

GABELLI EQUITY TRUST INC
Form N-2/A
June 30, 2011

As filed with the Securities and Exchange Commission on June 30, 2011

Securities Act File No. 333-173819
Investment Company Act File No. 811-04700

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

(Check Appropriate Box or Boxes)

Registration Statement under the Securities Act of 1933

Pre-Effective Amendment No. 2

Post-Effective Amendment No. _____

and/or

Registration Statement under the Investment Company Act of 1940

Amendment No. 47

THE GABELLI EQUITY TRUST INC.

(Exact Name of Registrant as Specified in Charter)

One Corporate Center, Rye, New York 10580-1422

(Address of Principal Executive Offices)

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

Bruce N. Alpert

The Gabelli Equity Trust Inc.

One Corporate Center

Rye, New York 10580-1422

(914) 921-5100

(Name and Address of Agent for Service)

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

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

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

When declared effective pursuant to section 8(c).

If appropriate, check the following box:

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock (2)	o Shares	\$o	\$o	\$o
Preferred Stock (2)	o Shares	\$o	\$o	\$o
Total	o Shares	\$o	\$500,000,000 (3)	\$58,050 (4)

- (1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 3 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time, including subscription rights to purchase common stock or preferred stock.
- (3) In no event will the aggregate offering price of all securities offered from time to time pursuant to this Registration Statement exceed \$500 million.
- (4) Previously paid in connection with the filing of the initial registration statement for these securities on April 29, 2011 (including an unused registration fee that was previously paid in connection with the filing of a registration statement for the Registrant on October 11, 2007).

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.

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

Preliminary Base Prospectus dated June 30, 2011

PRELIMINARY PROSPECTUS

\$500,000,000

The Gabelli Equity Trust Inc.

Common Stock

Preferred Stock

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

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

Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission, or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of shares of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period, and other matters. We may not sell any of our shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our shares. Shares of our common stock are listed on the New York Stock Exchange (NYSE) under the symbol GAB. Currently, the Fund's Series D Cumulative Preferred Stock and Series F Cumulative Preferred Stock are listed on the NYSE under the symbol GAB PrD and GAB PrF, respectively. Any future series of fixed rate preferred shares would also likely be listed on a stock exchange. On June 29, 2011, the last reported NYSE sale price of shares of our common stock was \$6.08 per share. The net asset value of shares of the Fund's common stock at the close of business on June 29, 2011 was \$6.07 per share. **Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.**

Investing in the Fund's shares involves risks. See Risk Factors and Special Considerations on page 19 for factors that should be considered before investing in shares of the Fund.

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

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

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest in the shares, and retain it for future reference. A Statement of Additional Information, dated June 30, 2011, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semi-annual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 52 of this Prospectus, request other information about us and make shareholder inquiries by calling (800) GABELLI (422-3554) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

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

You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.

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PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in our shares. You should review the more detailed information contained in this Prospectus and the Statement of Additional Information, dated June 30, 2011 (the SAI).

The Fund

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

The Fund's outstanding shares of common stock, par value \$0.001 per share, are listed on the New York Stock Exchange under the symbol GAB. As of March 31, 2011, the net assets of the Fund attributable to its common stock were \$1,128,777,453. As of March 31, 2011, the Fund had outstanding 181,682,556 shares of common stock; 2,880 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series C Auction Rate Preferred); 2,363,860 shares of 5.875% Series D Cumulative Preferred Stock, liquidation preference \$25 per share (the Series D Preferred); 1,120 shares of Series E Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series E Auction Rate Preferred); and 5,850,402 shares of 6.20% Series F Cumulative Preferred Stock, liquidation preference \$25 per share (the Series F Preferred). The Fund completed its redemption of its 7.25% Tax Advantaged Cumulative Preferred Stock (the Series A Preferred) and its 7.20% Tax Advantaged Series B Cumulative Preferred Stock (the Series B Preferred) on June 17, 2003 and January 8, 2007, respectively. The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred and Series F Preferred have the same seniority with respect to distributions and liquidation preference.

The Offering

We may offer, from time to time, in one or more offerings, our common stock, \$0.001 par value per share and our preferred stock, \$0.001 par value per share. The shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). We may also offer subscription rights to purchase our common stock or preferred stock. The offering price per share of our common stock will not be less than the net asset value per share of our common stock at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that transferable rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See Rights Offerings. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares. Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. We may not sell any of our shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our shares. Shares of our common stock are listed on the New York Stock Exchange (NYSE) under the symbol GAB. Currently, the Fund's Series D Cumulative Preferred Stock and Series F Cumulative Preferred Stock are listed on the NYSE under the symbol GAB PrD and GAB PrF, respectively. Any future series of fixed rate preferred shares would also likely be listed on a stock exchange. On June 29, 2011, the last reported NYSE sale price of shares of our common stock was \$6.08 per share. The net asset value of shares of the Fund's common stock at the close of business on June 29, 2011 was \$6.07 per share.

Investment Objectives and Policies

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

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

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

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

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

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

Common Stock

Currently, 246,000,000 of the Fund's capital stock, which includes the common stock being registered with this registration statement, have been classified by the Board of Directors (the Board) of the Fund or any duly authorized committee thereof as common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Fund's Board payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund. As of March 31, 2011, 181,682,556 shares of common stock of the Fund were outstanding.

Preferred Stock

Currently, 24,000,000 shares of the Fund's capital stock, which includes the preferred stock being registered with this registration statement, have been classified by the Board of the Fund or any duly authorized committee thereof as preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund's common stock. If the Fund's Board determines that it may be advantageous to the holders of the Fund's common stock for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred stock (Fixed Rate Preferred Stock) or additional series of auction rate preferred stock (Auction Rate Preferred Stock). Any Fixed Rate Preferred Stock or Auction Rate Preferred Stock issued by the Fund will pay, as applicable, distributions at a fixed rate or at rates that will be reset frequently based on short-term interest rates. (As of March 31, 2011, 2,880 shares of Series C Auction Rate Preferred, 2,363,860 shares of Series D Preferred, 1,120 shares of Series E Auction Rate Preferred and 5,850,402 shares of Series F Preferred were outstanding.) Leverage creates a greater risk of loss as well as a potential for more gains for the common shares than if leverage were not used. See Risk Factors and Special Considerations Leverage Risk and Certain Investment Practices Leveraging. The Fund may also engage in investment management techniques which will not be considered senior securities if the Fund establishes in a segregated account cash or other liquid securities equal to the Fund's obligations in respect of such

techniques. The Fund may borrow money in accordance with its investment restrictions,

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including as a temporary measure for extraordinary or emergency purposes. The Fund will not borrow for investment purposes.

Dividends and Distributions

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

In the event that for any calendar year the total distributions on shares of the Fund's preferred stock exceed the Fund's current and accumulated earnings and profits allocable to such shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the shareholder's tax basis in the shares). The amount treated as a tax-free return of capital will reduce a shareholder's adjusted tax basis in the preferred stock, thereby increasing the shareholder's potential taxable gain or reducing the potential taxable loss on the sale of the stock. The Fund made return of capital distributions to its preferred shareholders during the year ended December 31, 2010.

Common Stock Distributions. In order to allow its common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a managed distribution policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred stock. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2010, the Fund made distributions of \$0.51 per share of common stock, of which \$0.51 per share was deemed a return of capital. The total 2010 distributions of \$0.51 per common share consisted of \$0.51 per share in the form of cash distributions. The Fund has made quarterly distributions with respect to its common stock since 1987. All distributions to common shareholders for the past three years have constituted a return of capital. In addition, a portion of the distributions to common shareholders during thirteen of the twenty-four fiscal years since the Fund's inception has constituted a return of capital.

Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 15%, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 35%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through December 31, 2011.

Use of Proceeds

The Fund will use the net proceeds from the offering to purchase portfolio securities in accordance with its investment objectives and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. See Use of Proceeds.

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Exchange Listing

The Fund's outstanding shares of common stock are listed on the NYSE, under the trading or ticker symbol GAB. Currently, the Series D Preferred and Series F Preferred are listed on the NYSE under the symbol GAB PrD and GAB PrF, respectively. See Description of Capital Stock. Any additional series of Fixed Rate Preferred Stock issued by the Fund would also likely be listed on the NYSE.

