

VAN KAMPEN HIGH INCOME TRUST II  
Form N-30D  
February 27, 2003

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Regardless of the market environment, your investment goals don't go away.  
NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

OVERVIEW

LETTER TO SHAREHOLDERS  
January 17, 2003

Dear Shareholder,

During the bull market of the 1990s, many investors ignored what investment risk really means: the possibility of losing money. Instead, investors came to define risk as "more reward."

Today, it's clear that for many people, the pendulum has swung to the opposite extreme. Many are reluctant to enter the market, stick with their long-term plans, or assume prudent levels of risk. Not knowing what action to take, many investors are taking none.

Regardless of how you define risk and regardless of the market environment, your investment goals don't go away. Parents will want to send children to college, retirees will want to enjoy their golden years, and families will want to purchase homes. And history bears out that a prudent investment may be one of the best ways to get there.

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How can you reconcile the reality of market risk with the pursuit of your long-term investment goals? At Van Kampen, we believe that diversification and asset allocation are the best strategies for managing the market's ups and downs. That's why Van Kampen offers a full range of fund choices. We encourage you to work with your advisor to make sure that you have an asset allocation that's suitable for you.

As we enter a new year, all of us at Van Kampen remain grateful for the trust you have placed in us and for the opportunity to help you enjoy life's true wealth.

Sincerely,

[SIG]

David M. Swanson  
Chief Operating Officer  
Van Kampen Investment Advisory Corp.

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### ECONOMIC SNAPSHOT

#### THE ECONOMY

ECONOMIC DATA RELEASED IN DECEMBER 2002 SEEMED TO SUGGEST THE ECONOMY WAS EMERGING FROM ITS AUTUMN SOFT SPOT. RETAIL SALES AND INDUSTRIAL PRODUCTION RECORDED GAINS THAT SURPASSED EXPECTATIONS. BOTH NEW AND EXISTING HOME SALES CONTINUED TO REMAIN AT HISTORICALLY HIGH LEVELS. EVEN THE BELEAGUERED MANUFACTURING SECTOR ENJOYED SOME GOOD NEWS: THE INSTITUTE OF SUPPLY MANAGEMENT REPORTED THAT NEW ORDERS WERE SO ROBUST, THEY REGISTERED THE LARGEST MONTHLY INCREASE SINCE 1980. EQUALLY ENCOURAGING, INFLATION PRESSURES REMAINED STABLE THROUGHOUT THE REPORTING PERIOD--DESPITE RISING OIL PRICES.

AGAINST THIS BACKDROP, THE FEDERAL RESERVE MAINTAINED ITS ACCOMMODATIVE MONETARY POLICY WHICH, AS A RESULT, ALLOWED INTEREST RATES TO CONTINUE HOVERING AT THE LOWEST LEVELS IN DECADES.

YET, POCKETS OF WEAKNESS PERSISTED. DECEMBER'S JOB LOSSES WERE THE STRONGEST RECORDED IN RECENT MONTHS, CAUSING INVESTORS TO QUESTION THE SUSTAINABILITY OF ECONOMIC ACTIVITY MOVING FORWARD.

FURTHER CLOUDING THE ECONOMIC HORIZON, THE DOLLAR MOVED LOWER AS TRADERS AND INVESTORS QUESTIONED THE NEWLY APPOINTED TREASURY SECRETARY'S COMMITMENT TO A STRONG DOLLAR. WHILE THE DECLINING DOLLAR SEEMED LIKE ANOTHER DARK CLOUD, A POSSIBLE SILVER LINING REMAINS: DOLLAR WEAKNESS COULD TRANSLATE INTO IMPROVED EXPORTS IN 2003, FURTHER SUPPORTING ECONOMIC GROWTH.

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### U.S. GROSS DOMESTIC PRODUCT

SEASONALLY ADJUSTED ANNUALIZED RATES

(December 31, 2000--December 31, 2002)

[BAR GRAPH]

|        |       |
|--------|-------|
| Dec 00 | 1.1%  |
| Mar 01 | -0.6% |
| Jun 01 | -1.6% |
| Sep 01 | -0.3% |
| Dec 01 | 2.7%  |
| Mar 02 | 5.0%  |
| Jun 02 | 1.3%  |
| Sep 02 | 4.0%  |
| Dec 02 | 0.7%  |

Source: Bureau of Economic Analysis

INTEREST RATES AND INFLATION

(December 31, 2000--December 31, 2002)

[LINE GRAPH]

INTEREST RATES  
-----

|        |       |
|--------|-------|
| Dec 00 | 6.50% |
|        | 5.50% |
| Mar 01 | 5.50% |
|        | 5.00% |
|        | 4.50% |
| Jun 01 | 4.00% |
|        | 3.75% |
|        | 3.75% |
| Sep 01 | 3.50% |
|        | 3.00% |
|        | 2.50% |
| Dec 01 | 2.00% |
|        | 1.75% |
|        | 1.75% |
| Mar 02 | 1.75% |
|        | 1.75% |
|        | 1.75% |
| Jun 02 | 1.75% |
|        | 1.75% |
|        | 1.75% |
| Sep 02 | 1.75% |
|        | 1.75% |
|        | 1.75% |
| Dec 02 | 1.25% |
|        | 1.25% |

Interest rates are represented by the closing midline federal funds target rate on the last day of each month. Inflation is indicated by the annual percentage change of the Consumer Price Index for all urban consumers at the end of each month.

Source: Bloomberg

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## PERFORMANCE SUMMARY

### RETURN HIGHLIGHTS

(as of December 31, 2002)

-----  
NYSE Ticker Symbol - VLT  
-----

-----  
One-year total return(1) -19.86%  
-----  
Five-year average annual total return(1) -5.80%  
-----  
Ten-year average annual total return(1) 3.05%  
-----  
Life-of-Trust average annual total return(1) 4.11%  
-----  
Commencement date 04/28/89  
-----

Distribution rate as a % of closing common share market price(2) 12.38%  
-----

Net asset value \$3.79  
-----

Closing common share market price \$4.07  
-----

One-year high common share market price (05/07/02) \$6.14  
-----

One-year low common share market price (10/22/02) \$3.61  
-----

Preferred share rate(3) 1.600%  
-----

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(1) Total return assumes an investment at the common share market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Trust's dividend reinvestment plan, and sale of all shares at the closing common share market price at the end of the period indicated.

(2) Distribution rate represents the monthly annualized distributions of the Trust at the end of the period and not the earnings of the Trust.

(3) See "Notes to Financial Statements" footnote #4, for more information concerning Preferred Share reset periods.

Past performance is no guarantee of future results. Investment return, common share market price and net asset value will fluctuate and Trust shares, when sold, may be worth more or less than their original cost. An investment in the Trust is subject to investment risks, and you could lose money on your investment in the Trust. As a result of recent market

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activity, current performance may vary from the figures shown. For more up-to-date information, please visit [vankampen.com](http://vankampen.com) or speak with your financial advisor.

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### PORTFOLIO AT A GLANCE

#### CREDIT QUALITY

(as a percentage of long-term debt investments)

As of December 31, 2002

|                       |       |             |
|-----------------------|-------|-------------|
| - A/A.....            | 5.5%  | [PIE CHART] |
| - BBB/Baa.....        | 19.3% |             |
| - BB/Ba.....          | 42.8% |             |
| - B/B.....            | 29.9% |             |
| - CCC/Caa & below.... | 2.3%  |             |
| - Non-Rated.....      | 0.2%  |             |

As of December 31, 2001

|                       |       |             |
|-----------------------|-------|-------------|
| - A/A.....            | 3.8%  | [PIE CHART] |
| - BBB/Baa.....        | 12.5% |             |
| - BB/Ba.....          | 38.1% |             |
| - B/B.....            | 37.2% |             |
| - CCC/Caa & below.... | 8.3%  |             |
| - Non-Rated.....      | 0.1%  |             |

Based upon the credit quality ratings as issued by Standard & Poor's Credit Market Services/Moody's Investor Services, respectively. Subject to change daily.

#### TWELVE-MONTH DIVIDEND HISTORY

(for the year ended December 31, 2002, for common shares)

[BAR GRAPH]

|       | DIVIDENDS<br>----- |
|-------|--------------------|
| 1/02  | \$0.0615           |
| 2/02  | \$0.0575           |
| 3/02  | \$0.0575           |
| 4/02  | \$0.0575           |
| 5/02  | \$0.0575           |
| 6/02  | \$0.0505           |
| 7/02  | \$0.0505           |
| 8/02  | \$0.0505           |
| 9/02  | \$0.0450           |
| 10/02 | \$0.0450           |
| 11/02 | \$0.0450           |
| 12/02 | \$0.0420           |

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The dividend history represents dividends that were paid on the trust and is no guarantee of the trust's future dividends.

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### TOP FIVE SECTORS

(as a percentage of long-term investments)

[BAR GRAPH]

|                  | DECEMBER 31, 2002<br>----- |
|------------------|----------------------------|
| Gaming & Leisure | 14.2%                      |
| Energy           | 11.8%                      |
| Forest Products  | 8.0%                       |
| Transportation   | 7.0%                       |
| Housing          | 6.5%                       |

Subject to change daily.

### NET ASSET VALUE AND COMMON SHARE MARKET PRICE

(based upon quarter-end values--December 1992 through December 2002)

[LINE GRAPH]

|       | NET ASSET VALUE<br>----- |
|-------|--------------------------|
| 12/92 | 7.9200                   |
|       | 8.6100                   |
|       | 8.8400                   |
| 12/93 | 8.7400                   |
|       | 8.9800                   |
|       | 8.4900                   |
| 12/94 | 8.1200                   |
|       | 7.7500                   |
|       | 7.3200                   |
| 12/95 | 7.6700                   |
|       | 7.9700                   |
|       | 8.0300                   |
| 12/96 | 8.1200                   |
|       | 8.1200                   |
|       | 8.1200                   |
| 12/97 | 8.3100                   |
|       | 8.1300                   |
|       | 8.3200                   |
|       | 8.4700                   |
|       | 8.4700                   |
|       | 8.4400                   |
|       | 8.5000                   |
|       | 8.3800                   |

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|       |        |
|-------|--------|
|       | 7.6400 |
| 12/98 | 7.5900 |
|       | 7.3700 |
|       | 7.0900 |
|       | 6.6500 |
| 12/99 | 6.5600 |
|       | 6.2100 |
|       | 6.0900 |
|       | 5.9900 |
| 12/00 | 5.4000 |
|       | 5.7400 |
|       | 5.4000 |
|       | 4.7600 |
| 12/01 | 4.7700 |
|       | 4.5600 |
|       | 4.0500 |
|       | 3.6100 |
| 12/02 | 3.7900 |

The solid line above represents the trust's net asset value (NAV), which indicates overall changes in value among the trust's underlying securities. The trust's common share market price is represented by the dashed line, which indicates the price the market is willing to pay for shares of the trust at a given time. Common share market price is influenced by a range of factors, including supply and demand and market conditions.

