/07	$17.56	-5.75%
April 30, 2007	$18.70 on 4/19/07	$18.25	2.47%	$18.27 on 2/9/07	$18.24	0.16%

As of May 31, 2009, (i) the NAV for common shares of the Acquired Fund was $6.88 and the market price per share was $6.31, representing a discount to NAV of -8.28%; and (ii) the NAV per share for common shares of the Acquiring Fund was $13.63 and the market price per share was $12.40, representing a discount to NAV of -9.02%.

The NAV and market price per share of the common shares of each Fund may fluctuate prior to the closing date of the Reorganization. Depending on market conditions immediately prior to the closing date of the Reorganization, the Acquiring Fund common shares may trade at a larger or smaller discount to NAV than the Acquired Fund s common shares. This could result in the Acquiring Fund common shares having a market value that is greater or less than the market value of the Acquired Fund s common shares on the closing date of the Reorganization.

Methods to Address Potential Discount of Market Price to NAV. Because shares of closed-end management investment companies frequently trade at a discount to their NAVs, the Board of each Fund has determined that from time to time it may be in the interest of common shareholders for the Fund to take corrective actions to reduce trading discounts in the Fund s common shares. The Board, in consultation with Eaton Vance, reviews at least annually the possibility of open market repurchases and/or tender offers for the common shares and will consider such factors as the market price of the common shares, the NAV of the common shares, the liquidity of the assets of the Fund, the effect on the Fund s expenses, whether such transactions would impair the Fund s status as a regulated investment company or result in a failure to comply with applicable asset coverage requirements, general economic conditions and such other events or conditions that may have a material effect on the Fund s ability to consummate such transactions. There are no assurances that either Board will, in fact, decide to undertake either of these actions or if undertaken, that such actions will result in the relevant Fund s common shares trading at a price which is equal to or approximates their NAV. The Board, in consultation with Eaton Vance, from time to time may review possible actions to reduce trading discounts in the common shares.

Dividends and Distributions. Each Fund intends to pay monthly d