Market Price of Shares

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

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

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

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

Risk Factors and Special Considerations

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

Leverage Risk. The Fund currently uses, and intends to continue to use, financial leverage for investment purposes by issuing preferred stock. As of March 31, 2011, the amount of leverage represented approximately 21% of the Fund's net assets. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. To the extent that the Fund determines to employ additional leverage in its investment operations, the Fund is subject to additional substantial risk of loss. The Fund cannot assure you that the issuance of preferred shares will result in a higher yield or return to the holders of shares of common stock. Also, as the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions and such a failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the Code). See Taxation.

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

Special Risks for Holders of Auction Rate Preferred Stock.

Auction Risk. Since February 2008, the auctions for the Auction Rate Preferred Stock have failed and have continued to fail. Failing means that more Auction Rate Preferred Stock is offered for sale than there are buyers for those shares. During this period while auctions have continued to fail, holders of the Fund's Auction Rate Preferred

Stock who wanted to sell their shares at par through the auction process have been unable to do so. Holders have continued to receive dividends on their Auction Rate Preferred Stock at a maximum rate determined by reference to short term rates, rather than at a price set by auction. At present the maximum rate is equal to 150% of the AA Financial Composite Commercial Paper Rate, determined on each calculation date. For the fiscal quarter ended March 31, 2011, the dividend rates for the Series C Auction Rate Preferred and the Series E Auction Rate Preferred ranged from 0.180% to 0.285% and 0.130% to 0.285%, respectively. A failed auction is not a default and the Fund has no obligation under its Charter to redeem its Auction Rate Preferred Stock because the auctions continue to fail. The Fund cannot estimate when or if auction markets for the Auction Rate Preferred Stock will resume functioning. There appears to be a secondary market in certain auction market preferred issues, although the Fund is not aware whether there is or will be an active trading market for the Fund's shares.

If the auctions were to resume, which management does not consider to be likely, other risks would apply. For example, if you place an order (a hold order) at an auction to retain Auction Rate Preferred Stock only at a specified rate that exceeds the rate set at the auction, you will not retain your Auction Rate Preferred Stock. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Auction Rate Preferred Stock, which could also affect the liquidity of your investment.

Secondary Market Risk. If you try to sell your Auction Rate Preferred Stock between auctions, you may not be able to sell them for their liquidation preference per share or such amount per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market.

Broker-dealers that maintain a secondary trading market for the Auction Rate Preferred Stock are not required to maintain this market and the Fund is not required to redeem Auction Rate Preferred Stock if either an auction or an attempted secondary market sale fails because of a lack of buyers. The Auction Rate Preferred Stock will not be registered on a stock exchange. If you sell your Auction Rate Preferred Stock to a broker-dealer or other party between auctions, you may receive less than the price you paid for them.

Common Stock Distribution Policy Risk. The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the preferred stock. All distributions to common shareholders for the past three years have constituted a return of capital. In addition, a portion of the distributions to holders of common stock during thirteen of the twenty-four fiscal years since the Fund's inception has constituted a return of capital. Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 15%, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 35%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund.

Market Discount Risk. Common shares of closed-end investment companies often trade at a discount from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value may decrease. The Investment Adviser cannot predict whether the Fund's shares will trade at, below or above net asset value. The risk of holding shares of a closed-end fund that might trade at a discount is more pronounced for shareholders who wish to sell their shares in a relatively short period of time after acquiring them

because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's common shares are not subject to redemption. Shareholders desiring liquidity may, subject to applicable securities laws, trade their shares in the Fund on the NYSE or other markets on which such shares may trade at the then current market value, which may differ from the then current net asset value.

Non-Diversified Status. As a non-diversified, closed-end management investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a more limited number of issuers than may a diversified fund, and accordingly, an

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investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. See Risk Factors and Special Considerations Non-Diversified Status.

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

Interest Rate Transactions. The Fund may enter into swap transactions in connection with Auction Rate Preferred Stock. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See How the Fund Manages Risk Interest Rate Transactions.

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

There may be less publicly available information about a foreign company than a U.S. company. Foreign securities markets may have substantially less volume than U.S. securities markets and some foreign company securities are less liquid than securities of otherwise comparable U.S. companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-U.S. securities markets and the increased costs of maintaining the custody of foreign securities.

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

Lower Grade Securities. The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds.

Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to

be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the

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issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management, and regulatory matters.

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

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

As part of its investment in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

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

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

The market for lower grade and comparable unrated securities has experienced several periods of significantly adverse price and liquidity, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

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

dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;
the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

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the possible absence of a liquid secondary market for any particular instrument at any time; the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

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

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

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

Forward Currency Exchange Contracts. The use of forward currency exchange contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover.

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

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

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

Geopolitical Events. As a result of the terrorist attacks on domestic U.S. targets on September 11, 2001, some of the U.S. securities markets were closed for a four-day period. These terrorists attacks, the wars in Iraq and Afghanistan and their aftermath and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. The nature, scope and duration of the war and occupation cannot be predicted with any certainty. Similar events in the future or other disruptions of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation, energy prices, and other factors relating to the common stock.

Anti-Takeover Provisions. The Charter and the By-Laws of the Fund, as amended from time to time (the By-Laws and together with the Charter, the Governing Documents) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund.

Taxation. The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock if the Fund fails to satisfy the 1940 Act's asset

coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See "Taxation" for a more complete discussion of these and other federal income tax considerations.

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

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

Management and Fees

Gabelli Funds, LLC (the "Investment Adviser") serves as the Fund's investment adviser. The Investment Adviser's fee is computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. The fee paid by the Fund may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the currently outstanding Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred and Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred or Series F Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common shareholder's total return. This fee waiver is voluntary and may be discontinued at any time. The Fund's total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding

swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets. See Management of the Fund.

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For the year ended December 31, 2010, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate or corresponding swap rate of Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred and Series F Preferred. Thus, management fees were accrued on these assets.

A discussion regarding the basis for the Board's approval of the continuation of the investment advisory contract of the Fund is available in the Fund's semi-annual report to shareholders dated June 30, 2010.

Repurchase of Common Stock

The Fund's Board has authorized the Fund (and the Fund accordingly reserves freedom of action) to repurchase shares of its common stock in the open market when the shares are trading at a discount of 10% or more from net asset value. Although the Board has authorized such repurchases, the Fund is not required to repurchase its shares. The Board has not established a limit on the amount of common stock that could be repurchased. Such repurchases are subject to certain notice and other requirements under the 1940 Act. Through December 31, 2010, the Fund has not repurchased shares of its common stock under this authorization. See [Repurchase of Common Stock](#).

Anti-Takeover Provisions

Certain provisions of the Governing Documents, may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of the three classes of directors is elected each year, and the affirmative vote of the holders of 66²/₃% of the Fund's outstanding shares of each class (voting separately) is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal stockholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium above the prevailing market price. See [Anti-Takeover Provisions of the Fund's Governing Documents](#).

Custodian, Transfer Agent and Dividend Disbursing Agent

The Bank of New York Mellon Corporation, located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian (the [Custodian](#)) of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian will receive a monthly fee paid by the Fund based upon, among other things, the average value of the total assets of the Fund, plus certain charges for securities transactions and out-of-pocket expenses.

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

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

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

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

SUMMARY OF FUND EXPENSES

The following table shows the Fund's expenses, including preferred stock offering expenses, as a percentage of net assets attributable to common stock.