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### Q&A WITH YOUR PORTFOLIO MANAGERS

WE RECENTLY SPOKE WITH THE PORTFOLIO MANAGEMENT TEAM FOR THE VAN KAMPEN HIGH INCOME TRUST II ABOUT THE KEY EVENTS AND ECONOMIC FORCES THAT SHAPED THE MARKETS AND INFLUENCED THE TRUST'S RETURN DURING THE 12-MONTH PERIOD ENDED DECEMBER 31, 2002. THE TRUST IS MANAGED BY THE ADVISER'S HIGH YIELD TEAM. CURRENT MEMBERS (1) OF THE TEAM INCLUDE STEPHEN ESSER, MANAGING DIRECTOR; GORDON LOERY, EXECUTIVE DIRECTOR; AND DEANNA LOUGHNANE, EXECUTIVE DIRECTOR. THE FOLLOWING DISCUSSION REFLECTS THEIR VIEWS ON THE TRUST'S PERFORMANCE.

(1) Team members may change without notice at any time.

Q WHAT WAS THE MARKET ENVIRONMENT OF THE PAST 12 MONTHS?

A The 12-month period ended December 31, 2002, was a highly volatile time in the high-yield market. The year got off to a strong start, with the credit markets well supported by strong economic activity in the first quarter of the year. At that point, the market consensus appeared to coalesce around expectations of continued economic strength.

The market took a decided turn for the worse for the next six months. The primary culprit, at least initially, was the growing number and severity of corporate-governance scandals, including the bankruptcies of Adelphia and WorldCom. The latter had a particularly strong effect on the high-yield markets because of the large amount of bonds originating in the telecommunications sector. Economic fears also resurfaced when it became clear that a recovery in the second half was increasingly unlikely. Finally, continued weakness in corporate profits served to undermine both the credit and equity markets. These factors combined to make June and July two of the worst back-to-back months in the history of the high-yield market.

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As in the final months of 2001, the last two months of 2002 were somewhat more positive for high-yield bonds. While the corporate credit spreads over U.S. Treasuries remained fairly wide by historical standards, the high-yield market on the whole experienced a reversal of some of its previous losses as money began to flow back into the asset class.

Issuance during the period was generally moderate. While it was off from the record highs of the late 1990s, corporations still managed to bring roughly \$60 to \$70 billion in new bonds to market. This supply of debt was relatively well balanced against demand over the course of the year; in fact, the level of issuance tended to vary with market demand. Economic uncertainty also led investors to favor

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bonds of higher credit quality. This was a continuation of a two-year trend, and stood in marked contrast to the period of 1997 through 1999 when lower-rated companies (many of them in the telecommunications sector) brought record amounts of bonds to market.

That last wave of issuance of lower-quality bonds proved to be a major factor in the rising rate of defaults from 2000 through 2001. While defaults remained well above historical averages in 2002, they did appear to taper off and decline in the last months of the year.

Q HOW DID THE TRUST PERFORM IN THIS ENVIRONMENT?

A The trust continued to provide shareholders with what we believe is an attractive level of income, as its monthly dividend of \$0.042 per share translates to a distribution rate of 12.38 percent based on the trust's common share market price as of December 31, 2002. For the 12-month period ended December 31, 2002, the trust generated a total return of -19.86 percent. This reflects a decrease in common share market price from \$5.75 per share on December 31, 2001, to \$4.07 per share on December 31, 2002.

Of course, past performance is no guarantee of future results. As a result of recent market activity, current performance may vary from the figures shown. Investment return, share price and net asset value will fluctuate and trust shares, when sold, may be worth more or less than their original cost. For more up-to-date information, please visit [vankampen.com](http://vankampen.com) or speak with your financial advisor.

By comparison, the Chase High Yield Index posted a total return of 2.17 percent for the same period. The Chase High Yield Index is a broad-based, unmanaged statistical composite of high yield securities. Index returns do not include any sales charges or fees that would be paid by an investor purchasing the securities it represents, such costs would lower performance. It is not possible to invest directly in an index. For additional performance results, please refer to the chart and footnotes on page 4.

Q WHAT WERE THE KEY DRIVERS OF THE TRUST'S RELATIVE PERFORMANCE?

A The trust's exposure to the cable and telecom industries had the greatest impact on performance. These were two of the market's worst-performing sectors because of a combination of deteriorating industry fundamentals and high default rates. The trust also experienced the effects of poor security selection in a few select industries. On the positive

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side, our underweighted positions in utilities and airlines helped relative performance, as did good security selection in broadcasting.

Q WHAT STRATEGIES DID YOU USE  
IN MANAGING THE TRUST?

A At the portfolio level, we continued to follow our strategy of rigorous bottom-up security analysis and selection. Our purchases were generally made with an eye to capitalizing on securities that had become oversold and as a result offered compelling value. Our analysts were able to identify attractive opportunities

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across a wide range of sectors including chemicals, forest products, transportation, manufacturing and general industrial issues. These securities offered the additional benefit of giving the portfolio exposure to economically sensitive sectors that we anticipate should perform strongly when the economy turns the corner.

In keeping with our bottom-up focus, we sold some of the portfolio's positions that no longer met our investment criteria. Some of these bonds had met their performance targets, while others experienced deteriorating fundamentals. Many of our sales were from the portfolio's holdings of telecommunications, cable and wireless securities. We also allowed market forces to reduce the portfolio's weightings in these sectors. By the end of the period, the trust was underweighted in these troubled sectors relative to its benchmark.

Q WHAT IS YOUR OUTLOOK FOR THE  
HIGH-YIELD MARKET?

A In spite of the strong upturn at the end of the year, high-yield spreads remain at historically wide levels. These spreads are especially attractive considering that the default rate in the market appears to be declining and could very well fall further in the coming year. In our view, the relatively high quality of most of the issuance over the past few years bodes especially well for a continued decrease in default rates. Our economic research also indicates that the economy is likely to grow moderately in the coming year, perhaps somewhere in the range of 2 percent to 3 percent, which should also be supportive of the high-yield market.

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### GLOSSARY OF TERMS

A HELPFUL GUIDE TO SOME OF THE COMMON TERMS YOU'RE LIKELY TO SEE IN THIS REPORT AND OTHER FINANCIAL PUBLICATIONS.

**BOTTOM-UP INVESTING:** A management style that emphasizes the analysis of individual stocks, rather than economic and market cycles.

**CREDIT RATING:** An evaluation of a bond issuer's credit history and capability of repaying debt obligations. Standard & Poor's Ratings Group and Moody's Investors Service are two companies that assign credit ratings. Standard & Poor's ratings range from a high of AAA to a low of D, Moody's from a high of Aaa to a low of C.

**CREDIT SPREAD:** Also called quality spread; the difference in yield between higher-quality issues (such as Treasury securities) and lower-quality ones. Normally, lower-quality issues provide higher yields to compensate investors for

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their additional credit risk.

DEFAULT: The failure to make required debt payments on time.

VOLATILITY: A measure of the fluctuation in the market price of a security. A security that is volatile has frequent, large swings in price.

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### BY THE NUMBERS

#### YOUR TRUST'S INVESTMENTS

December 31, 2002

THE FOLLOWING PAGES DETAIL YOUR TRUST'S PORTFOLIO OF INVESTMENTS AT THE END OF THE REPORTING PERIOD.

| PAR<br>AMOUNT<br>(000) | DESCRIPTION                                   | COUPON | MATURITY | MARKET<br>VALUE |
|------------------------|---|--------|----------|-----------------|
|                        | CORPORATE BONDS 178.3%                        |        |          |                 |
|                        | AEROSPACE 2.3%                                |        |          |                 |
| \$ 735                 | Sequa Corp. ....                              | 9.000% | 08/01/09 | \$ 709,275      |
|                        |   |        |          | -----           |
|                        | BROADCASTING 3.8%                             |        |          |                 |
| 555                    | Nextmedia Operating, Inc. ....                | 10.750 | 07/01/11 | 586,219         |
| 635                    | TV Azteca S.A. (Mexico).....                  | 10.500 | 02/15/07 | 575,469         |
|                        |   |        |          | -----           |
|                        |   |        |          | 1,161,688       |
|                        |   |        |          | -----           |
|                        | CABLE 8.5%                                    |        |          |                 |
| 1,075                  | British Sky Broadcasting (United Kingdom).... | 7.300  | 10/15/06 | 1,119,101       |
| 755                    | Charter Communication Holdings LLC.....       | 8.250  | 04/01/07 | 339,750         |
| 725                    | EchoStar Communications Corp. ....            | 9.250  | 02/01/06 | 761,250         |
| 260                    | Quebecor Media, Inc. (Canada).....            | 11.125 | 07/15/11 | 240,825         |
| 860                    | Telewest PLC (United Kingdom) (a).....        | 9.625  | 10/01/06 | 159,100         |
|                        |   |        |          | -----           |
|                        |   |        |          | 2,620,026       |
|                        |   |        |          | -----           |
|                        | CHEMICALS 8.8%                                |        |          |                 |
| 250                    | Acetex Corp. (Canada).....                    | 10.875 | 08/01/09 | 266,250         |
| 650                    | Equistar Chemicals L.P. ....                  | 8.500  | 02/15/04 | 643,705         |
| 180                    | FMC Corp., 144A--Private Placement (b).....   | 10.250 | 11/01/09 | 195,300         |
| 145                    | ISP Chemco, Inc. ....                         | 10.250 | 07/01/11 | 150,800         |
| 675                    | ISP Holdings, Inc. ....                       | 10.625 | 12/15/09 | 590,625         |
| 195                    | Lyondell Chemical Co. ....                    | 9.875  | 05/01/07 | 188,175         |
| 195                    | Lyondell Chemical Co. ....                    | 9.500  | 12/15/08 | 182,325         |
| 175                    | Millennium America, Inc. ....                 | 7.000  | 11/15/06 | 169,969         |
| 250                    | Millennium America, Inc. ....                 | 9.250  | 06/15/08 | 261,875         |
| 57                     | PCI Chemicals Canada, Inc. (Canada).....      | 10.000 | 12/31/08 | 40,067          |
| 19                     | Pioneer Cos., Inc. ....                       | 5.298  | 12/31/06 | 13,190          |
|                        |   |        |          | -----           |
|                        |   |        |          | 2,702,281       |
|                        |   |        |          | -----           |
|                        | CONSUMER PRODUCTS 0.7%                        |        |          |                 |
| 200                    | Elizabeth Arden, Inc. ....                    | 11.750 | 02/01/11 | 207,000         |
|                        |   |        |          | -----           |

