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First Trust Intermediate Duration Preferred & Income Fund
Form N-2/A
April 05, 2013

As filed with the Securities and Exchange Commission on April 5, 2013

1933 Act File No. 333-186412
1940 Act File No. 811-22795

U.S. 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. 1
 Post-Effective Amendment No. _

and

- REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
 Amendment No. 1

First Trust Intermediate Duration Preferred & Income Fund
Exact Name of Registrant as Specified in Declaration of Trust

120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187
Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(630) 765-8000
Registrant's Telephone Number, including Area Code

W. Scott Jardine, Esq.
First Trust Portfolios L.P.
120 East Liberty Drive, Suite 400
Wheaton, Illinois 60187

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copies of Communications to:

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Chapman and Cutler LLP
111 West Monroe Street
Chicago, Illinois 60603

David E. Wohl
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933,

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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)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amou
Common Shares, \$0.01 par value	1,000	\$25.00	\$25,000	

(1) Estimated solely for the purpose of determining the registration fee.

(2) \$3.41 of which has been previously paid.

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 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 dates as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED APRIL 5, 2013

THE INFORMATION IN THIS 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 PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

SHARES

FIRST TRUST INTERMEDIATE DURATION PREFERRED & INCOME FUND

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COMMON SHARES
\$25.00 PER SHARE

First Trust Intermediate Duration Preferred & Income Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company.

Investment Objectives. The Fund's primary investment objective is to seek a high level of current income. The Fund has a secondary objective of capital appreciation. There can be no assurance that the Fund's investment objectives will be achieved.

Investment Strategy. The Fund will seek to achieve its investment objectives by investing in preferred and other income-producing securities. The Fund seeks to maintain, under normal market conditions, a duration (as described on page), excluding the effects of leverage, of between three and eight years. See "Prospectus Summary--Investment Objectives and Strategy--Duration" and "The Fund's Investments" for a description of the Fund's management of target duration.

Portfolio Holdings. Under normal market conditions, the Fund will invest at least 80% of its Managed Assets (as defined on page) in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred securities, hybrid preferred securities that have investment and economic characteristics of both preferred securities and debt securities, floating rate and fixed-to-floating rate preferred securities, debt securities, convertible securities and contingent convertible securities. The Fund also will invest at least 25% of its Managed Assets in the group of industries that are part of the financials sector as classified under the Global Industry Classification Standards developed by MSCI, Inc. and Standard & Poor's, which is currently comprised of banks, diversified financials, real estate (including real estate investment trusts) and insurance industries. Under normal market conditions, the Fund will seek to invest in a portfolio of securities that has an average weighted investment grade credit quality. Below investment grade securities are commonly referred to as "junk" or "high yield" securities and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. See "The Fund's Investments--Investment Objectives and Policies" and "Risks--Credit and Below Investment Grade Securities Risk."

No Prior History. BECAUSE THE FUND IS NEWLY ORGANIZED, ITS SHARES HAVE NO HISTORY OF PUBLIC TRADING. SHARES OF CLOSED-END INVESTMENT COMPANIES FREQUENTLY TRADE AT A DISCOUNT FROM THEIR NET ASSET VALUE. THIS RISK MAY BE GREATER FOR INVESTORS EXPECTING TO SELL THEIR SHARES IN A RELATIVELY SHORT PERIOD OF TIME AFTER COMPLETION OF THE PUBLIC OFFERING.

The Fund intends to apply to list its common shares of beneficial interest ("Common Shares") on the New York Stock Exchange. The trading or ticker symbol of the Common Shares is expected to be "FPF."

(continued on the following page)

INVESTING IN THE FUND'S COMMON SHARES INVOLVES CERTAIN RISKS THAT ARE DESCRIBED IN THE "RISKS" SECTION BEGINNING ON PAGE OF THIS PROSPECTUS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	PER SHARE	TOTAL (1)
Public offering price.....	\$25.00	\$
Sales load (2).....	\$1.125	\$
Estimated offering costs (3).....	\$0.050	\$
Proceeds, after expenses, to the Fund.....	\$23.825	\$

(notes on following page)

The underwriters expect to deliver the Common Shares to purchasers on or about _____, 2013.

The date of this prospectus is _____, 2013.

Investment Advisor and Sub-Advisor. First Trust Advisors L.P. (the "Advisor") will be the Fund's investment advisor and Stonebridge Advisors LLC (the "Sub-Advisor") will be the Fund's sub-advisor. See "Management of the Fund" in this prospectus and "Investment Advisor" and "Sub-Advisor" in the Fund's Statement of Additional Information (the "SAI").

Distributions. The Fund intends to pay monthly distributions to shareholders out of legally available funds. Distributions, if any, will be determined by the Fund's Board of Trustees. The Fund expects to declare its initial distribution approximately 30 to 60 days following the completion of this offering and pay such initial distribution approximately 60 to 90 days after the completion of this offering, depending on market conditions. There is no assurance the Fund will make this distribution or continue to pay regular distributions or that it will do so at a particular rate. See "Distributions" and "Federal Tax Matters."

Use of Leverage. The Fund currently intends to use leverage to seek to enhance its potential for current income. The Fund may utilize leverage through the issuance of preferred shares of beneficial interest ("Preferred Shares") in an amount up to 50% of its total assets and/or through borrowings and/or the issuance of notes (collectively, "Borrowings") in an amount up to 33-1/3% of its total assets. This is known as structural leverage. The Fund is also permitted to employ portfolio leverage through the use of other portfolio techniques that have the economic effect of leverage. "Effective leverage" is the combination of the amount of structural leverage plus the amount of portfolio leverage. The Fund anticipates that its effective leverage will vary from time to time, based upon changes in market conditions and variations in the value of the portfolio's holdings; however, the Fund's effective leverage will not exceed 40% of the Fund's Managed Assets. The Fund initially anticipates that, under normal market conditions, it will employ structural leverage through Borrowings from banks and other financial institutions. The Fund anticipates that it may, in the future, employ portfolio leverage through the use of reverse repurchase agreements, which will not be considered Borrowings for purposes of the Investment Company Act of 1940 so long as the Fund has covered its commitments with respect to such reverse repurchase agreements by segregating liquid assets, entering into offsetting transactions or owning positions covering its obligations. The Fund intends to cover its exposure under any reverse repurchase agreements and,

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accordingly, such use of reverse repurchase agreements will be considered portfolio leverage. Under current conditions, it is unlikely that the Fund will issue Preferred Shares. Based upon current market conditions, it is expected that the Fund's initial effective leverage, through the use of Borrowings, will be approximately 30% of Managed Assets. The cost associated with any issuance and use of leverage will be borne by the holders of the Common Shares (the "Common Shareholders"). Through the use of leverage, the Fund will seek to obtain a higher return for the Common Shareholders than if the Fund did not use leverage. The use of leverage is a speculative technique and investors should note that there are special risks and costs associated with the leveraging of the Common Shares. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. See "Use of Leverage," "Risks--Leverage Risk" and "Description of Shares."

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the Common Shares, and retain it for future reference. This prospectus sets forth concisely the information about the Fund that a prospective investor ought to know before investing. The SAI, dated , 2013, as it may be supplemented, containing additional information about the Fund, has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the SAI, the table of contents of which is on page of this prospectus, annual and semi-annual reports to shareholders when available, and other information about the Fund and make shareholder inquiries by calling (800) 988-5891; by writing to the Fund at 120 East Liberty Drive, Wheaton, Illinois 60187; or from the Fund's or Advisor's website (<http://www.ftportfolios.com>). Please note that the information contained in the Fund's or Advisor's website, whether currently posted or posted in the future, is not part of this prospectus or the documents incorporated by reference in this prospectus. You may also obtain a copy of the SAI (and other information regarding the Fund) from the SEC's website (<http://www.sec.gov>).

