

RIVUS BOND FUND

1,650,893 Shares of Beneficial Interest

Rivus Bond Fund (the “Fund”) is issuing transferable rights (“Rights”) to its shareholders. You will receive one Right for each outstanding share of the Fund (“Shares”) you own on July 15, 2009 (the “Record Date”). Rights holders will be entitled to subscribe for new Shares of the Fund (the “Primary Subscription”). For every three Rights that you own, you may buy one new Share (the “Rights Offering”). The number of Rights issued to a shareholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by three. Shareholders on the Record Date who have fully exercised their Primary Subscription may purchase Shares not acquired by other shareholders in the Rights Offering (the “Over-Subscription Privilege”). The Rights Offering will expire at 5:00 p.m., Eastern Time on August 7, 2009 (the “Expiration Date” or the “Pricing Date”), unless the Rights Offering is extended as discussed in this prospectus. The subscription price per Share (the “Subscription Price”) will be 86% of the net asset value per Share (“NAV”) on the Pricing Date. After the expiration of the period beginning on the Record Date and ending on the Expiration Date (the “Subscription Period”), Boenning & Scattergood, Inc. (the “Dealer Manager”) may offer Shares not subscribed for under the Rights Offering to the public at the Subscription Price or to other dealers at the Subscription Price less a selling concession, which offering together with the Rights Offering is hereinafter referred to as the “Offering.” The Subscription Price will include the sales load charged by the Dealer-Manager for its marketing and soliciting services rendered in connection with the Offering.

The Rights are transferable and will be listed for trading on the New York Stock Exchange (“NYSE”) under the symbol “BDF RT.” The Shares are also listed, and the Shares issued pursuant to this Offering will be listed on the NYSE under the symbol “BDF.” On July 10, 2009 (the last date prior to the Shares trading ex-Rights), the last reported NAV was \$17.85 and the last reported sales price per Share on the NYSE was \$16.28.

Shareholders who choose to exercise their Rights will not know the Subscription Price per Share at the time they exercise such Rights since the close of the Rights Offering will be prior to the availability of the Fund’s NAV and other relevant market information on the Pricing Date. The Subscription Price could be more than the market price of the Fund’s Shares on the Pricing Date. Once you subscribe for your new Shares and the Fund receives payment or guarantee of payment, you will not be able to change your investment decision.

The Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940 and organized as a Delaware statutory trust. Its investment objective is to seek a high rate of return, primarily from interest income and trading activity, from a portfolio principally consisting of debt securities. Under normal circumstances, the Fund will invest at least 80% of its total assets in debt securities. An investment in the Fund is not appropriate for all investors. No assurances can be given that the Fund’s objective will be achieved.

For a discussion of certain risk factors and special considerations with respect to owning Shares, see “Risk Factors and Special Considerations” on page 30 of this prospectus.

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

Shareholders who do not fully exercise their Rights should expect that they will, upon completion of the Offering, own a smaller proportional interest in the Fund than they owned prior to the Offering. In addition, because the Subscription Price per Share will be less than the then current NAV, the completion of the Offering will likely result in an immediate dilution of the NAV for all existing shareholders. Such dilution is not currently determinable because it is not known how many Shares will be subscribed for, what the NAV or market price of the Shares will be on the Expiration Date or what the Subscription Price will be. Such dilution could be substantial. If such dilution occurs, shareholders will experience a decrease in the NAV of Shares held by them, irrespective of whether they exercise all or any portion of their Rights. The distribution to shareholders of transferable Rights, which may themselves have intrinsic value, will afford such shareholders the potential of receiving cash payment upon the sale of the Rights, receipt of which may be viewed as partial compensation for the economic dilution of their interests. No assurance can be given that a market for the Rights will develop, or as to the value, if any, that the Rights will have. See “Risk Factors and Special Considerations-Dilution” on page 31.

This prospectus sets forth concisely certain information about the Fund that a prospective investor should know before investing. Investors are advised to read and retain it for future reference. A Statement of Additional Information dated July 15, 2009 (the “SAI”) containing additional information about the Fund has been filed with the SEC and is incorporated by reference in its entirety into this prospectus. A copy of the SAI, the table of contents of which appears on page 44 of this prospectus, may be obtained without charge by contacting the Fund toll free at (800) 331-1710.

	Estimated Subscription Price (1)	Sales Load (2)	Estimated Proceeds to the Fund (3)
Per Share	\$ 15.35	3.75%	\$ 14.51
Total	\$25,341,207.55	3.75%	\$23,959,862.27

(1) Since the Subscription Price will not be determined until after printing and distribution of this prospectus, the Subscription Price above is estimated based on the NAV of a Share of the Fund on July 10, 2009 and applying the pricing formula set forth on the cover page of this prospectus and described below under “Subscription Price” (i.e., 86% of the NAV per Share on July 10, 2009 (the

(Footnotes continued on next page)



The date of this prospectus is July 15, 2009.