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|     |   |        |          |         |
|-----|---|--------|----------|---------|
|     | DIVERSIFIED MEDIA 9.8%                                  |        |          |         |
| 525 | Alliance Atlantis Communications, Inc.<br>(Canada)..... | 13.000 | 12/15/09 | 574,875 |
| 335 | AOL Time Warner, Inc. ....                              | 6.125  | 04/15/06 | 346,184 |
| 470 | K-III Communications Corp. ....                         | 10.250 | 06/01/04 | 463,537 |
| 460 | Mail Well I Corp. ....                                  | 9.625  | 03/15/12 | 411,700 |

See Notes to Financial Statements

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YOUR TRUST'S INVESTMENTS

December 31, 2002

| PAR<br>AMOUNT<br>(000) | DESCRIPTION   | COUPON  | MATURITY | MARKET<br>VALUE |
|------------------------|---|---------|----------|-----------------|
|                        | DIVERSIFIED MEDIA (CONTINUED)                                   |         |          |                 |
| \$ 381                 | MDC Corp., Inc. (Canada).....                                   | 10.500% | 12/01/06 | \$ 342,900      |
| 40                     | Primedia, Inc. ....   | 8.875   | 05/15/11 | 36,400          |
| 85                     | RH Donnelley Fin Corp. I, 144A--Private<br>Placement (b).....   | 8.875   | 12/15/10 | 91,375          |
| 210                    | RH Donnelley Fin Corp. I, 144A--Private<br>Placement (b).....   | 10.875  | 12/15/12 | 229,950         |
| 235                    | Salem Communications Corp. ....                                 | 7.750   | 12/15/10 | 235,587         |
| 295                    | Six Flags, Inc. ....  | 8.875   | 02/01/10 | 278,775         |
|                        |   |         |          | -----           |
|                        |   |         |          | 3,011,283       |
|                        |   |         |          | -----           |
|                        | ENERGY 21.6%  |         |          |                 |
| 685                    | BRL Universal Equipment.....                                    | 8.875   | 02/15/08 | 715,825         |
| 430                    | Chesapeake Energy Corp. ....                                    | 7.875   | 03/15/04 | 449,350         |
| 395                    | Chesapeake Energy Corp. ....                                    | 8.125   | 04/01/11 | 408,825         |
| 270                    | El Paso Energy Partners LP, 144A--Private<br>Placement (b)..... | 10.625  | 12/01/12 | 277,425         |
| 910                    | Frontier Oil Corp. ....   | 11.750  | 11/15/09 | 941,850         |
| 535                    | Hanover Equipment Trust, 144A--Private<br>Placement (b).....    | 9.487   | 09/01/08 | 524,300         |
| 160                    | Hanover Equipment Trust, 144A--Private<br>Placement (b).....    | 9.737   | 09/01/11 | 155,200         |
| 205                    | Magnum Hunter Resources, Inc. ....                              | 9.600   | 03/15/12 | 218,837         |
| 472                    | Port Arthur Finance Corp. ....                                  | 12.500  | 01/15/09 | 521,383         |
| 240                    | Stone Energy Corp. ....   | 8.250   | 12/15/11 | 250,800         |
| 615                    | Tesoro Petroleum Corp. ....                                     | 9.625   | 04/01/12 | 402,825         |
| 430                    | Transocean, Inc. ....   | 6.500   | 04/15/03 | 434,408         |
| 515                    | Transocean, Inc. ....   | 9.500   | 12/15/08 | 652,183         |
| 605                    | Vintage Petroleum, Inc. ....                                    | 7.875   | 05/15/11 | 592,900         |
| 85                     | Westport Resources Corp., 144A--Private<br>Placement (b).....   | 8.250   | 11/01/11 | 89,675          |
|                        |   |         |          | -----           |
|                        |   |         |          | 6,635,786       |
|                        |   |         |          | -----           |
|                        | FINANCIAL 3.5%  |         |          |                 |
| 240                    | Banco Nacional de Comercio Exterior<br>(Mexico).....            | 7.250   | 02/02/04 | 252,257         |
| 320                    | Health Net, Inc. ....   | 8.375   | 04/15/11 | 369,521         |

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|       |  |        |          |           |
|-------|--|--------|----------|-----------|
| 435   | Istar Financial, Inc. ....                             | 8.750  | 08/15/08 | 463,452   |
|       |  |        |          | -----     |
|       |  |        |          | 1,085,230 |
|       |  |        |          | -----     |
|       | FOOD & DRUG 0.0%                                       |        |          |           |
| 1,180 | Jitney-Jungle Stores America, Inc. (a) (c)<br>(d)..... | 12.000 | 03/01/06 | 118       |
|       |  |        |          | -----     |

See Notes to Financial Statements

YOUR TRUST'S INVESTMENTS

December 31, 2002

| PAR<br>AMOUNT<br>(000) | DESCRIPTION   | COUPON | MATURITY | MARKET<br>VALUE |
|------------------------|---|--------|----------|-----------------|
|                        | FOOD & TOBACCO 11.4%  |        |          |                 |
| \$ 900                 | Coca Cola Femsa S.A. (Mexico).....                                  | 8.950% | 11/01/06 | \$ 1,019,250    |
| 850                    | Pepsi Gemex S.A. (Mexico).....                                      | 9.750  | 03/30/04 | 924,375         |
| 805                    | Smithfield Foods, Inc. ....   | 7.625  | 02/15/08 | 788,900         |
| 760                    | Smithfield Foods, Inc. ....   | 8.000  | 10/15/09 | 779,000         |
|                        |   |        |          | -----           |
|                        |   |        |          | 3,511,525       |
|                        |   |        |          | -----           |
|                        | FOREST PRODUCTS 14.7%   |        |          |                 |
| 305                    | Abitibi-Consolidated, Inc. (Canada).....                            | 8.550  | 08/01/10 | 339,084         |
| 435                    | MDP Acquisitions PLC, 144A--Private Placement<br>(Ireland) (b)..... | 9.625  | 10/01/12 | 454,575         |
| 460                    | Norske Skog Canada Ltd. (Canada).....                               | 8.625  | 06/15/11 | 465,750         |
| 1,020                  | Owens-Brockway Glass Container, Inc. ....                           | 8.875  | 02/15/09 | 1,055,700       |
| 495                    | Pacifica Papers, Inc. (Canada).....                                 | 10.000 | 03/15/09 | 525,937         |
| 425                    | Radnor Holdings Corp. ....  | 10.000 | 12/01/03 | 363,375         |
| 1,340                  | Tembec Industries, Inc. (Canada).....                               | 7.750  | 03/15/12 | 1,306,500       |
|                        |   |        |          | -----           |
|                        |   |        |          | 4,510,921       |
|                        |   |        |          | -----           |
|                        | GAMING & LEISURE 26.0%  |        |          |                 |
| 690                    | Harrahs Operating Co., Inc. ....                                    | 7.875  | 12/15/05 | 733,125         |
| 80                     | Harrahs Operating Co., Inc. ....                                    | 8.000  | 02/01/11 | 92,408          |
| 345                    | Hilton Hotels Corp. ....  | 7.950  | 04/15/07 | 358,739         |
| 875                    | HMH Properties, Inc. ....   | 7.875  | 08/01/05 | 866,250         |
| 635                    | Horseshoe Gaming LLC.....   | 8.625  | 05/15/09 | 677,862         |
| 1,075                  | International Game Technology.....                                  | 7.875  | 05/15/04 | 1,123,375       |
| 1,100                  | Mohegan Tribal Gaming Authority.....                                | 8.125  | 01/01/06 | 1,163,250       |
| 380                    | Park Place Entertainment Corp. ....                                 | 7.875  | 12/15/05 | 387,600         |
| 325                    | Park Place Entertainment Corp. ....                                 | 8.875  | 09/15/08 | 346,151         |
| 440                    | Prime Hospitality Corp. ....  | 8.375  | 05/01/12 | 429,000         |
| 800                    | Starwood Hotels & Resorts, 144A--Private<br>Placement (b).....      | 7.375  | 05/01/07 | 790,000         |
| 595                    | Station Casinos, Inc. ....  | 8.375  | 02/15/08 | 635,162         |
| 350                    | Station Casinos, Inc. ....  | 9.875  | 07/01/10 | 381,500         |
|                        |   |        |          | -----           |
|                        |   |        |          | 7,984,422       |

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| HEALTHCARE 11.0% |  |       |          |         |
|------------------|--|-------|----------|---------|
| 470              | Amerisourcebergen Corp. ....                 | 8.125 | 09/01/08 | 502,900 |
| 450              | Fisher Scientific International, Inc. ....   | 7.125 | 12/15/05 | 459,000 |
| 505              | Fresenius Medical Care Capital Trust II..... | 7.875 | 02/01/08 | 498,687 |
| 180              | Fresenius Medical Care Capital Trust IV..... | 7.875 | 06/15/11 | 175,500 |
| 800              | HCA, Inc. ....                               | 6.910 | 06/15/05 | 841,076 |
| 115              | Manor Care, Inc. ....                        | 8.000 | 03/01/08 | 121,900 |