THE FUND'S COMMON 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.

(notes from previous page)

- (1) The Fund has granted the underwriters an option to purchase up to additional Common Shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering costs and proceeds, after expenses, to the Fund will be \$, \$, \$ and \$, respectively. See "Underwriters."
- (2) The Advisor and the Sub-Advisor (and not the Fund) have agreed to pay, from their own assets, upfront structuring and syndication fees to , and upfront structuring fees to , and may pay certain other qualifying underwriters a structuring fee, sales incentive fee or additional compensation in connection with the offering. See "Underwriters."
- (3) Total expenses of the offering of the Common Shares of the Fund paid by the Fund (other than the sales load, but including the partial reimbursement of certain underwriter expenses incurred in connection with this offering) are estimated to be \$, which represents 0.20% (or \$0.050 per Common Share) of the Fund's aggregate offering price. The Advisor and Sub-Advisor have agreed to pay: (i) all organizational expenses; and (ii) all offering costs of the Fund (other than the sales load, but including the partial reimbursement of certain underwriter expenses described above) that exceed 0.20% (or \$0.050 per Common Share)

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of the Fund's aggregate offering price.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. NEITHER THE FUND NOR THE UNDERWRITERS HAVE AUTHORIZED ANY PERSON TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. NEITHER THE FUND NOR THE UNDERWRITERS ARE MAKING AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

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CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This prospectus and the SAI, including documents incorporated by reference, contain "forward looking statements." Forward looking statements can be identified by the words "may," "will," "intend," "expect," "believe," "estimate," "continue," "plan," "anticipate," and similar terms and the negative of such terms. By their nature, all forward looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of securities held by the Fund, the conditions in the U.S. and international financial and other markets, the price at which the Common Shares will trade in the public markets and other factors which may be discussed in the Fund's periodic filings with the SEC.

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Although we believe that the expectations expressed in these forward looking statements are reasonable, actual results could differ materially from those projected or assumed in these forward looking statements. The Fund's future financial condition and results of operations, as well as any forward looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the "Risks" section of this prospectus. All forward looking statements contained or incorporated by reference in this prospectus are made as of the date of this prospectus. We do not intend, and we undertake no obligation, to update any forward looking statement. The forward looking statements contained in this prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended.

Currently known risk factors that could cause actual results to differ materially from the Fund's expectations include, but are not limited to, the factors described in the "Risks" section of this prospectus. The Fund urges you to review carefully that section for a more detailed discussion of the risks of an investment in the Fund's securities.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in the Fund's Common Shares (as defined below). You should carefully read the entire prospectus and the Statement of Additional Information (the "SAI"), particularly the section entitled "Risks."

THE FUND First Trust Intermediate Duration Preferred & Income Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company. See "The Fund."

THE OFFERING The Fund is offering common shares of beneficial interest ("Common Shares") at \$25.00 per share through a group of underwriters (the "Underwriters") led by . You must purchase at least 100 Common Shares in this offering. The Fund has given the Underwriters an option to purchase up to additional Common Shares within 45 days from the date of this prospectus solely to cover over-allotments, if any. The Advisor and the Sub-Advisor (each as defined below) have to agreed to pay: (i) all organizational expenses; and (ii) all offering costs of the Fund (other than sales load, but including a partial reimbursement of certain underwriter expenses incurred in connection with this offering) that exceed .20% (or \$.050 per Common Share) of the Fund's aggregate offering price.

INVESTMENT ADVISOR

AND SUB-ADVISOR First Trust Advisors L.P., a registered investment advisor (the "Advisor"), will be the Fund's investment advisor and will be responsible for supervising the Fund's Sub-Advisor, managing the Fund's business affairs and providing certain clerical, bookkeeping and other administrative services. The Advisor, in consultation with the Sub-Advisor, will also be responsible for determining the Fund's overall investment strategy and overseeing its

implementation. The Advisor is an Illinois limited partnership formed in 1991. It serves as investment advisor or portfolio supervisor to investment portfolios with approximately \$ billion in assets, which it managed or supervised as of March 31, 2012. See "Management of the Fund--Investment Advisor" in this prospectus and "Investment Advisor" in the SAI.

Stonebridge Advisors LLC, a registered investment advisor and an affiliate of the Advisor (the "Sub-Advisor"), will be the Fund's sub-advisor and will be primarily responsible for the day-to-day supervision and investment strategy of, and making investment decisions for, the Fund. The Sub-Advisor was formed in 2004 and serves as investment advisor or portfolio supervisor to investment portfolios with approximately \$ billion in assets which it managed or supervised as of March 31, 2013. See "Management of the Fund--Sub-Advisor" in this prospectus and "Sub-Advisor" in the SAI.

INVESTMENT
OBJECTIVES

AND STRATEGY..... The Fund's primary investment objective is to seek a high level of current income. The Fund has a secondary objective of capital appreciation. The Fund will seek to achieve its investment objectives by investing in preferred and other income-producing securities. There can be no assurance that the Fund's investment objectives will be achieved.

Under normal market conditions, the Fund will invest at least 80% of its Managed Assets (as defined below) in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred securities, hybrid preferred securities that have investment and economic characteristics of both preferred securities and debt securities, floating rate and fixed-to-floating rate preferred securities, debt securities, convertible securities and contingent convertible securities. See "--Portfolio Holdings" below. "Managed Assets" means the average daily gross asset value of the Fund (which includes assets attributable to the Fund's leverage), minus the sum of the Fund's accrued and unpaid dividends on any outstanding preferred shares of beneficial interest ("Preferred Shares") and accrued liabilities (other than

debt representing leverage). For purposes of determining Managed Assets, the liquidation preference of the Preferred Shares is not treated as a liability.

Duration. The Fund seeks to maintain, under normal market conditions, a weighted average effective duration ("duration") of between three and eight years. However, under certain market conditions, the Fund's duration may be longer than eight years or shorter than three years. In this prospectus, duration is the average duration of the

portfolio of securities based on the duration of the individual securities and their weight within the portfolio, calculated without giving effect to the Fund's leverage.

Duration is a mathematical calculation of the sensitivity of the price of a security to changes in interest rates (or yields). Maturity is the date on which a security matures and the issuer is obligated to repay principal. Duration is not necessarily equal to average maturity and differs from maturity in that it considers potential changes to interest rates, and a security's coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Generally, the longer the duration of a security or group of securities, the more sensitive the security or group of securities is to such changes; the shorter the duration, the less sensitive the security or group of securities is to such changes. In general, each year of duration represents an expected 1% change in the value for every 1% immediate change in interest rates (or yields). For example, if a portfolio of debt securities has an average duration of three years, its value can be expected to fall about 3% if interest rates (or yields) rise by 1%. Conversely, the portfolio's value can be expected to rise about 3% if interest rates (or yields) fall by 1%. As the value of a security changes over time, so will its duration.