(Footnotes continued from cover page)

“Estimated Subscription Price”). The Subscription Price determined on the Pricing Date may be higher or lower than the Estimated Subscription Price presented in the table. If the Subscription Price is higher than the Estimated Subscription Price, shareholders may be required to remit additional amounts. See “Subscription Price” and “Payment For Shares” below.

- (2) In connection with the Rights Offering, the Fund has agreed to pay the Dealer Manager a fee for its marketing and soliciting services equal to an aggregate of 3.75% of the aggregate Subscription Price for the Shares issued pursuant to the Rights Offering and to reimburse the Dealer Manager for out-of-pocket expenses up to \$150,000. The Dealer Manager will reallow to certain broker-dealers in the soliciting group formed by the Dealer Manager solicitation fees of 1.875% of the Subscription Price for Shares issued pursuant to the Rights Offering as a result of their selling efforts, subject to a maximum. The Fund has agreed to indemnify the Dealer Manager against certain liabilities including liabilities under the Securities Act of 1933 and the Investment Company Act of 1940.

The Dealer Manager may purchase unsubscribed for Shares at the Subscription Price less a 3.75% discount and may resell such Shares to broker-dealers that are members of a selling group at the Subscription Price less a selling concession not in excess of 1.50%. The Dealer Manager may allow, and the selling members may reallow, a concession of not more than 0.50% to other brokers and dealers. See “Distribution Arrangements.”

- (3) Expenses incurred by the Fund in connection with the Offering which are estimated to be \$431,050. Amounts received by check prior to the Expiration Date will be deposited in a segregated interest-bearing account pending allocation and distribution of Shares. Interest on subscription monies will be paid to the Fund regardless of whether Shares are issued by the Fund.

In connection with this Offering, the Dealer Manager may effect transactions which stabilize or maintain the market price of the Rights and the Shares of the Fund at levels above those which might otherwise prevail in the open market. Such transactions may be effected on the NYSE or otherwise. Such stabilizing, if commenced, may be discontinued at any time.

MBIA Capital Management Corp. (the “Adviser”) serves as the Fund’s investment adviser. The Adviser’s parent company, MBIA, Inc. and its affiliates (“Affiliated Parties”) may purchase additional Shares through the Primary Subscription and the Over-Subscription Privilege in such manner and on the same terms as other shareholders.

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PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this prospectus. The summary may not contain all of the information that is important to you. To understand the Offering fully you should read the entire document carefully, including the risk factors.

Purpose and Summary of the Offering

The Board of Trustees of the Fund (the “Board”) has determined that it would be in the best interests of the Fund and its existing shareholders to increase the assets of the Fund so that the Fund may be in a better position to take advantage of investment opportunities that may arise. In addition, the Board believes that increasing the size of the Fund may lower the Fund’s expenses as a proportion of average net assets because the Fund’s fixed costs would be spread over a larger asset base. There can be no assurance, however, that an increase in the size of the Fund will lower the Fund’s expense ratio. The Board also believes that a larger number of outstanding Shares and a larger number of beneficial owners of Shares could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of Shares on the NYSE. The Rights Offering seeks to reward existing shareholders by giving them the right to purchase additional Shares at a price below NAV on the Pricing Date without incurring any customary brokerage commissions or other transaction charges. The distribution to shareholders of transferable rights, which themselves may have intrinsic value, will also afford non-subscribing shareholders the potential of receiving a cash payment upon the sale of such rights, receipt of which may be viewed as partial compensation for the economic dilution of their interests in the Fund. See “Purpose of the Offering” below. The Board has discussed at length with the Adviser and others the details of a proposed rights offering and has approved a transferable rights offering, the substantive terms of which would permit shareholders to acquire one new Share of the Fund for each three Rights held (i.e., a one-for-three rights offering) for a subscription price equal to 86% of NAV on the Pricing Date. The Fund will use its best efforts to ensure that an adequate trading market for the Rights will exist but there is no assurance that a market for the Rights will develop.

Important Terms of the Rights Offering

Total number of Shares available for Primary Subscription and pursuant to the Over-Subscription Privilege	1,650,893
Number of Rights you will receive for each outstanding Share you own on the Record Date	One Right for every one Share*
Number of Shares you may purchase with your Rights at the Subscription Price per Share	One Share for every three Rights**
Subscription Price	86% of the NAV on the Pricing Date
Estimated Subscription Price	\$15.35

* The number of Rights to be issued to a shareholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by three.

** Shareholders will be able to acquire additional Shares pursuant to the Over-Subscription Privilege in certain circumstances.

Important Dates for the Rights Offering

Record Date	July 15, 2009
Subscription Period	July 15, 2009 to August 7, 2009*
Expiration Date	August 7, 2009*
Pricing Date	August 7, 2009*
Subscription Certificate and Payment of Shares Due**	August 7, 2009*
Notice of Guaranteed Delivery Due**	August 7, 2009*
Confirmation to Participants	August 19, 2009*
Final Payment of Shares (if any) Due(***)	September 2, 2009*

* Unless the Rights Offering is extended to a date no later than August 21, 2009.