Shareholder Transaction Expenses

Sales Load (as a percentage of offering price)	2.08%(1)
Offering Expenses Borne by the Fund (excluding Preferred Stock Offering Expenses) (as a percentage of offering price)	0.02%(1)
Dividend Reinvestment Plan Fees	None (2)
Preferred Stock Offering Expenses Borne by the Fund (as a percentage of net assets attributable to common shares)	0.03%(3)

	Percentage of Net Assets Attributable to Common Stock (5)
Annual Expenses	
Management Fees	1.40%(4)
Interest on Borrowed Funds	None
Other Expenses	0.14%(4)
Total Annual Expenses	1.54%
Dividends on Preferred Stock	1.99%(5)
Total Annual Expenses and Dividends on Preferred Stock	3.53%

- (1) Estimated maximum amount based on offering of \$250 million in shares of common stock and \$250 million in shares of preferred stock. The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.
- (2) Shareholders participating in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans would pay \$0.75 plus their pro rata share of brokerage commissions per transaction to purchase shares and \$2.50 plus their pro rata share of brokerage commissions per transaction to sell shares. *See* Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans.
- (3) Assumes issuance of \$250 million in liquidation preference of fixed rate preferred stock and net assets attributable to common stock of \$1.39 billion (which includes issuance of \$250 million in common shares). The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.
- (4) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. Consequently, if the Fund has preferred stock outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common stock will be higher than if the Fund does not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

- (5) Dividends on Preferred Stock represent the aggregate of (1) the estimated annual distributions on the existing preferred stock outstanding and (2) the distributions that would be made assuming \$250 million of preferred stock is issued with a fixed dividend rate of 6.00%. There can, of course, be no guaranty that any preferred stock would be issued or, if issued, the terms thereof.

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

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The following example illustrates the expenses (including the maximum estimated sales load of \$10 and estimated offering expenses of \$0.25 from the issuance of \$250 million in common stock) you would pay on a \$1,000 investment in common stock, assuming a 5% annual portfolio total return.* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	\$45	\$118	\$192	\$387

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

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

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	\$26	\$59	\$94	\$192

FINANCIAL HIGHLIGHTS

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this Prospectus and the SAI. The financial information for the fiscal year ended December 31, 2010 and for each of the preceding fiscal periods presented, has been audited by PricewaterhouseCoopers LLP (PwC), the Fund's independent registered public accounting firm, whose unqualified report on such Financial Statements is incorporated by reference into the SAI.

Selected data for a share outstanding throughout each period:

Selected data for a share outstanding throughout each period:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Operating Performance:					
Net asset value, beginning of period	\$ 5.03	\$ 4.14	\$ 9.22	\$ 9.40	\$ 8.10
Net investment income	0.05	0.06	0.12	0.14	0.18
Net realized and unrealized gain/(loss) on investments, written options, futures contracts, swap contracts, and foreign currency transactions	1.35	1.62	(4.30)	1.12	2.18
Total from investment operations	1.40	1.68	(4.18)	1.26	2.36
Distributions to Preferred Shareholders:(a)					
Net investment income	(0.05)	(0.07)	(0.11)	(0.02)	(0.03)
Net realized gain				(0.12)	(0.12)
Return of capital	(0.02)				
	(0.07)	(0.07)	(0.11)	(0.14)	(0.15)

Total distributions to preferred
shareholders

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	Year Ended December 31,				
	2010	2009	2008	2007	2006
Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations	1.33	1.61	(4.29)	1.12	2.21
Distributions to Common Shareholders:					
Net investment income		(0.00)(e)	(0.00)(e)	(0.12)	(0.16)
Net realized gain				(0.57)	(0.72)
Return of capital	(0.51)	(0.72)	(0.80)	(0.61)	
Total distributions to common shareholders	(0.51)	(0.72)	(0.80)	(1.30)	(0.88)
Fund Share Transactions:					
Increase in net asset value from common stock share transactions		0.00(e)	0.01		
Increase in net asset value from repurchase of preferred shares		0.00(e)	0.00(e)		
Recapture of gain on sale of Fund shares by an affiliate	0.00(e)				
Offering costs for preferred shares charged to paid-in capital			0.00(e)		(0.03)
Offering costs for issuance of rights charged to paid-in capital					(0.00)(e)
Total fund share transactions	0.00(e)	0.00(e)	0.01		(0.03)
Net Asset Value Attributable to Common Shareholders, End of Period	\$ 5.85	\$ 5.03	\$ 4.14	\$ 9.22	\$ 9.40
NAV total return	28.15%	44.10%	(49.06)%	12.14%	28.17%
Market value, end of period	\$ 5.67	\$ 5.04	\$ 3.70	\$ 9.28	\$ 9.41
Investment total return	23.96%	61.56%	(54.77)%	12.75%	29.42%

Ratios to Average Net Assets and Supplemental Data:

Net assets including liquidation value of preferred shares, end of period (in 000 s)	\$ 1,364,172	\$ 1,215,626	\$ 1,106,614	\$ 1,990,123	\$ 2,114,399
Net assets attributable to common shares, end of period (in 000 s)	\$ 1,058,815	\$ 910,269	\$ 724,076	\$ 1,586,381	\$ 1,586,906
Ratio of net investment income to average net assets attributable to common shares before preferred distributions	0.92%	1.53%	1.73%	1.16%	2.12%
Ratio of operating expenses to average net assets attributable to common shares before fees waived	1.50%	1.74%	1.52%		
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction, if any	1.50%	1.72%	1.19%	1.46%	1.43%

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	Year Ended December 31,				
	2010	2009	2008	2007	2006
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fees waived	1.14%	1.22%	1.14%		
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction, if any	1.14%	1.20%	0.89%	1.17%	1.11%
Portfolio turnover rate	5.5%	6.7%	13.5%	17.2%	29.5%

Preferred Stock:**7.200% Series B Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)					\$ 123,750
Total shares outstanding (in 000 s)					4,950
Liquidation preference per share					\$ 25.00
Average market value (b)					\$ 25.27
Asset coverage per share					\$ 100.21

Auction Rate Series C**Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 72,000	\$ 72,000	\$ 117,000	\$ 130,000	\$ 130,000
Total shares outstanding (in 000 s)	3	3	5	5	5
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230	\$ 100,211

5.875% Series D Cumulative Preferred Stock

Liquidation value, end of period (in 000 s)	\$ 59,097	\$ 59,097	\$ 72,532	\$ 73,743	\$ 73,743
Total shares outstanding (in 000 s)	2,364	2,364	2,901	2,950	2,950
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value (b)	\$ 25.03	\$ 23.39	\$ 22.69	\$ 23.86	\$ 23.98
Asset coverage per share	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23	\$ 100.21

Auction Rate Series E**Cumulative Preferred Stock**

	\$ 28,000	\$ 28,000	\$ 45,000	\$ 50,000	\$ 50,000
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Liquidation value, end of period (in 000 s)					
Total shares outstanding (in 000 s)	1	1	2	2	2
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230	\$ 100,211
6.200% Series F Cumulative Preferred Stock					
Liquidation value, end of period (in 000 s)	\$ 146,260	\$ 146,260	\$ 148,007	\$ 150,000	\$ 150,000

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	Year Ended December 31,				
	2010	2009	2008	2007	2006
Total shares outstanding (in 000 s)	5,850	5,850	5,920	6,000	6,000
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value (b)	\$ 25.71	\$ 24.08	\$ 23.48	\$ 24.69	\$ 25.12
Asset coverage per share	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23	\$ 100.21
Asset Coverage (d)	447%	398%	289%	493%	401%

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

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

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

- (a) Calculated based upon average common shares outstanding on the record dates throughout the periods.
- (b) Based on weekly prices.
- (c) Based on weekly auction prices. Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auctions.
- (d) Asset coverage is calculated by combining all series of preferred stock.
- (e) Amount represents less than \$0.005 per share.

USE OF PROCEEDS

The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months.

THE FUND

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

INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective. The investment objectives of long-term growth of capital and income are fundamental policies of the Fund. These fundamental policies and the investment limitations described in the SAI under the caption "Investment Restrictions" cannot be changed without the approval of the holders of a majority of the Fund's outstanding shares of preferred stock voting as a separate class and the

approval of the holders of a majority of the Fund's outstanding voting securities. Such majority votes require, in each case, the lesser of (i) 67% of the Fund's applicable shares represented at a meeting at which more than 50% of the Fund's applicable shares outstanding are represented, whether in person or by proxy, or (ii) more than 50% of the outstanding shares of the applicable class.

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

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

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in fixed-income securities rated as low as C by Moody's or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as "junk bonds," are predominantly speculative and involve major risk exposure to adverse conditions.