In seeking to maintain its target duration, the Fund will invest in floating rate and fixed-to-floating rate preferred securities, which tend to be less price-sensitive to rising interest rates (or yields) than fixed rate securities with similar terms to maturity. Because the interest rate on such securities is adjusted on a periodic basis by reference to some then-current market interest rate measure, the ownership of such securities by the Fund will reduce duration. The extent of the Fund's investments in floating rate and fixed-to-floating rate preferred securities will vary depending on the duration of the Fund's other investments. Various other techniques may be used to maintain the Fund's target duration. For example, the Fund may also seek to maintain its target duration by investing in securities with short term maturities or securities with long term maturities, but shorter term call provisions that have the effect of reducing duration. See "--Portfolio Holdings--Preferred Securities" and "--Portfolio Holdings--Debt Securities" below for a description of floating rate and fixed-to-floating rate securities.

Other Investments. The Fund also will invest at least 25% of its Managed Assets in the group of industries that are part of the financials sector as classified under the Global Industry Classification Standards developed by MSCI, Inc. and Standard & Poor's (the "financials sector"), which is currently comprised of banks, diversified financials, real estate (including real estate investment trusts ("REITs")) and insurance industries. The Fund also may invest in other sectors or industries, such as energy, industrials, utilities, pipelines, health care

and telecommunications.

Under normal market conditions, the Fund will seek to invest in a portfolio of securities that has an average weighted investment grade credit quality. Investment grade quality securities are those that, at the time of purchase, are rated at least "BBB-" or higher by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies ("S&P"), or Fitch Ratings, Inc. ("Fitch"), or "Baa3" or higher by Moody's Investors Service, Inc. ("Moody's"), or comparably rated by another nationally recognized statistical rating organization ("NRSRO") or, if unrated, determined by the Sub-Advisor to be of comparable credit quality. In the event that a security is rated by multiple NRSROs and receives different ratings, the Fund will treat the security as being rated in the highest rating category received from an NRSRO. Below investment grade securities are commonly referred to as

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"junk" or "high yield" securities and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. See "Risks--Credit and Below Investment Grade Securities Risk."

The Fund may invest up to 20% of its Managed Assets in common stocks, which represent residual ownership interest in issuers and include rights or warrants to purchase common stocks. The Fund may invest in common stocks of companies of any market capitalization. See "--Portfolio Holdings--Common Stocks."

The Fund may invest up to 20% of its Managed Assets in debt securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities or by a non-U.S. Government or its agencies or instrumentalities. Obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities include bills, notes and bonds issued by the U.S. Treasury, as well as "stripped" or "zero coupon" U.S. Treasury obligations representing future interest or principal payments on U.S. Treasury notes or bonds. See "--Portfolio Holdings--Government Debt Securities."

The Fund may invest up to 20% of its Managed Assets in municipal securities, which includes debt obligations of states, territories or possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities. See "--Portfolio Holdings--Municipal Securities."

The Fund may invest up to 25% of its Managed Assets in securities that, at the time of investment, are illiquid (determined using the Securities and Exchange Commission's (the "SEC") standard applicable to registered investment companies, i.e., securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the

securities). The Fund also may invest, without limit, in securities that are unregistered (but are eligible for purchase and sale by certain qualified institutional buyers) or are held by control persons of the issuer and securities that are subject to contractual restrictions on their resale ("restricted securities"). However, restricted securities determined by the Sub-Advisor to be illiquid are subject to the limitation set forth above.

The Fund may enter into certain derivative transactions ("Strategic Transactions") to seek to manage the risks of the Fund's portfolio securities or for other purposes to the extent the Sub-Advisor determines that the use of Strategic Transactions is consistent with the Fund's investment objectives and policies and applicable regulatory requirements. The market value of the Fund's Strategic Transactions, if any, will be counted towards the Fund's policy to invest, under normal market conditions, at least 80% of its Managed Assets in preferred and other income-producing securities, as discussed above, to the extent the Strategic Transactions have economic characteristics similar to such preferred and other income-producing securities. Certain of the Fund's Strategic Transactions, if any, may provide investment leverage to the Fund's portfolio. The Fund does not intend to enter into Strategic Transactions as a principal part of its investment strategy. See "Risks--Leverage Risk" below and "Other Investment Policies and Techniques--Strategic Transactions" in the SAI for more information about these techniques.

Percentage limitations described in this prospectus are as of the time of investment by the Fund and may be exceeded on a going-forward basis as a result of credit rating downgrades or market value fluctuations of the Fund's portfolio securities.

The Fund's investment objectives and certain of the investment restrictions listed in the SAI are considered fundamental and may not be changed without approval by holders of a majority of the outstanding voting securities of the Fund, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"), which includes Common Shares and Preferred Shares, if any, voting together as a single class, and the holders of the outstanding Preferred Shares, if any, voting as a single class. The remainder of the Fund's investment policies, including its investment strategy, are considered non-fundamental and may be changed by the Fund's Board of Trustees (the "Board of Trustees") without shareholder approval; provided, that shareholders receive at least 60 days' prior notice of any such change adopted by the Board of Trustees.

INVESTMENT
PHILOSOPHY

AND PROCESS..... In selecting securities for the Fund, the Sub-Advisor's investment strategy is driven by comprehensive analysis of

fixed income preferred, hybrid and other income-producing securities with a goal of investing in securities representing the best relative value in the market. The Sub-Advisor's style of active management combines a bottom-up and top-down approach to security selection that encompasses three significant areas of analysis: credit fundamentals, relative value, and technical aspects of the securities. The bottom-up analysis focuses on individual security analysis, idiosyncratic risks, credit fundamentals and opportunistic trading. The top-down analysis focuses on sector and industry analysis, duration and interest rate analysis, capital structure positioning and systemic risks. Through limits on issuer and industry weightings, the Sub-Advisor seeks to reduce the impact of the Fund's investments in the preferred, hybrid and other income-producing securities asset classes on the Fund's portfolio. In addition to fundamental analysis, the Sub-Advisor draws upon its experience and understanding of the preferred, hybrid and other income-producing securities asset classes to take advantage of market inefficiencies through active management.

To implement the investment strategy, the Sub-Advisor utilizes a repeatable and consistent investment process that centers on security selection. This process allows the Sub-Advisor to invest in securities in the preferred, hybrid and other income-producing securities asset classes based on attributes such as credit quality, yield and capital structure positioning (i.e., the security's level of priority to corporate income, claims to corporate assets and liquidation payments compared to certain other obligations of the issuer) while also focusing on equally important market technicals such as trading volumes, liquidity and pricing inefficiencies. New investments in securities of issuers that have not already been approved by the Sub-Advisor's investment committee are presented to the committee before inclusion into the portfolio. Investment risk factors and compliance considerations are included in the selection process. Once an investment decision has been approved by the investment committee, the portfolio managers will look to act upon that investment decision.

PORTFOLIO

HOLDINGS Preferred Securities. Traditional preferred securities are considered equity securities. Preferred securities held by the Fund generally will pay fixed or floating rate distributions to investors and have preference over common stock in the payment of distributions and the liquidation of a company's assets, which means that a company typically must pay dividends or interest on its preferred securities before paying any dividends on its common stock. Preferred securities are generally junior to all forms of the company's debt, including both senior and subordinated debt.

Hybrid preferred securities have the characteristics of both preferred securities and debt securities. Hybrid preferred securities may be issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated trust or partnership of the corporation, generally in the

form of preferred interests in subordinated debentures or similarly structured securities. Hybrid preferred securities include trust preferred securities, as described below.