See Notes to Financial Statements

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YOUR TRUST'S INVESTMENTS

December 31, 2002

| PAR<br>AMOUNT<br>(000)      | DESCRIPTION   | COUPON | MATURITY | MARKET<br>VALUE |
|-----------------------------|---|--------|----------|-----------------|
| HEALTHCARE (CONTINUED)      |   |        |          |                 |
| \$ 340                      | Omnicare, Inc. ....   | 8.125% | 03/15/11 | \$ 365,500      |
| 470                         | Tenet Healthcare Corp. ....                                 | 6.500  | 06/01/12 | 426,217         |
|                             |   |        |          | 3,390,780       |
| HOUSING 11.9%               |   |        |          |                 |
| 405                         | CB Richard Ellis Service, Inc. ....                         | 11.250 | 06/15/11 | 374,625         |
| 585                         | Louisiana Pacific Corp. ....                                | 10.875 | 11/15/08 | 631,800         |
| 80                          | Nortek Holdings, Inc. ....                                  | 9.250  | 03/15/07 | 82,600          |
| 410                         | Schuler Homes, Inc. ....                                    | 9.375  | 07/15/09 | 420,250         |
| 310                         | Tech Olympic USA, Inc. ....                                 | 9.000  | 07/01/10 | 302,250         |
| 270                         | Tech Olympic USA, Inc., 144A--Private<br>Placement (b)..... | 10.375 | 07/01/12 | 256,500         |
| 825                         | Toll Corp. ....   | 8.250  | 02/01/11 | 833,250         |
| 675                         | Webb (Del E.) Corp. ....                                    | 10.250 | 02/15/10 | 739,125         |
|                             |   |        |          | 3,640,400       |
| INFORMATION TECHNOLOGY 3.3% |   |        |          |                 |
| 325                         | Fairchild Semiconductor Corp. ....                          | 10.500 | 02/01/09 | 352,625         |
| 650                         | Flextronics International Ltd. (Singapore)...               | 8.750  | 10/15/07 | 671,125         |
|                             |   |        |          | 1,023,750       |
| MANUFACTURING 7.0%          |   |        |          |                 |
| 190                         | Case Corp. ....   | 6.250  | 12/01/03 | 184,349         |
| 195                         | Case Credit Corp. ....                                      | 6.125  | 02/15/03 | 193,745         |
| 555                         | Communications & Power Industries, Inc. ....                | 12.000 | 08/01/05 | 468,975         |
| 265                         | Johnsondiversey, Inc., 144A--Private<br>Placement (b).....  | 9.625  | 05/15/12 | 280,237         |
| 430                         | Manitowoc, Inc., 144A--Private Placement<br>(b).....        | 10.500 | 08/01/12 | 448,275         |
| 390                         | Trimas Corp., 144A--Private Placement (b)....               | 9.875  | 06/15/12 | 388,050         |
| 200                         | Tyco Intl Group S.A. (Luxembourg).....                      | 6.375  | 02/15/06 | 194,161         |
|                             |   |        |          | 2,157,792       |

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| METALS 3.2% |   |        |          |         |
|-------------|---|--------|----------|---------|
| 220         | Doe Run Resources Corp., Ser B (a)                    | 11.250 | 03/15/05 | 45,100  |
| 900         | GS Technologies Operating, Inc. (a) (c) (d)           | 12.250 | 10/01/05 | 40,500  |
| 275         | Oregon Steel Mills, Inc., 144A--Private Placement (b) | 10.000 | 07/15/09 | 280,500 |
| 365         | UCAR Finance, Inc.                                    | 10.250 | 02/15/12 | 292,000 |
| 1,210       | WCI Steel, Inc.                                       | 10.000 | 12/01/04 | 326,700 |
|             |   |        |          | 984,800 |
| RETAIL 2.3% |   |        |          |         |
| 205         | Big 5 Corp.   | 10.875 | 11/15/07 | 214,225 |
| 180         | Gap, Inc.   | 10.550 | 12/15/08 | 197,100 |

See Notes to Financial Statements

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YOUR TRUST'S INVESTMENTS

December 31, 2002

| PAR AMOUNT (000)        | DESCRIPTION                                      | COUPON | MATURITY | MARKET VALUE |
|-------------------------|--|--------|----------|--------------|
| RETAIL (CONTINUED)      |  |        |          |              |
| \$ 60                   | Penney JC Co., Inc.                              | 7.600% | 04/01/07 | \$ 61,050    |
| 215                     | Penney JC Co., Inc., 144A--Private Placement (b) | 9.000  | 08/01/12 | 220,375      |
|                         |  |        |          | 692,750      |
| SERVICES 7.1%           |  |        |          |              |
| 1,010                   | Allied Waste North America, Inc.                 | 8.875  | 04/01/08 | 1,030,200    |
| 1,050                   | Waste Management, Inc.                           | 7.125  | 10/01/07 | 1,147,343    |
|                         |  |        |          | 2,177,543    |
| TELECOMMUNICATIONS 1.4% |  |        |          |              |
| 120                     | Asia Global Crossing (Bermuda) (a) (c)           | 13.375 | 10/15/10 | 13,650       |
| 192                     | Exodus Communications, Inc. (a) (c) (d)          | 11.250 | 07/01/08 | 11,545       |
| 283                     | Focal Communications Corp. (a) (c)               | 11.875 | 01/15/10 | 7,075        |
| 650                     | Frontier Corp. (a) (c)                           | 6.000  | 10/15/03 | 35,750       |
| 730                     | Global Crossing Holdings Ltd. (Bermuda) (a) (c)  | 9.125  | 11/15/06 | 25,550       |
| 77                      | Globix Corp., 144A--Private Placement (b) (f)    | 11.000 | 05/01/08 | 55,623       |
| 875                     | Metromedia Fiber Network, Inc. (a) (c) (d)       | 10.000 | 12/15/09 | 2,188        |
| 430                     | Nextlink Communications, Inc. (a) (c)            | 9.625  | 10/01/07 | 2,688        |
| 420                     | Nextlink Communications, Inc. (a) (c)            | 10.500 | 12/01/09 | 2,625        |
| 495                     | PSINet, Inc. (a) (c)                             | 10.500 | 12/01/06 | 17,325       |
| 1,045                   | WorldCom, Inc. (a) (c)                           | 7.750  | 04/01/07 | 250,800      |
|                         |  |        |          | 424,819      |

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|       |   |        |          |           |
|-------|---|--------|----------|-----------|
|       | TRANSPORTATION 12.8%                    |        |          |           |
| 1,150 | Aetna Industries, Inc. (a) (c) (d)..... | 11.875 | 10/01/06 | 184,000   |
| 300   | Autonation, Inc. ....                   | 9.000  | 08/01/08 | 304,500   |
| 165   | Collins & Aikman Products Co. ....      | 11.500 | 04/15/06 | 139,425   |
| 430   | Collins & Aikman Products Co. ....      | 10.750 | 12/31/11 | 411,725   |
| 425   | Dana Corp. ....                         | 9.000  | 08/15/11 | 412,250   |
| 340   | Dura Operating Corp. ....               | 8.625  | 04/15/12 | 343,400   |
| 710   | Ford Motor Credit Co. ....              | 6.500  | 01/25/07 | 701,895   |
| 345   | General Motors Acceptance Corp. ....    | 7.500  | 07/15/05 | 363,523   |
| 375   | Intermet Corp. ....                     | 9.750  | 06/15/09 | 339,375   |
| 430   | Lear Corp. ....                         | 8.110  | 05/15/09 | 456,875   |
| 320   | Metaldyne Corp. ....                    | 11.000 | 06/15/12 | 264,000   |
|       |   |        |          | -----     |
|       |   |        |          | 3,920,968 |
|       |   |        |          | -----     |
|       | UTILITY 4.1%                            |        |          |           |
| 430   | Calpine Corp. ....                      | 8.625  | 08/15/10 | 184,900   |
| 405   | Dynegy Holdings, Inc. ....              | 6.875  | 04/01/11 | 139,725   |
| 340   | Monongahela Power Co. ....              | 5.000  | 10/01/06 | 328,565   |

See Notes to Financial Statements

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YOUR TRUST'S INVESTMENTS

December 31, 2002

| PAR<br>AMOUNT<br>(000) | DESCRIPTION   | COUPON | MATURITY | MARKET<br>VALUE |
|------------------------|---|--------|----------|-----------------|
|                        | UTILITY (CONTINUED)                                     |        |          |                 |
| \$ 475                 | PSEG Energy Holdings, Inc. ....                         | 9.125% | 02/10/04 | \$ 470,397      |
| 165                    | PSEG Energy Holdings, Inc. ....                         | 8.625  | 02/15/08 | 137,937         |
|                        |   |        |          | -----           |
|                        |   |        |          | 1,261,524       |
|                        |   |        |          | -----           |
|                        | WIRELESS COMMUNICATIONS 3.1%                            |        |          |                 |
| 215                    | American Cellular Corp. ....                            | 9.500  | 10/15/09 | 41,925          |
| 845                    | Nextel Communications, Inc. ....                        | 9.375  | 11/15/09 | 768,950         |
| 143                    | Telecorp PCS, Inc. ....                                 | 10.625 | 07/15/10 | 154,440         |
|                        |   |        |          | -----           |
|                        |   |        |          | 965,315         |
|                        |   |        |          | -----           |
|                        | TOTAL CORPORATE BONDS 178.3%.....                       |        |          | 54,779,996      |
|                        |   |        |          | -----           |
|                        | GOVERNMENT AND GOVERNMENT AGENCY<br>OBLIGATIONS 3.5%    |        |          |                 |
| 405                    | Federal Republic of Brazil (Brazil).....                | 11.250 | 07/26/07 | 310,838         |
| 110                    | United Mexican States (Mexico).....                     | 8.375  | 01/14/11 | 124,575         |
| 550                    | United Mexican States (Mexico).....                     | 8.625  | 03/12/08 | 633,325         |
|                        |   |        |          | -----           |
|                        | TOTAL GOVERNMENT AND GOVERNMENT AGENCY OBLIGATIONS..... |        |          | 1,068,738       |
|                        |   |        |          | -----           |