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

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

Investment Methodology of the Fund

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

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

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

Certain Investment Practices

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

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

Temporary Defensive Investments. Subject to the Fund's investment restrictions, when a temporary defensive period is believed by the Investment Adviser to be warranted (temporary defensive periods), the Fund may, without limitation, hold cash or invest its assets in securities of United States government sponsored instrumentalities, in repurchase agreements in respect of those instruments, and in certain high-grade commercial paper instruments. During temporary defensive periods, the Fund may also invest in money market mutual funds that invest primarily in securities of United States government sponsored instrumentalities and repurchase agreements in respect of those instruments. Obligations of certain agencies and instrumentalities of the United States government, such as the Government National Mortgage Association, are supported by the full faith and credit of the United States government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the United States Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the United States government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the United States government would provide financial support to United States government sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may be less likely to achieve its secondary investment objective of income.

Lower Grade Securities. The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds.

Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management and regulatory matters.

In addition, the market value of securities in lower rated categories is more volatile than that of higher quality securities, and the markets in which such lower rated or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value in response to changes in the economy or the financial markets. Lower grade securities also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates, the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay regular income streams.

As part of its investment in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities

received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing

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requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing, and current anticipated results of operations. In selecting investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates, and the outlook for specific industries.

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

The market for lower grade and comparable unrated securities has experienced several periods of significantly adverse price and liquidity, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

Futures Contracts and Options on Futures. On behalf of the Fund, the Investment Adviser may, subject to the Fund's investment restrictions and guidelines of the Board, purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes. These futures contracts and related options may be on debt securities, financial indices, securities indices, United States government securities and foreign currencies. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future.

The Investment Adviser has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act and therefore is not subject to the registration requirements under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission. Nevertheless, the Fund's investment restrictions place certain limitations and prohibitions on its ability to purchase or sell commodities or commodity contracts. In addition, investment in futures contracts and related options generally will be limited by the rating agency guidelines applicable to any of the Fund's outstanding preferred stock.

Forward Currency Exchange Contracts. Subject to guidelines of the Board, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of currency exchange rates. The Fund may enter into such contracts on a "spot" (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund's dealings in forward contracts generally will be limited to hedging involving either specific transactions or portfolio positions. The Fund does not have an independent limitation on its investments in foreign currency futures contracts and options on foreign currency futures contracts.

Repurchase Agreements. The Fund may enter into repurchase agreements with banks and non-bank dealers of United States government securities which are listed as reporting dealers of the Federal Reserve Bank and which furnish collateral at least equal in value or market price to the amount of their repurchase obligation. In a repurchase agreement, the Fund purchases a debt security from a seller who undertakes to repurchase the security at a specified resale price on an agreed future date. Repurchase agreements are generally for one business day and generally will not have a duration of longer than one week. The SEC has taken the position that, in economic reality, a repurchase agreement is a loan by a fund to the other party to the transaction secured by securities transferred to the fund. The resale price generally exceeds the purchase price by an amount which reflects an agreed upon market interest rate for the term of the repurchase agreement. The Fund's risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller's obligation may be less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of the collateral upon a default in the obligation to repurchase is less than the repurchase

price, the Fund will experience a loss. If the financial institution that is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund could suffer a loss.

Loans of Portfolio Securities. To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan

will cause the value of all loaned securities to exceed 20% of the value of its total assets. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially.

While these loans of portfolio securities will be made in accordance with guidelines approved by the Fund's Board, there can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Fund, and any gain or loss in the market price during the loan would inure to the Fund. If the counterparty to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the Fund's rights is unsettled. As a result, under these circumstances, there may be a restriction on the Fund's ability to sell the collateral and it would suffer a loss.

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

Leveraging. As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue senior securities representing stock, such as preferred stock, so long as immediately following such issuance of stock, its total assets exceed 200% of the amount of such stock. The use of leverage magnifies the impact of changes in net asset value. For example, a fund that uses 33% leverage will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. In addition, if the cost of leverage exceeds the return on the securities acquired with the proceeds of leverage, the use of leverage will diminish, rather than enhance, the return to the Fund. The use of leverage generally increases the volatility of returns to the Fund.

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

Investment Restrictions. The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Fund's Articles Supplementary of each series of preferred stock, a majority, as defined in the 1940 Act, of the outstanding preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy, as defined in the 1940 Act. The Fund's investment restrictions are more fully discussed under "Investment Restrictions" in the SAI.

Portfolio Turnover. The Fund does not engage in the trading of securities for the purpose of realizing short-term profits, but adjusts its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish its investment objectives. A high rate of portfolio turnover involves correspondingly greater brokerage commission expenses than a lower rate, and such expenses must be borne by the Fund and its shareholders. High portfolio turnover may also result in the realization of substantial net short-term capital gains and any distributions resulting from such gains will be taxable at ordinary income rates for United States federal income tax purposes. The Fund's portfolio turnover rates for the fiscal years ended December 31, 2009 and 2010 were 6.7% and 5.5%, respectively. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of a fund's portfolio securities. For purposes of this calculation, portfolio securities exclude purchases and sales of debt securities having a maturity at the date of purchase of one year or less.

RISK FACTORS AND SPECIAL CONSIDERATIONS

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

Leverage Risk

The Fund uses financial leverage for investment purposes by issuing preferred stock. As of March 31, 2011, the amount of leverage represented approximately 21% of the Fund's net assets. The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, and Series F Preferred have the same seniority with respect to distributions and liquidation preference. Preferred stock has seniority over common stock.

The Fund's use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested, either through the issuance of preferred stock or other forms of market exposure, magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. The Fund's

leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The

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Fund cannot assure that the issuance of preferred stock will result in a higher yield or return to the holders of the common stock.

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

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

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

Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of the Fund's common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred stock to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements.

Portfolio Guidelines of Rating Agencies for Preferred Stock and/or Credit Facility. In order to obtain and maintain attractive credit quality ratings for preferred stock, the Fund must comply with investment quality, diversification and other guidelines established by the relevant rating agencies. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act.

Impact on Common Stock. The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on common stock total return, assuming investment portfolio total returns (comprised of net investment income of the Fund, realized gains or losses of the Fund and changes in the value of the securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by the Fund. See Risks. The table further reflects leverage representing 22% of the Fund's net assets, the Fund's current projected blended annual average leverage dividend or interest rate of 4.15%, a management fee at an annual rate of 1.00% of the liquidation preference of any outstanding preferred shares and estimated annual incremental expenses attributable to any outstanding preferred shares of 0.01% of the Fund's net assets attributable to common shares.

(10)%	(5)%	0%	5%	10%
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Assumed Portfolio Total Return (Net
of Expenses)

Common Stock Total Return	(14.28)%	(7.87)%	(1.46)%	4.95%	11.37%
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Common stock total return is composed of two elements – the common share distributions paid by the Fund (the amount of which is largely determined by the taxable income of the Fund (including realized gains or losses) after paying interest on any debt and/or dividends on any preferred shares) and unrealized gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy total return. For example, to assume a total return of 0% the Fund must assume that the income it receives on its investments is entirely offset by expenses and losses in the value of those investments.

Special Risks to Holders of Fixed Rate Preferred Stock

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

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

Special Risks for Holders of Auction Rate Preferred Stock

Auction Risk. Since February 2008, the auctions for the Auction Rate Preferred Stock have failed and have continued to fail. Failing means that more Auction Rate Preferred Stock is offered for sale than there are buyers for those shares. During this period while auctions have continued to fail, holders of the Fund's Auction Rate Preferred Stock who wanted to sell their shares at par through the auction process have been unable to do so. Holders have continued to receive dividends on their Auction Rate Preferred Stock at a maximum rate determined by reference to short term rates, rather than at a price set by auction. At present the maximum rate is equal to 150% of the AA Financial Composite Commercial Paper Rate, determined on each calculation date. For the fiscal quarter ended March 31, 2011, the dividend rates for the Series C Auction Rate Preferred and the Series E Auction Rate Preferred ranged from 0.180% to 0.285% and 0.130% to 0.285%, respectively. A failed auction is not a default and the Fund has no obligation under its Charter to redeem its Auction Rate Preferred Stock because the auctions continue to fail. The Fund cannot estimate when or if auction markets for the Auction Rate Preferred Stock will resume functioning. There appears to be a secondary market in certain auction market preferred issues, although the Fund is not aware whether there is or will be an active trading market for the Fund's shares.

If the auctions were to resume, which management does not consider to be likely, other risks would apply. For example, if you place an order (a hold order) at an auction to retain Auction Rate Preferred Stock only at a specified rate that exceeds the rate set at the auction, you will not retain your Auction Rate Preferred Stock. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Auction Rate Preferred Stock, which could also affect the liquidity of your investment.