Floating-rate and fixed-to-floating rate preferred securities may be traditional preferred or hybrid preferred securities. Floating-rate preferred securities pay a rate of income that resets periodically based on short and/or longer-term interest rate benchmarks. If the associated interest rate benchmark rises, the coupon offered by the floating-rate security may rise as well, making such securities less sensitive to rising interest rates (or yields). Similarly, a fixed-to-floating rate security may be less price-sensitive to rising interest rates (or yields), because it has a rate of payment that is fixed for a certain period (typically five, ten or thirty years when first issued), after which period a floating-rate of payment applies.

Trust preferred securities combine features of corporate debt securities and preferred securities. The securities generally pay quarterly income. U.S. issues usually have long maturities, while foreign issues are normally perpetual. The creation of a trust preferred security generally begins with a company establishing a Delaware limited business trust. The trust issues preferred securities to the public and uses the proceeds to purchase

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junior subordinated debentures from that company. The terms of the debentures are essentially the same as the terms of the preferred securities. Trust preferred securities represent the "preferred" interest in trusts that hold junior subordinated deferrable debentures of the company. The parent may then use the proceeds for general corporate purposes. The issuer of trust preferred securities is generally able to defer or skip payments for up to five years without being in default. In the event that the issuer skips or defers a payment, the holder of the security is generally still subject to taxation on the missed payments. Certain newer hybrid structures are known as enhanced trust preferred securities, which are structured to allow issuers to keep their favorable tax treatment while receiving "equity credit" from ratings agencies when evaluating an issuer's capital structure. Interest payments on enhanced trust preferred securities are deferrable, but cumulative, and fully taxable for the investor. Enhanced trust preferred securities typically have longer maturities and longer interest payment deferral periods than traditional trust preferred securities.

The Fund may invest in over-the-counter ("OTC") preferred securities, in addition to exchange-traded preferred securities. Certain of the OTC preferred securities in which the Fund may invest include "institutional" preferred securities. Institutional preferred securities

are generally priced at a par value of \$1,000 and are typically traded in increments of at least \$500,000. In contrast, "retail" preferred securities are generally exchange-traded, priced at a par value of \$25, \$50 or \$100 and are typically traded in increments of \$25. The ability to participate in institutional preferred securities markets, in addition to the retail market, may provide the Sub-Advisor with a broader universe of potential investments for the Fund, consistent with its investment strategy, than investing solely in retail preferred securities. Certain OTC preferred securities may be substantially less liquid than retail securities traded on an exchange. See "Risks--Preferred and Hybrid Preferred Securities Risk."

Securities may or may not pay dividends that are eligible for the corporate dividends received deduction for corporations or for treatment as qualified dividend income for individuals. See "The Fund's Investments--Portfolio Composition--Preferred Securities."

Debt Securities. Debt securities include obligations typically issued by corporations to borrow money from investors, such as corporate bonds, debentures, notes, commercial paper and other similar types of corporate debt instruments. These securities may be either secured or unsecured. Holders of debt securities, as creditors, have a prior legal claim over common and preferred shareholders as to both income and assets of the issuer for the principal and interest due them and may have a prior claim over other creditors if liens or mortgages are involved. Interest on debt securities may be fixed or floating, or the securities may be zero coupon securities which pay no interest. Interest on debt securities is typically paid semi-annually and is fully taxable to the holder of the securities. The investment return of debt securities reflects interest on the security and changes in the market value of the security. The market value of a fixed rate debt security generally may be expected to rise and fall inversely with changes in interest rates and also may be affected by the credit rating of the issuer, the issuer's performance and perceptions of the issuer in the marketplace. Debt securities issued by corporations usually have a higher yield than government or agency bonds due to the presence of credit risk. See "The Fund's Investments--Portfolio Composition--Debt Securities."

Certain of the debt securities in which the Fund may invest include "baby bonds," which are corporate bonds issued in increments of less than \$1,000, typically \$10, \$25, \$50 or \$100. Baby bonds are usually structured similarly to retail preferred securities in that they typically have long-dated maturities and embedded call options, make quarterly coupon payments and are exchange-listed. Interest payments on baby bonds are non-deferrable and fully taxable for the investor.

Convertible Securities. Convertible securities combine the investment characteristics of bonds and common stocks. Convertible securities typically consist of debt securities or preferred securities that may be converted within a specified period of time (typically for the

entire life of the security) into a certain amount of common stock or other equity security of the same or a different issuer at a predetermined price. They also include debt securities with warrants or common stock attached and derivatives combining the features of debt securities and equity securities. Convertible securities entitle the holder to receive interest paid or accrued on debt, or dividends paid or accrued on preferred securities, until the security matures or is redeemed, converted or exchanged.

Contingent convertible securities provide for mandatory conversion into common stock of the issuer under certain circumstances. The mandatory conversion might be automatically triggered, for instance, if a company fails to meet the minimum amount of capital described in the security, the company's regulator makes a determination that the security should convert or the company receives specified levels of extraordinary public support. In addition, some contingent convertible securities have a set stock conversion rate that would cause a reduction in value of the security if the price of the stock is below the conversion price on the conversion date.

REITs. REITs are typically publicly traded corporations or trusts that invest in residential or commercial real estate. REITs generally can be divided into the following three types: (i) equity REITs which invest the majority of their assets directly in real property and derive their income primarily from rents and capital gains or real estate appreciation; (ii) mortgage REITs which invest the majority of their assets in real estate mortgage loans and derive their income primarily from interest payments; and (iii) hybrid REITs which combine the characteristics of equity REITs and mortgage REITs.

Foreign (Non-U.S.) Securities. Foreign securities include securities issued or guaranteed by companies organized under the laws of countries other than the United States, including companies domiciled in emerging markets, and securities issued or guaranteed by foreign governments, their agencies or instrumentalities and supra-national governmental entities, such as the World Bank. Foreign securities may be traded on foreign securities exchanges or in over-the-counter capital markets. Many foreign companies issue both foreign currency and U.S. dollar-denominated preferred and debt securities. Although it does not intend to do so, the Fund may invest in securities or other instruments denominated or quoted in currencies other than the U.S. dollar. Those securities that are traded in the United States have characteristics that are similar to traditional and hybrid preferred securities. The Fund may also invest in securities of foreign companies in the form of American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs"). Generally, ADRs in

registered form are dollar-denominated securities designed for use in the U.S. securities markets, which represent and may be converted into an underlying foreign security. GDRs are receipts issued outside the United States, typically by non-United States banks and trust companies that evidence ownership of either foreign or domestic securities. EDRs, in bearer form, are designed for use in the European securities markets and are similar to GDRs.

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

Government Debt Securities. Government debt securities are debt securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities or by a non-U.S. Government or its agencies or instrumentalities. Obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities include bills, notes and bonds issued by the U.S. Treasury, as well as "stripped" or "zero coupon" U.S. Treasury obligations representing future interest or principal payments on U.S. Treasury notes or bonds. Stripped securities are sold at a discount to their "face value," and may exhibit greater price volatility than interest-bearing securities because investors receive no payment until maturity. Other obligations of certain agencies and instrumentalities of the U.S. Government are supported only by the credit of the instrumentality. The U.S. Government may choose not to

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provide financial support to U.S. Government-sponsored agencies or instrumentalities if it is not legally obligated to do so, in which case, if the issuer were to default, the Fund might not be able to recover its investment from the U.S. Government.

Municipal Securities. Municipal securities include debt obligations of states, territories or possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal securities are issued to obtain funds for various public purposes. The two major classifications of municipal securities are bonds and notes. Bonds may be further classified as "general obligation" or "revenue" issues. General obligation bonds are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable from the revenues derived from a particular

facility or class of facilities, and in some cases, from the proceeds of a special excise or other specific revenue source, but not from the general taxing power of the issuer. See "The Fund's Investments--Portfolio Composition--Municipal Securities."