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DESCRIPTION

|   |         |
|---|---------|
| EQUITIES 0.9%   |         |
| DecisionOne Corp. (2,450 common shares) (d) (e).....        | 0       |
| DecisionOne Corp. (5,386 common stock warrants) (d) (e).... | 0       |
| Globix Corp. (8,945 common shares) (e).....                 | 17,890  |
| HCI Direct, Inc. (30,357 common shares) (d) (e).....        | 236,785 |
| Hosiery Corp. of America, Inc. (500 common shares) (e)..... | 5       |
| McLeodUSA, Inc. (1,087 common stock warrants) (e).....      | 380     |
| McLeodUSA, Inc. (490 preferred shares) (e).....             | 2,009   |
| Pioneer Cos., Inc. (3,675 common shares) (e).....           | 6,615   |
| Star Gas Partners L.P. (220 limited partnership units)..... | 4,070   |
| VS Holdings, Inc. (8,891 common shares) (d) (e).....        | 1,660   |
|   | -----   |
| TOTAL EQUITIES.....   | 269,414 |
|   | -----   |

See Notes to Financial Statements

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YOUR TRUST'S INVESTMENTS

December 31, 2002

DESCRIPTION

|  |              |
|--|--------------|
| TOTAL LONG-TERM INVESTMENTS 182.7%   |              |
| (Cost \$67,186,412).....   | \$56,118,148 |
| REPURCHASE AGREEMENT 4.6%  |              |
| State Street Bank & Trust Co. (\$1,402,000 par collateralized<br>by U.S. Government obligations in a pooled cash account,<br>dated 12/31/02, to be sold on 01/02/03 at \$1,402,082)<br>(Cost \$1,402,000)..... | 1,402,000    |
|  | -----        |
| TOTAL INVESTMENTS 187.3%   |              |
| (Cost \$68,588,412).....   | 57,520,148   |
| OTHER ASSETS IN EXCESS OF LIABILITIES 3.3%.....  | 1,029,007    |
| PREFERRED SHARES (INCLUDING ACCRUED<br>DISTRIBUTIONS) (90.6%).....   | (27,832,898) |
|  | -----        |
| NET ASSETS APPLICABLE TO COMMON SHARES 100.0%.....   | \$30,716,257 |
|  | =====        |

(a) Non-income producing as security is in default.

(b) 144A securities are those which are exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.

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- (c) This borrower has filed for protection in federal bankruptcy court.
- (d) Market value is determined in accordance with procedures established in good faith by the Board of Trustees.
- (e) Non-income producing security.
- (f) Payment-in-kind security.

See Notes to Financial Statements

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FINANCIAL STATEMENTS  
Statement of Assets and Liabilities  
December 31, 2002

|  |               |
|--|---------------|
| <b>ASSETS:</b>   |               |
| Total Investments (Cost \$68,588,412).....   | \$ 57,520,148 |
| Cash.....  | 279           |
| Interest Receivable.....   | 1,281,638     |
| Other.....   | 579           |
|  | -----         |
| Total Assets.....  | 58,802,644    |
|  | -----         |
| <b>LIABILITIES:</b>  |               |
| <b>Payables:</b>   |               |
| Investment Advisory Fee.....   | 34,755        |
| Affiliates.....  | 5,887         |
| Trustees' Deferred Compensation and Retirement Plans.....  | 133,182       |
| Accrued Expenses.....  | 79,665        |
|  | -----         |
| Total Liabilities.....   | 253,489       |
| Preferred Shares (including accrued distributions).....  | 27,832,898    |
|  | -----         |
| NET ASSETS APPLICABLE TO COMMON SHARES.....  | \$ 30,716,257 |
|  | =====         |
| NET ASSET VALUE PER COMMON SHARE (\$30,716,257 divided by<br>8,109,000 shares outstanding).....  | \$ 3.79       |
|  | =====         |
| <b>NET ASSETS CONSIST OF:</b>  |               |
| Common Shares (\$.01 par value with an unlimited number of<br>shares authorized, 8,109,000 shares issued and<br>outstanding).....            | \$ 81,090     |
| Paid in Surplus.....   | 66,761,242    |
| Accumulated Undistributed Net Investment Income.....   | (1,036,698)   |
| Net Unrealized Depreciation.....   | (11,068,264)  |
| Accumulated Net Realized Loss.....   | (24,021,113)  |
|  | -----         |
| NET ASSETS APPLICABLE TO COMMON SHARES.....  | \$ 30,716,257 |
|  | =====         |
| PREFERRED SHARES (\$.01 par value, authorized 100,000,000<br>shares, 1,112 issued with liquidation preference of<br>\$25,000 per share)..... | \$ 27,800,000 |
|  | -----         |
| NET ASSETS INCLUDING PREFERRED SHARES.....   | \$ 58,516,257 |
|  | =====         |

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See Notes to Financial Statements

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Statement of Operations  
For the Year Ended December 31, 2002

|  |                |
|--|----------------|
| INVESTMENT INCOME:   |                |
| Interest.....  | \$ 5,584,096   |
| Dividends.....   | 506            |
| Other.....   | 34,012         |
|  | -----          |
| Total Income.....  | 5,618,614      |
|  | -----          |
| EXPENSES:  |                |
| Investment Advisory Fee.....   | 451,942        |
| Preferred Share Maintenance.....   | 91,437         |
| Shareholder Services.....  | 38,409         |
| Legal.....   | 35,964         |
| Custody.....   | 13,791         |
| Trustees' Fees and Related Expenses.....                                       | 8,751          |
| Other.....   | 122,604        |
|  | -----          |
| Total Expenses.....  | 762,898        |
|  | -----          |
| NET INVESTMENT INCOME.....   | \$ 4,855,716   |
|  | =====          |
| REALIZED AND UNREALIZED GAIN/LOSS:   |                |
| Net Realized Loss.....   | \$ (8,628,105) |
|  | -----          |
| Unrealized Appreciation/Depreciation:  |                |
| Beginning of the Period.....   | (12,489,998)   |
| End of the Period.....   | (11,068,264)   |
|  | -----          |
| Net Unrealized Appreciation During the Period.....                             | 1,421,734      |
|  | -----          |
| NET REALIZED AND UNREALIZED LOSS.....  | \$ (7,206,371) |
|  | =====          |
| DISTRIBUTIONS TO PREFERRED SHAREHOLDERS.....                                   | \$ (565,742)   |
|  | =====          |
| NET DECREASE IN NET ASSETS APPLICABLE TO COMMON SHARES FROM<br>OPERATIONS..... | \$ (2,916,397) |
|  | =====          |

See Notes to Financial Statements

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Statements of Changes in Net Assets

| YEAR ENDED        | YEAR ENDED        |
|-------------------|-------------------|
| DECEMBER 31, 2002 | DECEMBER 31, 2001 |
| -----             |                   |

FROM INVESTMENT ACTIVITIES:

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|   |              |              |
|---|--------------|--------------|
| Operations:   |              |              |
| Net Investment Income.....  | \$ 4,855,716 | \$ 7,293,789 |
| Net Realized Loss.....  | (8,628,105)  | (6,366,705)  |
| Net Unrealized Appreciation During the Period....   | 1,421,734    | 1,406,736    |
| Distributions to Preferred Shareholders:  |              |              |
| Net Investment Income.....  | (526,962)    | (1,474,556)  |
| Return of Capital Distribution.....   | (38,780)     | (10,892)     |
|   | -----        | -----        |
| Change in Net Assets Applicable to Common Shares<br>from Operations.....  | (2,916,397)  | 848,372      |
| Distributions to Common Shareholders:   |              |              |
| Net Investment Income.....  | (4,682,374)  | (5,939,518)  |
| Return of Capital Distribution.....   | (344,582)    | (43,874)     |
|   | -----        | -----        |
| NET CHANGE IN NET ASSETS APPLICABLE TO COMMON<br>SHARES FROM INVESTMENT ACTIVITIES.....   | (7,943,353)  | (5,135,020)  |
| NET ASSETS APPLICABLE TO COMMON SHARES:   |              |              |
| Beginning of the Period.....  | 38,659,610   | 43,794,630   |
|   | -----        | -----        |
| End of the Period (Including accumulated<br>undistributed net investment income of<br>(\$1,036,698) and (\$1,220,331), respectively)... | \$30,716,257 | \$38,659,610 |
|   | =====        | =====        |

See Notes to Financial Statements

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Financial Highlights

THE FOLLOWING SCHEDULE PRESENTS FINANCIAL HIGHLIGHTS FOR ONE COMMON SHARE OF THE TRUST OUTSTANDING THROUGHOUT THE PERIODS INDICATED.

|   | 2002    | 2001 (c) | 2000    |
|---|---------|----------|---------|
| NET ASSET VALUE, BEGINNING OF THE PERIOD.....                               | \$ 4.77 | \$ 5.40  | \$ 6.56 |
|   | -----   | -----    | -----   |
| Net Investment Income.....  | .60     | .90      | 1.10    |
| Net Realized and Unrealized Gain/Loss.....                                  | (.89)   | (.61)    | (1.11)  |
| Common Share Equivalent of Distributions Paid to<br>Preferred Shareholders: |         |          |         |
| Net Investment Income.....  | (.07)   | (.18)    | (.33)   |
| Return of Capital Distributions.....  | -0-*    | -0-*     | -0-*    |
|   | -----   | -----    | -----   |
| Total from Investment Operations.....                                       | (.36)   | .11      | (.34)   |
| Distributions Paid to Common Shareholders:                                  |         |          |         |
| Net Investment Income.....  | (.58)   | (.73)    | (.76)   |
| Return of Capital Distributions.....  | (.04)   | (.01)    | (.06)   |
|   | -----   | -----    | -----   |
| NET ASSET VALUE, END OF THE PERIOD.....                                     | \$ 3.79 | \$ 4.77  | \$ 5.40 |
|   | =====   | =====    | =====   |
| Common Share Market Price Per Share at End of the<br>Period.....            | \$ 4.07 | \$ 5.75  | \$ 5.69 |

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|  |          |          |          |
|--|----------|----------|----------|
| Total Return (a).....  | -19.86%  | 13.57%   | 12.13%   |
| Net Assets Applicable to Common Shares at End of the<br>Period (In millions).....            | \$ 30.7  | \$ 38.7  | \$ 43.8  |
| Ratio of Expenses to Average Net Assets Applicable to<br>Common Shares (b).....              | 2.28%    | 2.14%    | 2.03%    |
| Ratio of Net Investment Income to Average Net Assets<br>Applicable to Common Shares (b)..... | 14.50%   | 16.83%   | 18.16%   |
| Portfolio Turnover.....  | 81%      | 63%      | 40%      |
| SUPPLEMENTAL RATIOS:   |          |          |          |
| Ratio of Expenses to Average Net Assets Including<br>Preferred Shares (b).....               | 1.18%    | 1.15%    | 1.07%    |
| Ratio of Net Investment Income to Average Net Assets<br>Applicable to Common Shares (d)..... | 12.93%   | 13.40%   | 12.66%   |
| SENIOR SECURITIES:   |          |          |          |
| Total Preferred Shares Outstanding.....  | 1,112    | 1,360    | 1,520    |
| Asset Coverage Per Preferred Share (e).....  | \$52,652 | \$53,426 | \$53,812 |
| Involuntary Liquidating Preference Per Preferred<br>Share.....                               | \$25,000 | \$25,000 | \$25,000 |
| Average Market Value Per Preferred Share.....  | \$25,000 | \$25,000 | \$25,000 |

\* Amount is less than \$.01.