Secondary Market Risk. If you try to sell your Auction Rate Preferred Stock between auctions, you may not be able to sell them for their liquidation preference per share or such amount per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for the Auction Rate Preferred Stock are not required to maintain this market and the Fund is not required to redeem Auction Rate Preferred Stock if either an auction or an attempted secondary market sale fails because of a lack of buyers. The Auction Rate Preferred Stock will not be registered on a stock exchange. If you sell your Auction Rate Preferred Stock to a broker-dealer or other party between auctions, you may receive less than the price you paid for them.

Common Stock Distribution Policy Risk

The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred stock. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2010, the Fund

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made distributions of \$0.51 per share of common stock, of which \$0.51 per share was deemed a return of capital. The total 2010 distributions of \$0.51 per share of common stock consisted of \$0.51 per share in the form of cash distributions. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common shareholders during thirteen of the twenty-four fiscal years since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through the end of the calendar year.

Value Investing Risk

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

Non-Diversified Status

The Fund is classified as a non-diversified investment company under the 1940 Act, which means it is not limited by the 1940 Act in the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest in the securities of individual issuers to a greater degree than a diversified investment company. As a result, the Fund may be more vulnerable to events affecting a single issuer and therefore subject to greater volatility than a fund that is more broadly diversified. Accordingly, an investment in the Fund may present greater risk to an investor than an investment in a diversified company. To qualify as a regulated investment company, or RIC, for purposes of the Code, the Fund has in the past conducted and intends to conduct its operations in a manner that will relieve it of any liability for federal income tax to the extent its earnings are distributed to shareholders. To so qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year:

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

at least 50% of the market value of the Fund's assets will be represented by cash, securities of other regulated investment companies, United States government securities and other securities, with such other securities limited in respect of any one issuer to an amount not greater than 5% of the value of its assets and not more than 10% of the outstanding voting securities of such issuer.

Market Value and Net Asset Value

The Fund is a non-diversified, closed-end management investment company. Shares of closed-end funds are bought and sold in the securities markets and may trade at either a premium to or discount from net asset value. Listed shares of closed-end investment companies often trade at discounts from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that its net asset value may decrease. The Fund cannot predict whether its listed stock will trade at, below or above net asset value. Since inception, the Fund's shares of common stock have traded at both premiums to and discounts from net asset value. As of March 31, 2011, the shares closed at a discount of 0.48%. Shareholders desiring liquidity may, subject to applicable securities laws, trade their Fund shares on the NYSE or other markets on which such shares may trade at the then-current market value, which may differ from the then-current net asset value. Shareholders will incur brokerage or other transaction costs to sell stock.

Industry Concentration Risk

The Fund may invest up to 25% of its total assets in securities of a single industry. Should the Fund choose to do so, the net asset value of the Fund will be more susceptible to factors affecting those particular types of companies, which, depending on the particular industry, may include, among others: governmental regulation; inflation; cost increases in raw

materials, fuel and other operating expenses; technological innovations that may render existing products and equipment obsolete; and increasing interest rates resulting in high interest costs on borrowings needed for capital investment, including costs associated with compliance with environmental and other regulations. In such circumstances, the Fund's investments may be subject to greater risk and market fluctuation than a fund that had securities representing a broader range of industries.

Special Risks Related to Preferred Securities

There are special risks associated with the Fund's investing in preferred securities, including:

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

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

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

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

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

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

Market Disruption Risk

Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events. The Fund cannot predict the effects of similar events in the future on the U.S. economy. Lower rated securities and securities of issuers with smaller market capitalizations tend to be more volatile than higher rated securities and securities of issuers with larger market capitalizations so that these events and any actions resulting from them may have a greater impact on the prices and volatility of lower rated securities and securities of issuers with smaller market capitalizations than on higher rated securities and securities of issuers with larger market capitalizations.

Interest Rate Transactions

The Fund may enter into interest rate swap or cap transactions in relation to all or a portion of its Auction Rate Preferred Stock in order to manage the impact on its portfolio of changes in the dividend rate of such stock. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for such Auction Rate Preferred Stock that is lower than the Fund would have to pay if it issued Fixed Rate Preferred Stock. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See [How the Fund Manages Risk](#) Interest Rate Transactions.

Foreign Securities

The Fund may invest up to 35% of its total assets in securities of foreign issuers, determined at the time of purchase. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with

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investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards, and requirements comparable to those applicable to United States companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. Also, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income that the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

There may be less publicly available information about a foreign company than a United States company. Foreign securities markets may have substantially less volume than United States securities markets and some foreign company securities are less liquid than securities of otherwise comparable United States companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-United States securities markets and the increased costs of maintaining the custody of foreign securities.

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

Emerging Markets

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

Smaller Companies

The Fund may invest in smaller companies that may benefit from the development of new products and services. These smaller companies may present greater opportunities for capital appreciation, and may also involve greater investment risk than larger, more established companies. For example, smaller companies may have more limited

product lines, market or financial resources and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of other issuers.

Investment Companies

The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment

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company's expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances holders of the Fund's common stock will be subject to duplicative investment expenses.

Lower Grade Securities

The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as "junk bonds." Such securities are subject to greater risks than investment grade securities, which reflect their speculative character, including the following:

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

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

The market value of lower rated securities may be more volatile than the market value of higher rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which primarily reflect fluctuations in general levels of interest rates.

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

As part of its investment in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

Special Risks of Derivative Transactions

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

- dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;
- imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;
- the fact that skills needed to use these strategies are different from those needed to select portfolio securities;
- the possible absence of a liquid secondary market for any particular instrument at any time;
- the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and

the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

Futures Transactions

Futures and options on futures entail certain risks, including but not limited to the following:
no assurance that futures contracts or options on futures can be offset at favorable prices;

possible reduction of the yield of the Fund due to the use of hedging;

possible reduction in value of both the securities hedged and the hedging instrument;

possible lack of liquidity due to daily limits or price fluctuations;

imperfect correlation between the contracts and the securities being hedged; and

losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

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

Forward Currency Exchange Contracts

The use of forward currency exchange contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see Investment Objectives and Policies Investment Practices in the SAI.

Counterparty Risk

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

Loans of Portfolio Securities

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

For a further description of such loans of portfolio securities, see Investment Objectives and Policies Certain Investment Practices Loans of Portfolio Securities.

Management Risk

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

Dependence on Key Personnel

Mario J. Gabelli serves as the Fund's portfolio manager. The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser

were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a

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suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

Anti-Takeover Provisions of the Fund's Governing Documents

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

Status as a Regulated Investment Company

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

Temporary Investments

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

HOW THE FUND MANAGES RISK

Investment Restrictions

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

Interest Rate Transactions

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

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on its Auction Rate Preferred Stock. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock dividends or distributions when due in accordance with the Articles Supplementary of the relevant series of the Auction Rate Preferred Stock even if the counterparty

defaulted. Depending on the general state of short-term interest

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rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend or distribution payments on the Auction Rate Preferred Stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend or distribution payments on the Auction Rate Preferred Stock. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Auction Rate Preferred Stock. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Articles Supplementary for each series of the preferred stock, if the Fund fails to maintain the required asset coverage on the outstanding preferred stock or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. The Fund generally may redeem any series of Auction Rate Preferred Stock, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transactions. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

MANAGEMENT OF THE FUND

General

The Board (who, with its officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser.

The Investment Adviser

Gabelli Funds, LLC serves as the Fund's Investment Adviser pursuant to the Investment Advisory Agreement with the Fund. The Investment Adviser is a New York limited liability company with principal offices located at One Corporate Center, Rye, New York 10580-1422 and is registered under the Investment Advisers Act of 1940, as amended. The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of March 31, 2011, the Investment Adviser acts as a registered investment adviser to 26 management investment companies with aggregate net assets of \$20.1 billion. The Investment Adviser, together with the other affiliated investment advisers noted below, had assets under management totaling approximately \$35.4 billion as of March 31, 2011. GAMCO Asset Management Inc. (GAMCO), an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub-adviser to management investment companies having aggregate assets of \$14.7 billion under management as of March 31, 2011. Gabelli Securities, Inc., an affiliate of the Investment Adviser, acts as investment adviser for investment partnerships and entities having aggregate assets of approximately \$547 million under management as of March 31, 2011. Teton Advisors, Inc., an affiliate of the Investment Adviser, acts as investment manager to The GAMCO Westwood Funds and separately managed accounts having aggregate assets of approximately \$983.1 million under management as of March 31, 2011.