USE OF LEVERAGE Pursuant to the provisions of the 1940 Act, the Fund may borrow or issue notes (collectively, "Borrowings") in an amount up to 33-1/3% of its total assets or may issue Preferred Shares in an amount up to 50% of the Fund's total assets (including the proceeds from leverage). This is known as structural leverage. The Fund is also permitted to employ portfolio leverage through the use of other portfolio techniques that have the economic effect of leverage. "Effective leverage" is the combination of the amount of structural leverage plus the amount of portfolio leverage. The Fund anticipates that its effective leverage will vary from time to time, based upon changes in market conditions and variations in the value of the portfolio's holdings; however, the Fund's effective leverage will not exceed 40% of the Fund's Managed Assets. The Fund initially anticipates that, under normal market conditions, it will employ structural leverage through Borrowings from banks and other financial institutions. The Fund anticipates that it may, in the future, employ portfolio leverage through the use of reverse repurchase agreements, which will not be considered Borrowings for purposes of the 1940 Act so long as the Fund has covered its commitments with respect to such reverse repurchase agreements by segregating liquid assets, entering into offsetting transactions or owning positions covering its obligations. A reverse repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which the Fund will effectively pledge its assets as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the reverse repurchase agreement, the Fund will be required to repay the loan and correspondingly receive back its collateral. While used as collateral, the assets continue to pay principal and interest which are for the benefit of the Fund. The Fund intends to cover its exposure under any reverse repurchase agreements and, accordingly, such use of reverse repurchase agreements will be considered portfolio leverage.

Under current conditions, it is unlikely that the Fund will issue Preferred Shares. Based upon current market conditions, it is expected that the Fund's initial effective leverage, through the use of Borrowings, will be approximately 30% of Managed Assets. The Fund will not be required to reduce leverage to the extent the above percentage limitation is exceeded as a result of a decline in the value of the Fund's assets.

The Fund may use leverage for hedging or investment purposes, to finance the repurchase of its Common Shares and to meet cash requirements. Each form of leverage used by the Fund is referred to herein as a "Leverage Instrument." Subject to market conditions, within approximately three months after completion of this

offering, the Fund intends to establish a structural leverage program. It is expected that the Fund's Borrowings will be made pursuant to a revolving credit facility established with a bank or other financial institution. Certain types of Borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. Borrowings may be at a fixed or floating rate and generally will be based upon short-term rates. So long as the rate of return, net of applicable Fund expenses, on the Fund's portfolio investments purchased with leverage exceeds the then-current interest rate or

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dividend rate and other costs on the Preferred Shares and/or Borrowings, the Fund will generate more return or income than will be needed to pay such dividends or interest payments and other costs. In this event, the excess will be available to pay higher dividends to holders of Common Shares (the "Common Shareholders"). Preferred Shares, if issued, may pay dividends based on short-term rates, which may be reset frequently. However, under current conditions, it is unlikely that the Fund will issue Preferred Shares.

The use of leverage will leverage your investment in the Common Shares. Leverage Instruments will have seniority over the Common Shares. When leverage is employed, the net asset value ("NAV") and market prices of the Common Shares and the yield to Common Shareholders will be more volatile. Leverage creates a greater risk of loss, as well as potential for more gain, for the Common Shares than if leverage is not used. There is no assurance that a leverage strategy will be utilized by the Fund or that, if utilized, will be successful. See "Risks--Leverage Risk."

If the Fund uses Leverage Instruments, associated costs, if any, will be borne immediately by the Common Shareholders and result in a reduction of the NAV of the Common Shares. Costs associated with any Borrowings may include legal fees, audit fees, structuring fees, commitment fees, and a usage (borrowing) fee.

DISTRIBUTIONS The Fund's present distribution policy, which may be changed at any time by the Board of Trustees, is to distribute monthly all or a portion of its net investment income to Common Shareholders (after the payment of interest and/or dividends in connection with leverage). In addition, the Fund intends to distribute any net long-term capital gains, if any, to Common Shareholders as long-term capital gain dividends at least annually. In general, the total distributions made in any taxable year (other than distributions of net capital gains) would be treated as ordinary dividend income to the extent of the Fund's current and accumulated earnings and profits. The Fund's initial distribution is expected to be declared approximately 30 to 60 days after the completion of this offering and paid approximately 60 to 90 days after the

completion of this offering, depending on market conditions. Unless an election is made to receive dividends in cash, Common Shareholders will automatically have all dividends and distributions reinvested in Common Shares through the Fund's dividend reinvestment plan. See "Dividend Reinvestment Plan."

Subject to certain terms and conditions, the Fund is entitled to rely on an exemption granted to the Advisor by the SEC from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder (the "Exemptive Relief"). The Exemptive Relief generally permits the Fund, subject to such terms and conditions, to make distributions of long-term capital gains with respect to its Common Shares more frequently than would otherwise be permitted under the 1940 Act (generally once per taxable year). To rely on the Exemptive Relief, the Fund must comply with the terms and conditions therein, which, among other things, would require the Board of Trustees to approve the Fund's adoption of a distribution policy with respect to its Common Shares which calls for periodic distributions of an amount equal to a fixed percentage of the market price of the Common Shares at a particular point in time, or a fixed percentage of net asset value per Common Share at a particular point in time, or a fixed amount per Common Share, any of which could be adjusted from time to time. Under such a distribution policy, it is possible that the Fund might distribute more than its income and net realized capital gains; therefore, distributions to shareholders may result in a return of capital. The Fund has no current intention to adopt such a distribution policy or implement the Exemptive Relief. The Exemptive Relief also permits the Fund to make distributions of long-term capital gains with respect to any Preferred Shares that may be issued by the Fund in accordance with such shares' terms. See "Distributions."

If the Fund realizes a long-term capital gain, it will be required to allocate such gain between the Common Shares and the Preferred Shares, if any, issued by the Fund in proportion to the total dividends paid to each class of shares for the year in which the income is realized. See "Distributions" and "Use of Leverage."

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CUSTODIAN,
ADMINISTRATOR,
FUND ACCOUNTANT AND
TRANSFER AGENT

The Fund has retained Computershare Trust Company, N.A. as transfer agent and Brown Brothers Harriman & Co. as administrator, fund accountant and custodian for the Fund. The Advisor and the Board of Trustees will be responsible for overseeing the activities of the custodian, administrator, fund accountant and transfer agent. See "Custodian, Administrator, Fund Accountant and Transfer Agent."

LISTING The Fund intends to apply to list the Common Shares on the

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New York Stock Exchange ("NYSE"). The trading or ticker symbol of the Common Shares is expected to be "FPF."

CLOSED-END

STRUCTURE Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities redeemable at NAV at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds can generally stay more fully invested in securities consistent with the closed-end fund's investment objective(s) and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in their ability to make certain types of investments, including investments in illiquid securities.

Shares of closed-end funds listed for trading on a securities exchange frequently trade at a discount from NAV, but in some cases trade at a premium. The market price of such shares may be affected by factors such as NAV, dividend or distribution levels and their stability (which will in turn be affected by levels of dividend and interest payments by the fund's portfolio holdings, the timing and success of the fund's investment strategies, regulations affecting the timing and character of fund distributions, fund expenses and other factors), supply of and demand for the shares, trading volume of the shares, general market, interest rate and economic conditions and other factors beyond the control of the closed-end fund. The foregoing factors, among others, may result in the market price of the Common Shares being greater than, less than or equal to NAV.