- (a) Total return assumes an investment at the common share market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Trust's dividend reinvestment plan, and sale of all shares at the closing common share market price at the end of the period indicated.
- (b) Ratios do not reflect the effect of dividend payments to preferred shareholders.
- (c) As required, effective January 1, 2001, the Trust has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on fixed income securities. The effect of this change for the period ended December 31, 2001 was to decrease net investment income per share by \$.02, increase net realized and unrealized gains and losses per share by \$.02 and decrease the ratio of net investment income to average net assets applicable to common shares by .40%. Per share, ratios and supplemental data for periods prior to December 31, 2001 have not been restated to reflect this change in presentation.
- (d) Ratios reflect the effect of dividend payments to preferred shareholders.
- (e) Calculated by subtracting the Trust's total liabilities (not including the preferred shares) from the Trust's total assets and dividing this by the number of preferred shares outstanding.

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YEAR ENDED DECEMBER 31,

| 1999    | 1998    | 1997    | 1996    | 1995    | 1994    | 1993    |
|---------|---------|---------|---------|---------|---------|---------|
| \$ 7.59 | \$ 8.44 | \$ 8.31 | \$ 8.12 | \$ 7.32 | \$ 8.98 | \$ 7.92 |
| 1.14    | 1.18    | 1.20    | 1.23    | 1.27    | 1.28    | 1.42    |
| (1.00)  | (.77)   | .18     | .21     | .81     | (1.53)  | 1.02    |

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|          |           |           |           |           |           |           |
|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| (.27)    | (.30)     | (.29)     | (.29)     | (.32)     | (.23)     | (.18)     |
| -0-      | -0-       | -0-       | -0-       | -0-       | -0-       | -0-       |
| (.13)    | .11       | 1.09      | 1.15      | 1.76      | (.48)     | 2.26      |
| (.90)    | (.96)     | (.96)     | (.96)     | (.96)     | (1.18)    | (1.20)    |
| -0-      | -0-       | -0-       | -0-       | -0-       | -0-       | -0-       |
| \$ 6.56  | \$ 7.59   | \$ 8.44   | \$ 8.31   | \$ 8.12   | \$ 7.32   | \$ 8.98   |
| \$ 5.75  | \$ 8.625  | \$ 9.8125 | \$ 9.375  | \$ 8.75   | \$ 7.50   | \$ 9.75   |
| -25.28%  | -2.73%    | 15.34%    | 18.91%    | 30.33%    | -12.94%   | 17.01%    |
| \$ 53.2  | \$ 61.6   | \$ 68.4   | \$ 67.4   | \$ 65.8   | \$ 59.4   | \$ 72.8   |
| 1.97%    | 1.92%     | 1.83%     | 1.89%     | 1.96%     | 1.97%     | 1.72%     |
| 16.32%   | 14.54%    | 14.43%    | 15.19%    | 16.19%    | 15.75%    | 16.46%    |
| 56%      | 65%       | 98%       | 94%       | 124%      | 125%      | 140%      |
| 1.10%    | 1.14%     | 1.10%     | 1.12%     | 1.15%     | 1.17%     | 1.05%     |
| 12.41%   | 10.85%    | 10.93%    | 11.58%    | 12.09%    | 12.87%    | 14.41%    |
| 1,800    | 900       | 900       | 900       | 900       | 900       | 900       |
| \$54,557 | \$118,418 | \$126,015 | \$124,849 | \$123,135 | \$115,957 | \$130,926 |
| \$25,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 |
| \$25,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 |

See Notes to Financial Statements

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NOTES TO  
FINANCIAL STATEMENTS

December 31, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

Van Kampen High Income Trust II (the "Trust") is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended. The Trust's investment objective is to provide high current income, while seeking to preserve shareholders' capital through investment in a professionally managed diversified portfolio of high yield, fixed income securities. The Trust commenced investment operations on April 28, 1989.

The following is a summary of significant accounting policies consistently followed by the Trust in the preparation of its financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. SECURITY VALUATION Investments are stated at value using market quotations or indications of value obtained from an independent pricing service. For those securities where quotations or prices are not available, valuations are obtained from yield data relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by the Board of Trustees. Short-term securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates market value.

B. SECURITY TRANSACTIONS Security transactions are recorded on a trade date basis. Realized gains and losses are determined on an identified cost basis.

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The Trust may invest in repurchase agreements, which are short-term investments in which the Trust acquires ownership of a debt security and the seller agrees to repurchase the security at a future time and specified price. The Trust may invest independently in repurchase agreements, or transfer uninvested cash balances into a pooled cash account along with other investment companies advised by Van Kampen Investment Advisory Corp. (the "Adviser") or its affiliates, the daily aggregate of which is invested in repurchase agreements. Repurchase agreements are fully collateralized by the underlying debt security. The Trust will make payment for such securities only upon physical delivery or evidence of book entry transfer to the account of the custodian bank. The seller is required to maintain the value of the underlying security at not less than the repurchase proceeds due the Trust.

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2002

C. INVESTMENT INCOME Interest income is recorded on an accrual basis. Bond discount is accreted and premium is amortized over the expected life of each applicable security.

D. FEDERAL INCOME TAXES It is the Trust's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no provision for federal income taxes is required.

The Trust intends to utilize provisions of the federal income tax laws which allow it to carry a realized capital loss forward for eight years following the year of the loss and offset such losses against any future realized capital gains. At December 31, 2002, the Trust had an accumulated capital loss carryforward for tax purposes of \$22,397,747 which expires between December 31, 2003 and December 31, 2010. Of this amount, \$2,448,303 will expire on December 31, 2003.

At December 31, 2002, the cost and related gross unrealized appreciation and depreciation are as follows:

|   |                |
|---|----------------|
| Cost of investments for tax purposes.....           | \$ 68,913,329  |
|   | =====          |
| Gross tax unrealized appreciation.....              | \$ 1,696,272   |
| Gross tax unrealized depreciation.....              | (13,089,453)   |
|   | -----          |
| Net tax unrealized depreciation on investments..... | \$(11,393,181) |
|   | =====          |

E. DISTRIBUTION OF INCOME AND GAINS The Trust declares and pays monthly dividends from net investment income to common shareholders. Net realized gains, if any, are distributed annually to common shareholders. Distributions from net realized gains for book purposes may include short-term capital gains which are included in ordinary income for tax purposes.

The tax character of distributions paid during the years ended December 31, 2002 and 2001 was as follows:

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|                          | 2002        | 2001        |
|--------------------------|-------------|-------------|
| Distributions paid from: |             |             |
| Ordinary income.....     | \$5,224,881 | \$7,537,483 |
| Return of capital.....   | 383,362     | 54,747      |
|                          | -----       | -----       |
|                          | \$5,608,243 | \$7,592,230 |

Due to inherent differences in the recognition of income, expenses and realized gains/losses under accounting principles generally accepted in the United States of America and federal income tax purposes, permanent differences between

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NOTES TO  
FINANCIAL STATEMENTS

December 31, 2002

book and tax basis reporting for the 2002 fiscal year have been identified and appropriately reclassified. Permanent differences of \$549,828 relating to book to tax amortization differences were reclassified from accumulated undistributed net investment income to accumulated net realized loss, \$12,575 relating to fee income received from tender offers were reclassified from accumulated undistributed net investment income to accumulated net realized loss, \$383,362 relating to return of capital distributions were reclassified from accumulated undistributed net investment income to capital, and \$902,223 relating to a portion of the capital loss carryforward that expired during the tax year ended December 31, 2002, were reclassified from accumulated net realized loss to capital.

Net realized gains or losses may differ for financial reporting and tax purposes as a result of the deferral of losses relating to wash sale transactions and as a result of post-October losses which may not be recognized for tax purposes until the first day of the following fiscal year.

F. RECLASSIFICATIONS In accordance with the provisions of EITF D-98, "Classification and Measurement of Redeemable Securities", effective for the current period, the Trust has reclassified its Auction Preferred Shares ("APS") outside of permanent equity in the Net Assets section of the Statement of Assets and Liabilities. In addition, distributions to APS shareholders are now classified as a component of the "Net decrease in net assets applicable to common shares from operations" on the Statement of Operations and the Statements of Changes in Net Assets and as a component of the "Total from Investment Operations" on the Financial Highlights. Prior year amounts presented have been reclassified to conform to this period's presentation. This change has no impact on the net assets applicable to common shares of the Trust.

2. INVESTMENT ADVISORY AGREEMENT AND  
OTHER TRANSACTIONS WITH AFFILIATES

Under the terms of the Trust's Investment Advisory Agreement, the Adviser will provide investment advice and facilities to the Trust for an annual fee payable monthly of .70% of the average daily net assets of the Trust.

For the year ended December 31, 2002, the Trust recognized expenses of approximately \$20,700 representing legal services provided by Skadden, Arps, Slate, Meagher & Flom (Illinois), counsel to the Trust, of which a trustee of

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the Trust is an affiliated person.