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

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

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Fund's investment advisory agreement (the "Advisory Agreement"), including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administration of the Fund (but excluding costs associated with the calculation of the net asset value and allocated costs of the chief compliance

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officer function and officers of the Fund that are employed by the Fund and are not employed by the Investment Adviser), and the fees of all Directors of the Fund who are affiliated with the Investment Adviser.

In addition to the fees of the Investment Adviser, the Fund is responsible for the payment of all other expenses incurred in the operation of the Fund, which include, among other things, offering expenses, expenses for legal and Independent Registered Public Accounting Firm services, rating agency fees, costs of printing proxies, stock certificates and shareholder reports, charges of the custodian, any subcustodian, auction agent, transfer agent(s) and dividend disbursing agent expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, SEC fees, fees and expenses of unaffiliated directors, accounting and pricing costs, including costs of calculating the net asset value of the Fund, membership fees in trade associations, fidelity bond coverage for its officers and employees, directors and officers errors and omission insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses, expenses of qualifying its shares for sale in various states, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

Advisory Agreement

Under the terms of the Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, and places orders to purchase and sell securities on behalf of the Fund and manages the Fund's other business and affairs, all subject to the supervision and direction of its Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to its shareholders and supervising the calculation of the net asset value of its stock. All expenses of computing the Fund's net asset value, including any equipment or services obtained solely for the purpose of pricing shares of stock or valuing the Fund's investment portfolio, will be an expense of the Fund under the Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal year 2010, the Fund reimbursed the Investment Adviser \$45,000 in connection with the cost of computing the Fund's net asset value.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets plus the liquidation value of any outstanding preferred stock. The Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred and Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and management fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred or Series F Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common shareholder's total return. This fee waiver is voluntary and may be discontinued at any time. The Fund's total return on the net asset value of its common stock is monitored on a monthly basis to assess whether the total return on the net asset value of its common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of outstanding preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those assets.

For the year ended December 31, 2010, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate or corresponding swap rate of Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, and Series F Preferred. Thus, management fees were accrued on these assets.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties thereunder, the Investment Adviser is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has

agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Fund's Board or by the holders of a majority of the Fund's outstanding voting securities and (ii) by a

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majority of the Directors who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval.

A discussion regarding the basis of the Board's approval of the Advisory Agreement is available in the Fund's semi-annual report to shareholders for the six months ended June 30, 2010.

Selection of Securities Brokers

The Advisory Agreement contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to Gabelli & Company, Inc. (Gabelli & Company) or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than Gabelli & Company that are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Advisory Agreement, including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

Portfolio Managers

Mario J. Gabelli is currently and has been responsible for the day-to-day management of the Fund since its inception. Mr. Gabelli has served as Chairman and Chief Executive Officer of GAMCO Investors, Inc. and its predecessors since 1976. Mr. Gabelli is the Chief Investment Officer - Value Portfolios for the Investment Adviser and GAMCO Asset Management Inc. Mr. Gabelli serves as portfolio manager for several funds in the Gabelli fund family and is a director of several funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli's responsibilities, he will devote less than all of his time to the day-to-day management of the Fund. Mr. Gabelli is also Chief Executive Officer of GGCP, Inc., as well as Chairman of the Board of Lynch Interactive Corporation, a multimedia and communication services company.

Mr. Zahid Siddique has been an associate portfolio manager since August 2010. Mr. Siddique joined GAMCO in 2005 as a research analyst covering the global industrial and infrastructure sectors. Previously, he worked as an equity analyst at Tribeca Investments, a Citigroup hedge fund. Prior to that, he was a consultant at GE Capital and American Management Systems, where he advised on several restructuring, strategic, and operational assignments. Mr. Siddique received a B.A. in Mathematics from Hamilton College and a B.S. in Industrial Engineering from Columbia University, where he was recognized by the National Industrial Engineering Honor Society. He also holds an MBA from the Columbia University Graduate School of Business.

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

Sub-Administrator

The Investment Adviser has entered into a sub-administration agreement with BNY Mellon Investment Servicing (US) Inc. (the Sub-Administrator) pursuant to which the Sub-Administrator provides certain administrative services necessary for the Fund's operations that do not include the investment and portfolio management services provided by the Investment Adviser. For these services and the related expenses borne by the Sub-Administrator, the Investment Adviser pays a prorated monthly fee at the annual rate of 0.0275% of the first \$10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and Teton Advisors, Inc. and administered by the Sub-Administrator, 0.0125% of the aggregate average net assets exceeding \$10 billion and 0.01% of the aggregate average net assets in excess of \$15 billion. The Sub-Administrator has its principal office at 760 Moore Road, King of Prussia, Pennsylvania 19406.

Regulatory Matters

On April 24, 2008, the Investment Adviser entered into a settlement with the SEC to resolve an inquiry regarding prior frequent trading activity in shares of the GAMCO Global Growth Fund (the Global Growth Fund) by one investor who was banned from the Global Growth Fund in August 2002. In the administrative settlement order, the SEC found that the Investment Adviser had willfully violated Section 206(2) of the Advisers Act, Section 17(d) of the 1940 Act and Rule 17d-1 thereunder, and had willfully aided and abetted and caused violations of Section 12(d)(1)(B)(i) of the 1940 Act. Under the terms of the settlement, the Investment Adviser, while neither

admitting nor denying the SEC's findings and allegations, paid \$16 million (which included a \$5 million civil monetary penalty), approximately \$12.8 million of which is in the process of being paid to shareholders of the Global Growth Fund in accordance with a plan developed by an independent distribution

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consultant and approved by the independent directors of the Global Growth Fund and acceptable to the staff of the SEC, and agreed to cease and desist from future violations of the above-referenced federal securities laws and rule. The SEC order also noted the cooperation that the Investment Adviser had given the staff of the SEC during its inquiry. The settlement did not have a material adverse impact on the Investment Adviser. On the same day, the SEC filed a civil action against the Executive Vice President and Chief Operating Officer of the Investment Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer is also an officer of the Fund, the Global Growth Fund and other funds in the Gabelli/GAMCO fund complex. The officer denied the allegations and is continuing in his positions with the Investment Adviser and the funds. The court dismissed certain claims and found that the SEC was not entitled to pursue various remedies against the officer while leaving one remedy in the event the SEC were able to prove violations of law. The court subsequently dismissed without prejudice the remaining remedy against the officer, which allowed the SEC to appeal the court's rulings. On October 29, 2010, the SEC filed its appeal with the U.S. Court of Appeals for the Second Circuit regarding the lower court's orders. The Investment Adviser currently expects that any resolution of the action against the officer will not have a material adverse impact on the Investment Adviser or its ability to fulfill its obligations under the Investment Advisory Agreement.

PORTFOLIO TRANSACTIONS

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

DIVIDENDS AND DISTRIBUTIONS

The Fund has a policy, which may be modified at any time by its Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. The Fund's quarterly distribution level is set at \$0.13 per share for the first quarter of 2011. Each year the Fund pays an adjusting distribution in the fourth quarter of an amount sufficient to pay 10% of the average net asset value of the Fund, as of the last day of the four preceding calendar quarters, or to satisfy the minimum distribution requirements of the Code, whichever is greater. Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain or capital available. This policy permits common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their shares of common stock without having to sell their shares. The Fund may retain for reinvestment, and pay the resulting federal income taxes on, its net capital gain, if any, although the Fund reserves the authority to distribute its net capital gain in any year. To avoid paying income tax at the corporate level, the Fund distributes substantially all of its investment company taxable income and net capital gain. All distributions to common shareholders for the past three years have constituted a return of capital. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit.

Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 15%, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 35%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through

December 31, 2011.