The Board of Trustees has reviewed the structure of the Fund in light of its investment objectives and policies and believes that the closed-end fund structure is appropriate. As described in this prospectus, however, the Board of Trustees may review periodically the trading range and activity of the Common Shares with respect to the Fund's NAV and may, but is not required to, take certain actions to seek to reduce or eliminate any such discount to NAV. Such actions may include open market repurchases or tender offers for the Common Shares or the possible conversion of the Fund to an open-end fund. There can be no assurance that the Board of Trustees will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to their NAV. Investors should assume, therefore, that it is highly unlikely that the Board of Trustees would vote to propose to shareholders that the Fund convert to an open-end management investment company. See "Structure of the Fund; Common Share Repurchases and Conversion to Open-End Fund."

FEDERAL TAX

MATTERS Distributions with respect to the Common Shares will constitute dividends to the extent of the Fund's current

and accumulated earnings and profits, as calculated for U.S. federal income tax purposes. Such dividends generally will be taxable as ordinary income to Common Shareholders. Distributions of net capital gain that are designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of Common Shareholders receiving such distributions. Distributions in excess of the Fund's current and accumulated earnings and profits would first be a tax-deferred return of capital to the extent of a Common Shareholder's adjusted tax basis in its Common Shares. A "return of capital" represents a return on a shareholder's original investment in the Fund's Common Shares, and not a distribution from the Fund's earnings and profits. Although a return of capital may not be immediately taxable, upon the sale of Common Shares, Common Shareholders generally will recognize capital gain or loss measured by the difference between the sale proceeds received by the Common

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Shareholder and the shareholder's federal income tax basis in Common Shares sold, as adjusted to reflect return of capital, even if such shares are sold at a loss from the original investment. In addition, a significant portion of the distributions generally will not constitute "qualified dividend income" for federal income tax purposes and thus will not be eligible for the lower tax rates on qualified dividend income. See "Federal Tax Matters."

SPECIAL RISK

CONSIDERATIONS Risk is inherent in all investing. The following discussion summarizes the principal risks that you should consider before deciding whether to invest in the Fund. For additional information about the risks associated with investing in the Fund, see "Risks."

No Operating History. The Fund is a newly organized, non-diversified, closed-end management investment company with no operating history. It is designed for long-term investing and not as a vehicle for trading.

Investment and Market Risk. An investment in Common Shares is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which the Fund invests will affect the value of the Common Shares. Your Common Shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Market Discount from Net Asset Value Risk. Shares of closed-end investment companies frequently trade at a discount from their NAV. This characteristic is a risk separate and distinct from the risk that the Fund's NAV

could decrease as a result of its investment activities and may be greater for investors expecting to sell their Common Shares in a relatively short period following completion of this offering. The NAV of the Common Share will be reduced immediately following this offering as a result of the payment of certain offering costs. Although the value of the Fund's net assets will generally be considered by market participants in determining whether to purchase or sell shares, whether investors will realize gains or losses upon the sale of the Common Shares will depend entirely upon whether the market price of the Common Shares at the time of sale is above or below the investor's purchase price for the Common Shares. Because the market price of the Common Shares will be affected by factors such as NAV, dividend or distribution levels and their stability (which will in turn be affected by levels of dividend and interest payments by the Fund's portfolio holdings, the timing and success of the Fund's investment strategies, regulations affecting the timing and character of Fund distributions, Fund expenses and other factors), supply of and demand for the Common Shares, trading volume of the Common Shares, general market, interest rate and economic conditions and other factors beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at, below or above NAV or at, below or above the initial public offering price.

Management Risk and Reliance on Key Personnel. The Fund is subject to management risk because it is an actively managed portfolio. The Advisor and the Sub-Advisor 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. In addition, the implementation of the Fund's investment strategy depends upon the continued contributions of certain key employees of the Advisor and the Sub-Advisor, some of whom have unique talents and experience and would be difficult to replace. The loss or interruption of the services of a key member of the portfolio management team could have a negative impact on the Fund during the transitional period that would be required for a successor to assume the responsibilities of the position.

Preferred and Hybrid Preferred Securities Risk. Preferred securities are unique securities that combine some of the characteristics of both common stocks and bonds. In addition to the risks described elsewhere in this section such as credit risk, preferred securities, including hybrid preferred securities, are subject to certain other risks, including:

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- o Interest Rate Risk. Interest rate risk is the risk that preferred securities will decline in value because of rising market interest rates. When market interest rates rise, the market value of fixed rate preferred securities generally will fall. Currently, interest rates are at or near historical lows and, as

a result, they are likely to rise over time.

- o Duration Risk. Duration measures the time-weighted expected cash flows of a security, which can determine the security's sensitivity to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. Duration differs from maturity in that it considers potential changes to interest rates, and a security's coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund's duration. The duration of a security will be expected to change over time with changes in market factors and time to maturity.
- o Deferral and Omission Risk. Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer.
- o Subordination Risk. Preferred securities are generally subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income, claims to corporate assets and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.
- o Floating Rate and Fixed-to-Floating Rate Securities Risk. The market value of floating rate securities is a reflection of discounted expected cash flows based on expectations for future interest rate resets. The market value of such securities may fall in a declining interest rate environment and may also fall in a rising interest rate environment if there is a lag between the rise in interest rates and the reset. This risk may also be present with respect to fixed-to-floating rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating rate and fixed-to-floating rate securities may decline due to lower coupon payments on floating-rate securities.
- o Call and Reinvestment Risk. During periods of declining interest rates, an issuer may be able to exercise an option to redeem its issue at par earlier than scheduled, which is generally known as call risk. If this occurs, the Fund may be forced to reinvest in lower yielding securities.
- o Liquidity Risk. Certain preferred securities may be substantially less liquid than many other securities. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

- o Limited Voting Rights Risk. Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may have the ability to elect a director or directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid preferred security holders generally have no voting rights.
- o Special Redemption Rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to their scheduled call or maturity date. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by the Fund.

See "Risks--Preferred and Hybrid Preferred Securities Risk."

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Trust Preferred Securities Risk. Generally, trust preferred securities are issued by a trust that is created by a financial institution, such as a bank holding company, but are not a direct obligation of that financial institution. The risks associated with trust preferred securities typically include the financial condition of that financial institution, as the trust typically has no business operations other than holding the subordinated debt issued by the financial institution and issuing the trust preferred securities and common stock backed by the subordinated debt. If a financial institution is financially unsound and defaults on interest payments to the trust, the trust will not be able to make payments to holders of the trust preferred securities such as the Fund. The issuer of trust preferred securities is generally able to defer or skip payments for up to five years without being in default. If such election is made, distributions will not be made on the trust preferred securities during the deferral period.

Holders of trust preferred securities generally have limited voting rights to control the activities of the trust and no voting rights with respect to the parent company. The market value of trust preferred securities may be more volatile than those of conventional debt securities. Trust preferred securities may be issued in reliance on Rule 144A under the Securities Act of 1933, as amended (the "1933 Act"), and be subject to restrictions on resale.

Unlike preferred securities, distributions from trust preferred securities are treated as interest rather than dividends for federal income tax purposes and, therefore, are not eligible for the dividends received deduction and do not constitute qualified dividend income. Distributions

on trust preferred securities will be made only if interest payments on the related interest-bearing notes of the operating company are made. See "Risks--Trust Preferred Securities Risk."