Under separate Accounting Services and Legal Services agreements, the Adviser provides accounting and legal services to the Trust. The Adviser allocates the cost of such services to each trust. For the year ended December 31, 2002, the Trust recognized expenses of approximately \$28,200 representing Van Kampen

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2002

Investment Inc.'s or its affiliates (collectively "Van Kampen") cost of providing accounting and legal services to the Trust, which are reported as part of "Other" and "Legal" expenses, respectively, in the Statement of Operations.

Certain officers and trustees of the Trust are also officers and directors of Van Kampen. The Trust does not compensate its officers or trustees who are officers of Van Kampen.

The Trust provides deferred compensation and retirement plans for its trustees who are not officers of Van Kampen. Under the deferred compensation plan, trustees may elect to defer all or a portion of their compensation to a later date. Benefits under the retirement plan are payable upon retirement for a ten-year period and are based upon each trustee's years of service to the Trust. The maximum annual benefit per trustee under the plan is \$2,500.

#### 3. INVESTMENT TRANSACTIONS

During the period, the cost of purchases and proceeds from sales of investments, excluding short-term investments were \$48,873,403 and \$51,846,575, respectively.

#### 4. AUCTION PREFERRED SHARES

As of December 31, 2002, the Trust has outstanding 1,112 APS. Dividends are cumulative and the dividend rate is currently reset every 28 days through an auction process. The rate in effect on December 31, 2002 was 1.60%. During the year ended December 31, 2002, the rates ranged from 1.60% to 2.00%.

The Trust pays annual fees equivalent to .25% of the preferred share liquidation value for the remarketing efforts associated with the preferred auctions. These fees are included as a component of Preferred Share Maintenance expense.

The APS are redeemable at the option of the Trust in whole or in part at the liquidation value of \$25,000 per share plus accumulated and unpaid dividends. The Trust is subject to certain asset coverage tests and the APS are subject to mandatory redemption if the tests are not met.

On June 28, 2002, the Trust redeemed 132 shares of its APS with a liquidation value of \$25,000 per share.

On July 30, 2002, the Trust redeemed an additional 116 shares of its APS with a liquidation value of \$25,000 per share.

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### REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees and Shareholders of Van Kampen High Income Trust II

We have audited the accompanying statement of assets and liabilities of Van Kampen High Income Trust II (the "Trust"), including the portfolio of investments, as of December 31, 2002, the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The Trust's financial highlights for the periods ended prior to December 31, 2000, were audited by other auditors whose report, dated February 4, 2000, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the Trust's custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Van Kampen High Income Trust II as of December 31, 2002, the results of its operations, the changes in its net assets and the financial highlights for the respective stated periods, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP  
Chicago, Illinois  
February 7, 2003

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### DIVIDEND REINVESTMENT PLAN

The Trust offers a Dividend Reinvestment Plan (the "Plan") pursuant to which Common Shareholders who are participants in the Plan may have all distributions of dividends and capital gains automatically reinvested in Common Shares of the Trust. All Common Shareholders are deemed to be participants in the Plan unless they specifically elect not to participate. Common Shareholders who elect not to participate in the Plan will receive all distributions of dividends and capital gains in cash paid by check mailed directly to the Common Shareholder by the Trust's dividend disbursing agent.

### HOW THE PLAN WORKS

State Street Bank and Trust Company, as your Plan Agent, serves as agent for the Common Shareholders in administering the Plan. After the Trust declares a dividend or determines to make a capital gains distribution, the Plan Agent will, as agent for the participants, receive the cash payment and use it to buy Common Shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. The Trust will not issue any new Common Shares

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in connection with the Plan. All reinvestments are in full and fractional Common Shares, carried to three decimal places.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Trust reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to all Common Shareholders of the Trust at least 90 days before the record date for the dividend or distribution. The Plan also may be amended or terminated by the Plan Agent, with the written consent of the Trust, by providing at least 90 days written notice to all Participants in the Plan.

### COSTS OF THE PLAN

The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Trust. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends and distributions. No other charges will be made to participants for reinvesting dividends or capital gains distributions, except for certain brokerage commissions, as described above.

### TAX IMPLICATIONS

You will receive tax information annually for your personal records and to help you prepare your federal income tax return. The automatic reinvestment of dividends and capital gains distributions does not relieve you of any income tax which may be payable on dividends or distributions.

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### RIGHT TO WITHDRAW

All Common Shareholders of the Trust are deemed to be participants in the Plan unless they specifically elect not to participate. You may withdraw from the Plan at any time by calling 1-800-341-2929 or by writing State Street Bank and Trust Company. If you withdraw, you will receive, without charge, a share certificate issued in your name for all full Common Shares credited to your account under the Plan, and a cash payment will be made for any fractional Common Share credited to your account under the Plan. You may again elect to participate in the Plan at any time by calling 1-800-341-2929 or writing to the Trust at:

2800 Post Oak Blvd.  
Houston, TX 77056  
Attn: Closed-End Funds

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### BOARD OF TRUSTEES AND IMPORTANT ADDRESSES VAN KAMPEN HIGH INCOME TRUST II

#### BOARD OF TRUSTEES

DAVID C. ARCH  
ROD DAMMEYER  
HOWARD J KERR  
THEODORE A. MYERS  
RICHARD F. POWERS, III\* - Chairman  
HUGO F. SONNENSCHNEIN

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WAYNE W. WHALEN\*

INVESTMENT ADVISER

VAN KAMPEN INVESTMENT ADVISORY CORP.  
 1 Parkview Plaza  
 P.O. Box 5555  
 Oakbrook Terrace, Illinois 60181-5555

CUSTODIAN AND TRANSFER AGENT

STATE STREET BANK AND TRUST COMPANY  
 c/o EquiServe  
 P.O. Box 43011  
 Providence, Rhode Island 02940-3011

LEGAL COUNSEL

SKADDEN, ARPS, SLATE,  
 MEAGHER & FLOM (ILLINOIS)  
 333 West Wacker Drive  
 Chicago, Illinois 60606

INDEPENDENT AUDITORS

DELOITTE & TOUCHE LLP  
 180 North Stetson Avenue  
 Chicago, Illinois 60601

\* "Interested persons" of the Trust, as defined in the Investment Company Act of 1940, as amended.

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TRUSTEE AND OFFICER INFORMATION

The business and affairs of the Trust are managed under the direction of the Trust's Board of Trustees and the Trust's officers appointed by the Board of Trustees. The tables below list the trustees and officers of the Trust and their principal occupations for the last five years, other directorships held by the trustees and their affiliations, if any, with Van Kampen Investments Inc. ("Van Kampen Investments"), Van Kampen Investment Advisory Corp. ("Advisory Corp."), Van Kampen Asset Management Inc. ("Asset Management"), Van Kampen Funds Inc. (the "Distributor"), Van Kampen Advisors Inc., Van Kampen Exchange Corp. and Van Kampen Investor Services Inc. ("Investor Services"). Advisory Corp. and Asset Management sometimes are referred to herein collectively as the "Advisers." For purposes hereof, the term "Fund Complex" includes each of the investment companies advised by the Advisers or their affiliates. Trustees serve three year terms or until their successors are duly elected and qualified. Officers are annually elected by the trustees.

INDEPENDENT TRUSTEES:

| NAME, AGE AND ADDRESS<br>OF INDEPENDENT TRUSTEE | POSITION(S)<br>HELD WITH<br>TRUST | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS | NUMBER OF<br>FUNDS IN<br>FUND<br>COMPLEX<br>OVERSEEN<br>BY TRUSTEE | OTH<br>HEL |
|---|-----------------------------------|--|--|--|------------|
|---|-----------------------------------|--|--|--|------------|

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|   |         |                       |   |    |   |
|---|---------|-----------------------|---|----|---|
| David C. Arch (57)<br>Blistex Inc.<br>1800 Swift Drive<br>Oak Brook, IL 60523 | Trustee | Trustee<br>since 1989 | Mr. Arch is Chairman and Chief Executive Officer of Blistex Inc., a consumer health care products manufacturer, and former Director of the World Presidents Organization-Chicago Chapter. Mr. Arch is also a Trustee or Managing General Partner of other investment companies advised by the Advisers. | 37 | Mr.<br>mem<br>of<br>Hea<br>a n<br>org<br>ser<br>bas |
|---|---------|-----------------------|---|----|---|

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| NAME, AGE AND ADDRESS<br>OF INDEPENDENT TRUSTEE  | POSITION(S)<br>HELD WITH<br>TRUST | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS   | NUMBER OF<br>FUNDS IN<br>FUND<br>COMPLEX<br>OVERSEEN<br>BY TRUSTEE | OTH<br>HEL  |
|--|-----------------------------------|--|--|--|---|
| Rod Dammeyer (62)<br>CAC, llc.<br>676 North Michigan Avenue<br>Suite 2800<br>Chicago, IL 60611 | Trustee                           | Trustee<br>since 1989                                | Mr. Dammeyer is President of CAC, llc., a private company offering capital investment and management advisory services. Mr. Dammeyer is also a Trustee or Managing General Partner of other investment companies advised by the Advisers. Prior to February 2001, Mr. Dammeyer was Vice Chairman and Director of Anixter International, Inc. and IMC Global Inc. Prior to July 2000, Mr. Dammeyer was a Managing Partner of Equity Group Corporate Investment (EGI), a company that makes private investments in other companies. Prior to 1997, Mr. Dammeyer was President, Chief Executive Officer and a Director of Great | 37   | Mr.<br>mem<br>of<br>Tel<br>Inc<br>Inc<br>Cor<br>The<br>and<br>Sys<br>mem<br>of<br>Uni<br>Chi<br>and<br>Pri<br>Mr.<br>mem<br>of<br>All<br>Com<br>Cor<br>Hea<br>Tra<br>Net<br>Sur<br>Gru<br>Mex<br>to<br>Dam<br>Dir |

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American Management & Investment, Inc., a diversified manufacturing company.