If, for any calendar year, the total quarterly distributions to common shareholders and the amount of distributions on any preferred stock issued by the Fund exceed investment company taxable income and net capital gain (prior to any adjustment for a capital loss carryover from a prior year), the excess will generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in the stock. Any distributions to the holders of common or preferred stock which

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constitute tax-free return of capital will reduce a shareholder's tax basis in such stock, thereby increasing such shareholder's potential taxable gain or reducing his or her potential taxable loss on the sale of the stock. Any amounts distributed to a shareholder in excess of the basis in the stock will generally be taxable to the shareholder as capital gain.

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

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

ISSUANCE OF COMMON STOCK

During the twelve months ended December 31, 2010, the Fund did not have any transactions in shares of common stock or preferred stock. Gabelli & Company, Inc., an affiliate of Gabelli Funds, LLC, the Fund's Investment Adviser, may act as sales manager for future offerings.

AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN

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

Enrollment in the Plan

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

The Gabelli Equity Trust Inc.
c/o Computershare
P.O. Box 43010
Providence, RI 02940-3010

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

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

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

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

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

Voluntary Cash Purchase Plan

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

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

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

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

The Fund reserves the right to amend or terminate the Plans as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least

90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days written notice to participants in the Plan.

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DESCRIPTION OF THE CAPITAL STOCK

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

Common Stock

Pursuant to an amendment to the Fund's Articles of Incorporation that was approved by shareholders in 2004, the Board may increase or decrease the aggregate number of shares of stock of the Fund or the number of shares of any class or series that the Fund has authority to issue without shareholder approval. The Fund is currently authorized to issue 246,000,000 shares of common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Fund's Board payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund as described below.

Offerings of stock require approval by the Board. Any additional offering of common stock will be subject to the requirements of the 1940 Act, which provides that common stock may not be issued at a price below the then current net asset value, exclusive of sales load, except in connection with an offering to existing holders of common stock or with the consent of a majority of the Fund's outstanding voting securities.

The Fund's outstanding common stock is listed and traded on the NYSE under the symbol GAB. The average weekly trading volume of the common stock on the NYSE during the period from January 1, 2009 through December 31, 2009 was 1,590,000 shares. The average weekly trading volume of the common stock on the NYSE during the period from January 1, 2010 through December 31, 2010 was 1,760,000 shares.

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

Shares of closed-end investment companies often trade on an exchange at prices lower than net asset value. The Fund's shares of common stock have traded in the market at both premiums to and discounts from net asset value. Over the Fund's twenty-four year history, the range fluctuated from a 38% premium in June 2002 to a 27% discount in December 1987. Beginning in early 2001, the market price of the Fund exceeded the net asset value and this premium continued through August 2005. The previous extended period over which the premium existed occurred during the twenty month period from August 1993 to March 1995. During 2010, the market price of the Fund has closed below the net asset value with an average discount of 4.15%. As of March 31, 2011, the shares closed at a discount of 0.48%. Because the market value of the common shares may be influenced by such factors as dividend and distribution levels (which are in turn affected by expenses), dividend and distribution stability, net asset value, market liquidity, relative demand for and supply of such shares in the market, unrealized gains, general market and economic conditions and other factors beyond the control of the Fund, the Fund cannot assure you that common shares will trade at a price equal to or higher than net asset value in the future. The common shares are designed primarily for long-term investors and you should not purchase the common shares if you intend to sell them soon after purchase.

The Fund's common shareholders vote as a single class to elect the Fund's Board and on additional matters with respect to which the 1940 Act, the Governing Documents or resolutions adopted by the Directors provide for a vote of the Fund's common shareholders. The Fund's common shareholders and preferred shareholders vote together as a single class, except that the preferred shareholders vote as a separate class to elect two of the directors of the Fund. See Anti-Takeover Provisions of the Fund's Governing Documents.

The Fund may repurchase its shares of common stock from time to time as and when it deems such repurchase advisable, subject to maintaining required asset coverage for each series of outstanding preferred stock. The Board has adopted a policy to authorize such repurchases when the shares are trading at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value of the shares. Although the Board has authorized such

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repurchases, the Fund is not required to repurchase its shares. The policy does not limit the amount of common stock that can be repurchased. The percentage of the discount from net asset value at which share repurchases will be authorized may be changed at any time by the Board. Through December 31, 2010, the Fund has not repurchased shares of its common stock under this authorization.

Preferred Stock

Currently, 24,000,000 shares of the Fund's capital stock, which include the preferred stock being registered with this registration statement, have been classified by the Board as preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of the holders of the Fund's common stock. As of March 31, 2011, the Fund had 2,880 outstanding shares of Series C Auction Rate Preferred, 2,363,860 outstanding shares of Series D Preferred, 1,120 outstanding shares of Series E Auction Rate Preferred, and 5,850,402 outstanding shares of Series F Preferred.

Distributions on the Series C Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present the maximum rate is equal to 150% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series C Auction Rate Preferred, these securities paid dividends set at a weekly auction (*See Auctions for Auction Rate Preferred Stock* below). The liquidation preference of the Series C Auction Rate Preferred is \$25,000 per share. The Fund generally may redeem the outstanding Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series C Auction Rate Preferred is not traded on any public exchange.

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

Distributions on the Series E Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present the maximum rate is equal to 150% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series E Auction Rate Preferred, these securities paid dividends set at a weekly auction (*See Auctions for Auction Rate Preferred Stock* below). The liquidation preference of the Series E Auction Rate Preferred is \$25,000 per share. The Fund generally may redeem the outstanding Series E Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series E Auction Rate Preferred is not traded on any public exchange.

Distributions on the Series F Preferred accumulate at an annual rate of 6.20% of the liquidation preference of \$25 per share, are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series F Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund beginning November 10, 2011. The Series F Preferred is listed and traded on the NYSE under the symbol GAB PrF.

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

The following table shows (i) the classes of capital stock authorized, (ii) the number of shares authorized in each class, and (iii) the number of shares outstanding in each class as of March 31, 2011.

Title Of Class	Amount Authorized	Amount Outstanding
Common Stock	246,000,000	181,682,556
Series A Preferred	5,367,900	0
Series B Preferred	6,600,000	0

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Series C Auction Rate Preferred	5,200	2,880
Series D Preferred	3,000,000	2,363,860
Series E Auction Rate Preferred	2,000	1,120
Series F Preferred	6,000,000	5,850,402
Preferred Stock	3,024,900	0

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As of December 31, 2010, the Fund does not hold any shares of capital stock for its account. Upon a liquidation, each holder of preferred stock will be entitled to receive out of the assets of the Fund available for distribution to shareholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common stock or any other class of capital stock of the Fund ranking junior to the preferred stock as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid distributions (whether or not earned or declared, excluding interest thereon) to the date of distribution, and such shareholders shall be entitled to no further participation in any distribution or payment in connection with such liquidation. Each series of preferred stock ranks on a parity with any other series of preferred stock of the Fund as to the payment of distributions and the distribution of assets upon liquidation, and is junior to the Fund's obligations with respect to any outstanding senior securities representing debt. The preferred stock carries one vote per share on all matters on which such shares are entitled to vote. The preferred shares will, upon issuance, be fully paid and nonassessable and will have no preemptive, exchange or conversion rights. The Board may by resolution classify or reclassify any authorized but unissued capital shares of the Fund from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions or terms or conditions of redemption. The Fund will not issue any class of capital stock senior to the preferred stock.

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

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

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

With respect to Auction Rate Preferred Stock, the Board may amend the Articles Supplementary definition of **Maximum Rate** (the maximum rate as defined below under **Distributions on the Preferred Shares Maximum Rate**) to

increase the percentage amount by which the applicable reference rate is multiplied or to increase the applicable spread to which the reference rate is added to determine the maximum rate without the vote or consent of the holders of the preferred stock or any other shareholder of the Fund, but only after consultation with the broker-dealers and with confirmation from each applicable rating agency that the Fund could meet applicable rating agency asset coverage tests immediately following any such increase.

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

The rating agency guidelines apply to each series of preferred stock only so long as such rating agency is rating such series at the request of the Fund. The Fund pays fees to Moody's and S&P for rating the preferred stock.