Debt Securities Risk. In addition to the risks described elsewhere in this section such as credit risk, debt securities are subject to certain other risks, including:

- o Issuer Risk. The value of debt securities may decline for a number of reasons which directly relate to the issuer, such as management performance, leverage and reduced demand for the issuer's goods and services. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect the value of the Fund's investment in that issuer.
- o Interest Rate Risk. Interest rate risk is the risk that debt securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of fixed rate securities generally will fall. Currently, interest rates are at or near historical lows and, as a result, they are likely to rise over time. Market value generally falls further for fixed rate securities with longer duration. See "Risks--Debt Securities Risk--Interest Rate Risk."
- o Liquidity Risk. Certain debt securities may be substantially less liquid than many other securities, such as common stocks traded on an exchange. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.
- o Prepayment Risk. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest the proceeds from such prepayment in lower yielding securities, which may result in a decline in the Fund's income and distributions to Common Shareholders. This is known as call or prepayment risk. Debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. If the Fund bought a security at a premium, the premium could be lost in the event of a prepayment.
- o Reinvestment Risk. Reinvestment risk is the risk that income from the Fund's portfolio will decline if the Fund invests the proceeds from matured, traded or

called bonds at market interest rates that are below the Fund portfolio's current earnings rate. A decline in income could affect the Common Shares' market price or the overall return of the Fund.

See "--Current Economic Conditions--Credit Crisis Liquidity and Volatility Risk" and "Risks--Debt Securities Risk."

Credit Crisis Liquidity and Volatility Risk. Although vastly improved when compared to the depths of the recent financial crisis, the markets for credit instruments, including preferred securities and debt securities, have experienced periods of extreme illiquidity and volatility since the latter half of 2007. There can be no assurance that conditions such as those prevalent during the credit crisis will not occur in the future. During this period, liquidity in these markets (the ability to buy and sell securities readily) was significantly reduced. General market uncertainty and consequent repricing risk led to market imbalances of sellers and buyers, which in turn resulted in significant valuation uncertainties in a variety of debt securities. In addition, several major dealers of debt securities exited the market via acquisition or bankruptcy during this period. These conditions resulted in, and in certain cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with certain debt securities remaining illiquid and of uncertain value. Illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Shares. These market conditions may make valuation of some of the Fund's preferred securities and debt securities uncertain and/or result in sudden and significant valuation increases or declines in the Fund's holdings. During times of reduced market liquidity, the Fund may not be able to sell securities readily at prices reflecting the values at which the securities are carried on the Fund's books. Sales of large blocks of securities by market participants, such as the Fund, that are seeking liquidity can further reduce security prices in an illiquid market. The Fund may seek to make sales of large blocks of securities as part of its investment strategy.

During periods of extreme illiquidity and volatility in the credit markets, issuers of preferred and debt securities may be subject to increased costs associated with incurring debt, tightening underwriting standards and reduced liquidity for the loans they make, the securities they purchase and the securities they issue. The reduced willingness of some lenders to extend credit, in general, may make it more difficult for issuers of preferred and debt instruments to finance their operations, may adversely affect the ability of the issuers of securities owned by the Fund to make payments of principal and interest when due, and lead to lower credit ratings and increased defaults. Such developments could, in turn, reduce the value of securities owned by the Fund and adversely affect the Fund's NAV. Deterioration of current market conditions could adversely impact the Fund's

portfolio and may limit the effectiveness of existing market models. See "--Government Intervention in Financial Markets Risk."

Convertible Securities/Contingent Convertible Securities Risk. Although to a lesser extent than with nonconvertible debt securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock.

Contingent convertible securities provide for mandatory conversion into common stock of the issuer under certain circumstances. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero; and conversion would deepen the subordination of the investor, hence worsening standing in a bankruptcy. In addition, some such instruments have a set stock conversion rate that would cause a reduction in value of the security if the price of the stock is below the conversion price on the conversion date.

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Risks of Concentration in the Financials Sector. Because the Fund invests 25% or more of its Managed Assets in the financials sector, it will be more susceptible to adverse economic or regulatory occurrences affecting this sector, such as changes in interest rates, loan concentration and competition. See "--Government Intervention in Financial Markets Risk" and "Risks--Risks of Concentration in the Financials Sector."

Government Intervention in Financial Markets Risk. The recent instability in the financial markets has led the U.S. government and foreign governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. U.S. federal and state governments and foreign governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable and on an "emergency" basis with little or no notice with the consequence that some market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions has been suddenly and/or substantially eliminated or otherwise negatively implicated. Given the complexities of the global financial markets and the limited time frame within which governments have been able to take action, these interventions have sometimes been unclear in scope and application, resulting in confusion and uncertainty, which

in itself has been materially detrimental to the efficient functioning of such markets as well as previously successful investment strategies. Issuers might seek protection under the bankruptcy laws. Legislation or regulation also may change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objectives. See "Risks--Preferred and Hybrid Preferred Securities Risk."

Congress has enacted sweeping financial legislation, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which addresses, among other areas, the operation of financial institutions. Many provisions of the Dodd-Frank Act will be implemented through regulatory rulemakings and similar processes over a period of time. The impact of the Dodd-Frank Act, and of follow-on regulation, on trading strategies and operations is impossible to predict, and may be adverse. Practices and areas of operation subject to significant change based on the impact, direct or indirect, of the Dodd-Frank Act and follow-on regulation, may change in manners that are unforeseeable, with uncertain effects. For example, the Dodd-Frank Act established more stringent capital standards for banks and bank holding companies and will also result in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies, thus affecting the financials sector. As such, the continuing implementation of the Dodd-Frank Act may result in reduced profitability for companies in the financials sector in which the Fund invests.

The implementation of the Dodd-Frank Act could also adversely affect the Advisor, the Sub-Advisor and the Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny and the implementation of enhanced and new regulatory requirements may increase the Advisor's, the Sub-Advisor's and the Fund's exposure to potential liabilities, and in particular liabilities arising from violating any such enhanced and/or new regulatory requirements. Increased regulatory oversight could also impose administrative burdens on the Advisor, the Sub-Advisor and the Fund, including, without limitation, responding to investigations and implementing new policies and procedures. The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and the Advisor, the Sub-Advisor and the Fund may be affected by the new legislation and regulation in ways that are currently unforeseeable.

REIT Risk. REITs are financial vehicles that pool investors' capital to purchase or finance real estate. REITs may concentrate their investments in specific geographic areas or in specific property types, e.g., hotels, shopping malls, residential complexes and office buildings. The market value of REIT shares and the ability of the REITs to distribute income may be adversely affected by several factors, including: (i) rising interest rates; (ii) changes in the national, state and local economic climate and real estate conditions; (iii)

perceptions of prospective tenants of the safety, convenience and attractiveness of the properties; (iv) the ability of the owners to provide adequate management, maintenance and insurance; (v) the cost of complying with the Americans with Disabilities Act; (vi) increased competition from new properties; (vii) the impact of present or future environmental legislation and compliance with environmental laws; (viii) changes in real estate taxes and other operating expenses; (ix) adverse changes in governmental rules and fiscal policies; (x) adverse changes in zoning laws; and (xi) other factors beyond the control of the REITs. In addition, distributions received by the Fund from REITs may consist of dividends, capital gains and/or return of capital. Many of these distributions, however, will not generally qualify for favorable treatment as qualified dividend income.