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE  | POSITION(S) HELD WITH TRUST | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS  | NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE | OTH HEL   |
|---|-----------------------------|--|--|---|---|
| Howard J Kerr (67)<br>736 North Western Avenue<br>P.O. Box 317<br>Lake Forest, IL 60045 | Trustee                     | Trustee since 1992                       | Mr. Kerr is a Trustee or Managing General Partner of other investment companies advised by the Advisers. Prior to 1998, Mr. Kerr was the President and Chief Executive Officer of Pocklington Corporation, Inc., an Investment holding company.  | 37  | Mr.<br>Dir<br>Foo<br>Can<br>cru<br>pro<br>pac<br>ope<br>Mar<br>and<br>Ban |
| Theodore A. Myers (72)<br>550 Washington Avenue<br>Glencoe, IL 60022                    | Trustee                     | Trustee since 1989                       | Mr. Myers is a financial consultant. Mr. Myers is also a Trustee or Managing General Partner of other investment companies advised by the Advisers. Prior to 1998, Mr. Myers was a Senior Financial Advisor (and, prior to 1997, an Executive Vice President, Chief Financial Officer and Director) of Qualitech Steel Corporation, a producer of high quality engineered steels for automotive, | 37  | Mr.<br>Dir<br>Lif<br>(fo<br>COV<br>Ins<br>to<br>was<br>McL                |

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transportation and capital goods industries. Prior to 1997, Mr. Myers was a member of the Arthur Andersen Chief Financial Officers' Committee.

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE                          | POSITION(S) HELD WITH TRUST | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS   | NUMBER OF FUNDS IN FUND COMPLEX OVERSEEN BY TRUSTEE | OTHER HELD      |
|---|-----------------------------|--|---|---|-----------------|
| Hugo F. Sonnenschein (62)<br>1126 E. 59th Street<br>Chicago, IL 60637 | Trustee                     | Trustee since 1994                       | Mr. Sonnenschein is President Emeritus and Honorary Trustee of the University of Chicago and the Hutchinson Distinguished Service Professor in the Department of Economics at the University of Chicago. Prior to July 2000, Mr. Sonnenschein was President of the University of Chicago. Mr. Sonnenschein is a member of the Board of Trustees of the University of Rochester and a member of its investment committee. Mr. Sonnenschein is a member of the National Academy of Sciences, the American Philosophical Society, and a fellow of the American Academy of Arts and Sciences. Mr. Sonnenschein is also a Trustee or Managing General Partner of other investment companies advised by the Advisers. | 37  | Mr. a D Win Lab |

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INTERESTED TRUSTEES\*:

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| NAME, AGE AND ADDRESS<br>OF INTERESTED TRUSTEE                                 | POSITION(S)<br>HELD WITH<br>TRUST | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS   | NUMBER OF<br>FUNDS IN<br>FUND<br>COMPLEX<br>OVERSEEN<br>BY TRUSTEE | OTH<br>HEL |
|--|-----------------------------------|--|--|--|------------|
| Richard F. Powers, III* (57)<br>1 Parkview Plaza<br>Oakbrook Terrace, IL 60181 | Chairman                          | Trustee<br>since 1999                                | Mr. Powers is Chairman<br>of the Board. Trustee/<br>Director of funds in<br>the Fund Complex. Prior<br>to December 2002, Mr.<br>Powers was Chairman,<br>Director, President,<br>Chief Executive Officer<br>and Managing Director<br>of Van Kampen;<br>Chairman, Director,<br>Chief Executive Officer<br>and Managing Director<br>of the Advisers,<br>Distributor, Van Kampen<br>Advisors Inc. and Van<br>Kampen Management Inc.;<br>Director of other<br>subsidiaries of Van<br>Kampen; and Chief Sales<br>and Marketing Officer<br>of Morgan Stanley Asset<br>Management Inc. Prior<br>to May 1998, Mr. Powers<br>was Executive Vice<br>President; and Director<br>of Marketing of Morgan<br>Stanley and Director of<br>Dean Witter Discover &<br>Co. and Dean Witter<br>Realty. Prior to 1996,<br>Mr. Powers was Director<br>of Dean Witter Reynolds<br>Inc. | 92   |            |
| Wayne W. Whalen* (63)<br>333 West Wacker Drive<br>Chicago, IL 60606            | Trustee                           | Trustee<br>since 1989                                | Mr. Whalen is a Partner<br>in the law firm of<br>Skadden, Arps, Slate,<br>Meagher & Flom<br>(Illinois), legal<br>counsel to certain<br>funds advised by the<br>Advisers. Mr. Whalen is<br>a Trustee, Director or<br>Managing General<br>Partner of other funds<br>advised by the<br>Advisers.  | 92   |            |

\* Such trustee is an "interested person" (within the meaning of Section 2(a)(19) of the 1940 Act). Mr. Whalen is an interested person to certain of the funds in the Fund Complex by reason of his firm currently acting as legal counsel to such funds in the Fund Complex. Mr. Powers is an interested person of such

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funds in the Fund Complex and the Advisers by reason of their current or former positions with Morgan Stanley or its affiliates.

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OFFICERS:

| NAME, AGE AND<br>ADDRESS OF OFFICER  | POSITION(S)<br>HELD WITH<br>TRUST | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS   |
|--|-----------------------------------|--|--|
| <p>Stephen L. Boyd (62)<br/>2800 Post Oak Blvd.<br/>45th Floor<br/>Houston, TX 77056</p> | <p>Vice President</p>             | <p>Officer<br/>since 1998</p>                        | <p>Managing Director and Chief Investment<br/>Investments, and Managing Director<br/>Advisers and Van Kampen Advisors In<br/>President and Chief Investment Offi<br/>Complex. Prior to December 2000, Ex<br/>and Chief Investment Officer of Van<br/>President and Chief Operating Offic<br/>to April 2000, Executive Vice Presi<br/>Officer for Equity Investments of t<br/>October 1998, Vice President and Se<br/>with AIM Capital Management, Inc. P<br/>Senior Vice President and Portfolio<br/>American Capital Asset Management,<br/>Capital Investment Advisory Corp. a<br/>Capital Management, Inc.</p> |

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| NAME, AGE AND<br>ADDRESS OF OFFICER  | POSITION(S)<br>HELD WITH<br>TRUST                    | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS  |
|--|--|--|---|
| <p>Mitchell M. Merin (49)<br/>1221 Avenue of the Americas<br/>New York, NY 10020</p> | <p>President and<br/>Chief Executive<br/>Officer</p> | <p>Officer<br/>since 2002</p>                        | <p>President and Chief Executive Offic<br/>Complex since November 2002. Truste<br/>funds in the Fund Complex since 199<br/>Operating Officer of Morgan Stanley<br/>since December 1998. President and<br/>and Chief Executive Officer since J<br/>Stanley Investment Advisors Inc. an<br/>Company Inc. Chairman, Chief Execut<br/>of Morgan Stanley Distributors Inc.<br/>Chairman since June 1998, and Direc<br/>Morgan Stanley Trust. Director of v<br/>subsidiaries. President of the Morg<br/>May 1999. Previously Chief Strategi<br/>Stanley Investment Advisors Inc. an<br/>Company Inc. and Executive Vice Pre<br/>Distributors Inc. April 1997-June 1<br/>the Morgan Stanley Funds May 1997-A<br/>Vice President of Dean Witter, Disc</p> |

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|   |                             |                       |  |
|---|-----------------------------|-----------------------|--|
| Joseph J. McAlinden (60)<br>1221 Avenue of the Americas<br>New York, NY 10020 | Chief Investment<br>Officer | Officer<br>since 2002 | 1997.<br>Managing Director and Chief Investment<br>Stanley Investment Advisors Inc., Morgan<br>Management Inc. and Morgan Stanley<br>Director of Morgan Stanley Trust fo |
|---|-----------------------------|-----------------------|--|

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| NAME, AGE AND<br>ADDRESS OF OFFICER                                       | POSITION(S)<br>HELD WITH<br>TRUST                              | TERM OF<br>OFFICE AND<br>LENGTH OF<br>TIME<br>SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS   |
|---|--|--|--|
| A. Thomas Smith III (46)<br>1221 Avenue of Americas<br>New York, NY 10020 | Vice President and<br>Secretary                                | Officer<br>since 1999                                | Managing Director and Director of V<br>Director of the Advisers, Van Kampe<br>Distributor, Investor Services and<br>subsidiaries of Van Kampen Investme<br>and General Counsel-Mutual Funds of<br>Investment Advisors, Inc. Vice Pres<br>Officer and Secretary of funds in t<br>July 2001, Managing Director, Gener<br>Director of Van Kampen Investments,<br>Distributor, Investor Services, and<br>subsidiaries of Van Kampen Investme<br>2000, Executive Vice President, Gen<br>and Director of Van Kampen Investme<br>Kampen Advisors Inc., the Distribut<br>certain other subsidiaries of Van K<br>to January 1999, Vice President and<br>Counsel to New York Life Insurance<br>Life"), and prior to March 1997, AS<br>of New York Life. Prior to December<br>Counsel of The Dreyfus Corporation.<br>Senior Associate, Willkie Farr & Ga<br>1989, Staff Attorney at the Securit<br>Commission, Division of Investment<br>Chief Counsel. |
| John R. Reynoldson (49)<br>1 Parkview Plaza<br>Oakbrook Terrace, IL 60181 | Vice President   | Officer<br>since 2000                                | Executive Director of the Advisers<br>Inc. Vice President of funds in the<br>July 2001, Principal and Co-head of<br>Department of the Advisers and Van<br>Prior to December 2000, Senior Vice<br>Advisers and Van Kampen Advisors In<br>managed the investment grade taxabl<br>since July 1999. From July 1988 to<br>government securities bond group fo<br>Reynoldson has been with Asset Mana  |
| John L. Sullivan (47)<br>1 Parkview Plaza<br>Oakbrook Terrace, IL 60181   | Vice President,<br>Chief Financial<br>Officer and<br>Treasurer | Officer<br>since 1996                                | Executive Director of Van Kampen In<br>and Van Kampen Advisors Inc. Vice P<br>Officer and Treasurer of funds in t<br>Fund Accounting for Morgan Stanley  |

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| NAME, AGE AND ADDRESS OF OFFICER  | POSITION(S) HELD WITH TRUST | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS  |
|---|-----------------------------|--|--|
| John H. Zimmermann, III (45)<br>Harborside Financial Center<br>Plaza 2 - 7th Floor<br>Jersey City, NJ 07311 | Vice President              | Officer since 2000                       | Managing Director and Director of V and Managing Director, President and Distributor. Vice President of fund Prior to December 2000, President of Agency of Illinois Inc., and Senior Director of Van Kampen Investments. December 1997, Mr. Zimmermann was S the Distributor. |

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