Asset Maintenance Requirements. In addition to the requirements summarized under Rating Agency Guidelines above, the Fund must also satisfy asset maintenance requirements under the 1940 Act with respect to its preferred stock. Under the 1940 Act, debt or additional preferred stock may be issued only if immediately after such issuance the value of the Fund's total assets (less ordinary course liabilities) is at least 300% of the amount of any debt outstanding and at least 200% of the amount of any preferred stock and debt outstanding. The Fund is required under the applicable Articles Supplementary to determine whether it has, as of the last business day of each March, June, September and December of each year for its Series D Preferred, Series E Preferred and Series F Preferred, and as of the last business day of each month for its Series C Preferred, an asset coverage (as defined in the 1940 Act) of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding senior securities of the Fund that are debt or stock, including any outstanding preferred stock. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Stock, or 10 business days, in the case of the Auction Rate Preferred Stock, the Fund may, and in certain circumstances will be required to, mandatorily redeem shares of preferred stock sufficient to satisfy such asset coverage. See Redemption below.

Distributions. In connection with the offering of one or more additional series of preferred stock, an accompanying Prospectus Supplement will specify whether dividends on such preferred stock will be based on a fixed or variable rate. If such Prospectus Supplement specifies that dividends will be paid at a fixed rate, holders of such Fixed Rate Preferred Stock will be entitled to receive, out of funds legally available therefor, cumulative cash distributions, at an annual rate set forth in the applicable Prospectus Supplement, payable with such frequency as set forth in the applicable Prospectus Supplement. Such distributions will accumulate from the date on which such shares are issued.

In the alternative, the Prospectus Supplement may state that the holders of one or more series of Auction Rate Preferred Stock are entitled to receive cash distributions at annual rates stated as a percentage of liquidation preference, that will vary from dividend period to dividend period. The liquidation preference per share and the dividend rate for the initial dividend period for any such series of preferred stock will be the rate set forth in the Prospectus Supplement for such series. For subsequent dividend periods, each such series of preferred stock will pay distributions based on a rate set at an auction, normally held weekly, but not in excess of a maximum rate. Dividend periods generally will be seven days, and the dividend periods generally will begin on the first business day after an auction. In most instances, distributions are also paid weekly, on the business day following the end of the dividend period. The Fund, subject to some limitations, may change the length of the dividend periods, designating them as special dividend periods, as described below under Designation of Special Dividend Periods.

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

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

the dividend payment date for the affected dividend period will be the next business day on which the Fund and its paying agent, if any, are able to cause the distributions to be paid using their reasonable best efforts;

the affected dividend period will end on the day it would have ended had such event not occurred and the dividend payment date had remained the scheduled date; and

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the next dividend period will begin and end on the dates on which it would have begun and ended had such event not occurred and the dividend payment date remained the scheduled date.

Determination of Dividend Rates. The Fund computes the distributions per share for a series of Auction Rate Preferred Stock by multiplying the applicable rate determined at the auction by a fraction, the numerator of which normally is the number of days in such dividend period and the denominator of which is 360. This applicable rate is then multiplied by the liquidation preference per share of such series to arrive at the distribution per share.

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

The LIBOR Rate, as described in greater detail in the Articles Supplementary, is the applicable London Inter-Bank Offered Rate for deposits in U.S. dollars for the period most closely approximating the applicable dividend period for the preferred stock.

The Treasury Index Rate, as described in greater detail in the Articles Supplementary, is the average yield to maturity for certain U.S. Treasury securities having substantially the same length to maturity as the applicable dividend period for the preferred stock.

Credit Ratings		Applicable Percentage	Applicable Spread
Moody's	S&P		
Aaa	AAA	150%	1.50%
Aa3 to Aa1	AA to AA+	250%	2.50%
A3 to A1	A to A+	350%	3.50%
Baa1 or lower	BBB+ or lower	550%	5.50%

If the Fund maintains an AAA and/or Aaa rating on the preferred stock, the practical effect of the different methods used to determine the maximum rate is shown in the table below:

Reference Rate	Maximum Applicable Rate Using the Applicable Percentage	Maximum Applicable Rate Using the Applicable Spread	Method Used to Determine the Maximum Applicable Rate
1%	1.50%	2.50%	Spread
2%	3.00%	3.50%	Spread
3%	4.50%	4.50%	Either
4%	6.00%	5.50%	Percentage

5% 7.50% 6.50% Percentage

6% 9.00% 7.50% Percentage

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

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

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

Any designation of a special dividend period for a series of Auction Rate Preferred Stock will be effective only if (i) notice thereof has been given as provided for in the Governing Documents, (ii) any failure to pay in a timely manner to the auction agent the full amount of any distribution on, or the redemption price of, any preferred stock has been cured as provided for in the Governing Documents, (iii) the auction immediately preceding the special dividend period was not a failed auction, (iv) if the Fund has mailed a notice of redemption with respect to any preferred stock, the Fund has deposited with the paying agent all funds necessary for such redemption and (v) the Fund has confirmed that as of the auction date next preceding the first day of such special dividend period, it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount, and the Fund has provided notice of such designation and a Basic Maintenance Report to each rating agency then rating the preferred stock at the request of the Fund.

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

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

Restrictions on Dividends and Other Distributions for the Preferred Stock

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

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

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

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

No full distribution will be declared or made on any series of preferred stock for any dividend period, or part thereof, unless full cumulative distributions due through the most recent dividend payment dates therefor for all outstanding series of

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preferred stock of the Fund ranking on a parity with such series as to distributions have been or contemporaneously are declared and made. If full cumulative distributions due have not been made on all outstanding preferred stock of the Fund ranking on a parity with such series of preferred stock as to the payment of distributions, any distributions being paid on the preferred stock will be paid as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date. The Fund's obligation to make distributions on the preferred stock will be subordinate to its obligations to pay interest and principal, when due, on any senior securities representing debt.

Redemption

Mandatory Redemption Relating to Asset Coverage Requirements. The Fund may, at its option, consistent with its Governing Documents and the 1940 Act, and in certain circumstances will be required to, mandatorily redeem preferred stock in the event that:

the Fund fails to maintain the asset coverage requirements specified under the 1940 Act on a quarterly valuation date and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Stock, or 10 business days, in the case of the Auction Rate Preferred Stock, following such failure; or

the Fund fails to maintain the asset coverage requirements as calculated in accordance with the applicable rating agency guidelines as of any monthly valuation date, and such failure is not cured on or before 10 business days after such valuation date.

The redemption price for preferred stock subject to mandatory redemption will be the liquidation preference, as stated in the Articles Supplementary of each existing series of preferred stock or the Prospectus Supplement accompanying the issuance of any additional series of preferred stock, plus an amount equal to any accumulated but unpaid distributions (whether or not earned or declared) to the date fixed for redemption, plus (in the case of preferred stock having a dividend period of more than one year) any applicable redemption premium determined by the Board and included in the Articles Supplementary.

The number of shares of preferred stock that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding shares of preferred stock, the redemption of which, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, would have resulted in the relevant asset coverage requirement having been met or, if the required asset coverage cannot be so restored, all of the shares of preferred stock. In the event that shares of preferred stock are redeemed due to a failure to satisfy the 1940 Act asset coverage requirements, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's assets exceed the asset coverage requirements under the 1940 Act after the redemption by 10% (that is, 220% asset coverage). In the event that shares of preferred stock are redeemed due to a failure to satisfy applicable rating agency guidelines, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's discounted portfolio value (as determined in accordance with the applicable rating agency guidelines) after redemption exceeds the asset coverage requirements of each applicable rating agency by up to 10% (that is, 110% rating agency asset coverage).

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

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

mailed to such holder will specify the number of shares to be redeemed from such holder, which may be expressed as a percentage of shares held on the applicable record date.

Optional Redemption of Fixed Rate Preferred Stock. Shares of Fixed Rate Preferred Stock are not subject to optional redemption by the Fund until the date, if any, specified in the applicable Prospectus or Prospectus Supplement, unless such redemption is necessary, in the judgment of the Fund, to maintain the Fund's status as a regulated investment company under

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the Code. Commencing on such date and thereafter, the Fund may at any time redeem such Fixed Rate Preferred Stock in whole or in part for cash at a redemption price per share equal to the liquidation preference per share plus accumulated and unpaid distributions (whether or not earned or declared) to the redemption date. Such redemptions are subject to the notice requirements set forth under Redemption Procedures and the limitations of the Charter, the 1940 Act and Maryland law.

Optional Redemption of Auction Rate Preferred Stock. The Fund generally may redeem Auction Rate Preferred Stock, in whole or