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

Below investment grade securities are issued by companies that may have limited operating history, narrowly focused operations and/or other impediments to the timely payment of periodic interest and principal at maturity. These securities are susceptible to default or decline in market value due to adverse economic and business developments and are often unsecured and subordinated to other creditors of the issuer. The market values for below investment grade securities tend to be very volatile, and these securities are generally less liquid than investment grade securities. For these reasons, your investment in the Fund is subject to the following specific risks: (i) increased price sensitivity to changing interest rates and to a deteriorating economic environment; (ii) greater risk of loss due to default or declining credit quality; (iii) adverse company specific events more likely to render the issuer unable to make interest and/or principal payments; (iv) negative perception of the high yield market which may depress the price and liquidity of below investment grade securities; (v) volatility; and (vi) liquidity. See "Risks--Credit and Below Investment Grade Securities Risk."

Credit Rating Agency Risk. Credit ratings are determined by credit rating agencies such as S&P, Moody's and Fitch, and are only the opinions of such entities. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risk or the liquidity of securities. Consequently, securities with the same maturity, duration, coupon, and rating may have different yields. Any shortcomings or inefficiencies in credit rating agencies' processes for determining credit ratings may adversely affect the credit ratings of securities held by the Fund and, as a result, may adversely affect those securities' perceived or actual credit risk.

Leverage Risk. The use of leverage by the Fund can magnify the effect of any losses. If the income and gains earned on the securities and investments purchased with leverage proceeds are greater than the cost of the leverage, the Common Shares' return will be greater than if leverage had not been used. Conversely, if the income and gains from the securities and investments purchased with such proceeds do not cover the cost of leverage, the return to the Common Shares will be less than if leverage had not been used. Leverage involves risks and special considerations for Common Shareholders including:

- o the likelihood of greater volatility of NAV and market price of the Common Shares than a comparable portfolio without leverage;
- o the risk that fluctuations in interest rates on reverse repurchase agreements, Borrowings and short-term debt or in the dividend rates on any Preferred Shares that the Fund may pay will reduce the

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return to the Common Shareholders or will result in fluctuations in the dividends paid on the Common Shares;

- o the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares; and
- o the investment advisory fee payable to the Advisor and the sub-advisory fee payable by the Advisor to the Sub-Advisor will be higher than if the Fund did not use leverage because the definition of "Managed Assets" includes the proceeds of leverage.

Reverse repurchase agreements are also subject to the risks that the market value of the securities sold by the Fund may decline below the price at which the Fund is obligated to repurchase them, and that the securities may not be returned to the Fund. There is no assurance that a

leveraging strategy will be successful. The Fund may continue to use leverage if the benefits to the Fund's shareholders of maintaining the leveraged position are believed by the Board of Trustees to outweigh any current reduced return. See "Risks--Leverage Risk."

Although the Fund will seek to maintain a duration, excluding the effects of leverage, of between three and eight years, if the effect of the Fund's use of leverage was included in calculating duration, it could result in a longer duration for the Fund.

Foreign (Non-U.S.) Securities Risk. The Fund may invest a portion of its assets in securities of non-U.S. issuers. Investing in securities of non-U.S. issuers, which are generally denominated in non-U.S. currencies, may involve certain risks not typically associated with investing in securities of U.S. issuers. These risks include: (i) there may be less publicly available information about non-U.S. issuers or markets due to less rigorous disclosure or accounting standards or regulatory practices; (ii) non-U.S. markets may be smaller, less liquid and more volatile than the U.S. market; (iii) potential adverse effects of fluctuations in currency exchange rates or controls on the value of the Fund's investments; (iv) the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession; (v) the impact of economic, political, social or diplomatic events; (vi) certain non-U.S. countries may impose restrictions on the ability of non-U.S. issuers to make payments of principal and interest to investors located in the United States due to blockage of non-U.S. currency exchanges or otherwise; and (vii) withholding and other non-U.S. taxes may decrease the Fund's return. Foreign companies are generally not subject to the same accounting, auditing and financial reporting standards as are U.S. companies. In addition, there may be difficulty in obtaining or enforcing a court judgment abroad. These risks may be more pronounced to the extent that the Fund invests a significant amount of its assets in companies located in one region or in emerging markets (as described below).

Emerging Markets Risk. Investments in securities of issuers located in emerging market countries are considered speculative. Heightened risks of investing in emerging markets securities include: (i) smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; (ii) significant price volatility; (iii) restrictions on foreign investment; and (iv) possible repatriation of investment income and capital. Furthermore, foreign investors may be required to register the proceeds of sales and future economic or political crises could lead to price controls, forced mergers, expropriation or confiscatory taxation, seizure, nationalization or creation of government monopolies. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets

of certain emerging market countries.

Common Stock Risk. Although common stocks have historically generated higher average returns than debt securities over the long-term, common stocks also have experienced significantly more volatility in returns. Common stocks may be more susceptible to adverse changes

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in market value due to issuer specific events or general movements in the equities markets. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or the occurrence of political or economic events affecting issuers. Common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. In addition, common stock prices may be sensitive to rising interest rates as the costs of capital rise and borrowing costs increase.

The Fund may invest in common stocks of companies of any market capitalization. Accordingly, the Fund may invest in the common stocks of companies having smaller market capitalizations, including mid-cap and small-cap common stocks. The common stocks of these companies often have less liquidity than the common stocks of larger companies and these companies frequently have less management depth, narrower market penetrations, less diverse product lines and fewer resources than larger companies. Due to these and other factors, common stocks of smaller companies may be more susceptible to market downturns and other events, and their prices may be more volatile than the common stocks of larger companies. See "Risks--Common Stock Risk."

U.S. Government Securities Risk. Not all obligations of the U.S. Government, its agencies and instrumentalities are backed by the full faith and credit of the U.S. Treasury. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. Government or its agencies or instrumentalities of a security held by the Fund does not apply to the market value of such security or to the Common Shares. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity. In addition, because many types of U.S. Government securities trade actively outside the United States, their prices may rise and fall as changes in global economic conditions affect the demand for these securities.

Foreign Government Securities Risk. Economies and social and political climates in individual countries may differ

unfavorably from the United States. The ability of a government issuer, especially in an emerging market country, to make timely and complete payments on its debt obligations will be strongly influenced by the government issuer's balance of payments, including export performance, its access to international credit and investments, fluctuations of interest rates and the extent of its foreign reserves. Additional factors that may influence a government issuer's ability or willingness to service debt include, but are not limited to, a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole and the issuer's policy towards the International Monetary Fund, the International Bank for Reconstruction and Development and other international agencies to which a government debtor may be subject.

Since 2010, the risks of investing in certain foreign sovereign debt have increased dramatically as a result of the ongoing European debt crisis which began in Greece and spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on the Fund's investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of the Fund. Moreover, as the European debt crisis has progressed, the possibility of one or more eurozone countries exiting the European Economic and Monetary Union (the "EMU"), or even the collapse of the euro as a common currency, has arisen. The effects of the collapse of the euro, of the exit of one or more countries from the EMU, or of a NRSRO downgrade of

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sovereign debt, on the United States and the global economy and securities markets are impossible to predict and any such events could have a significant adverse impact on the value and risk profile of the Fund's portfolio.

Municipal Securities Risk. Municipal securities are debt obligations issued by states or by political subdivisions or authorities of states. Municipal securities are long-term fixed rate debt obligations that generally decline in value with increases in interest rates, when an issuer's financial condition worsens or when the rating on a bond is decreased. Many municipal secu