** Record Date Shareholders (defined below) exercising Rights must deliver to the Subscription Agent by the Expiration Date either (i) the Subscription Certificate together with the estimated payment, or (ii) a Notice of Guaranteed Delivery. If a Notice of Guaranteed Delivery is provided, the Subscription Certificate must be received by the Subscription Agent on or before August 12, 2009.

*** Additional amounts may be due at settlement for additional Shares purchased upon exercising Rights because the Estimated Subscription Price may be less than the actual Subscription Price. See “The Rights Offering — Payment for Shares.”

Key Elements of the Rights Offering

One-for-three Offering. The Rights Offering will give shareholders on the Record Date (“Record Date Shareholders”) the “right” to purchase one new Share for every three Rights received. Amounts not divisible by three will be rounded up to allow the purchase of one whole Share. For example, if you own 100 Shares on the Record Date, you will receive 102 Rights entitling you to purchase 34 new Shares of the Fund. Shareholders will be able to exercise all or some of their Rights. However, shareholders who do not exercise all of their Rights will not be able to participate in the Over-Subscription Privilege. See “Over-Subscription Privilege” below.

Transferable Rights The Rights issued in the Rights Offering will be “transferable,” will be traded on the NYSE, and will afford non-subscribing shareholders the option of selling their Rights on the NYSE or through the Subscription Agent. Selling the Rights allows a non-exercising shareholder (i.e., a shareholder who does not wish to purchase additional Shares) the ability to offset some of the economic dilution that would otherwise occur. See “Risk Factors and Special Considerations - Dilution” for a further discussion. In contrast, in a non-transferable rights offering (i.e., an offering where the rights cannot be traded), non-exercising shareholders would experience full economic dilution. There can be no assurance that a liquid trading market will develop for the Rights or that the price at which such Rights trade will approximate the amount of economic dilution otherwise realized by a non-exercising shareholder. The period during which Rights will trade will be limited and, upon expiration of the Subscription Period the Rights will cease to trade and will have no residual value.

Subscription Price New Shares issued upon exercise of Rights will be sold at a price equal to 86% of the NAV on the expiration of the Subscription Period. The Subscription Price will include the sales load charged by the

Dealer-Manager for its marketing and soliciting services rendered in connection with the Offering.

Over-Subscription Privilege If all of the Rights initially issued are not exercised by Record Date Shareholders, any unsubscribed Shares will be offered to other Record Date Shareholders who have fully exercised the Rights initially issued to them and who wish to acquire additional Shares (the “Over-Subscription Privilege”). If registered Shares are insufficient to honor all over-subscriptions, the available Shares will be allocated pro-rata among those who over-subscribe based on the number of Rights originally issued to them. Affiliates of the Fund and Adviser (defined below) may or may not exercise their Over-Subscription Privilege. If these affiliates fully exercise their Over-Subscription Privilege, under certain circumstances (e.g., low shareholder participation in the Rights Offering, the trading of the Rights and the Over-Subscription Privilege), these affiliates could substantially increase their percentage ownership in the Fund at an advantageous price.

Method for Exercising Rights Except as described below, subscription certificates evidencing the Rights (“Subscription Certificates”) will be sent to Record Date Shareholders or their nominees. If you wish to exercise your Rights, you may do so in the following ways:

Notice of Guaranteed Delivery and Subscription Certificate (with payment) sent separately. If, prior to 5:00 p.m., Eastern Time, on the Expiration Date, the Subscription Agent shall have received a notice of guaranteed delivery (“Notice of Guaranteed Delivery”) by telegram or otherwise, from a bank, trust company or broker-dealer guaranteeing delivery of (i) payment of the Estimated Subscription Price of \$15.35 per Share for the Shares subscribed for in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege and (ii) a properly completed and executed Subscription Certificate, the subscription will be accepted by the Subscription Agent. The Subscription Agent will not honor a Notice of Guaranteed Delivery unless a properly completed and executed Subscription Certificate is received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the third Business Day after the Expiration Date. The bank, trust company or broker-dealer that submits a notice of guaranteed delivery on behalf of its clients may charge a service fee for providing this service. You should contact your bank, trust company or broker-dealer for information regarding such fees, if any.

Subscription Certificate sent with Payment. Alternatively, a shareholder can, together with the properly completed and executed Subscription Certificate, send payment for the Shares acquired in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege, to the Subscription Agent based on the Estimated Subscription Price of \$15.35 per Share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the Expiration Date. **Payment pursuant to this method must be in United States dollars by money order or check drawn on a bank located in the United States and must be payable to “Rivus Bond Fund”.**

For purposes of this prospectus, a “Business Day” shall mean any day on which trading is conducted on the NYSE. Rights holders will have no right to rescind a purchase after the Subscription Agent has received the Subscription Certificate or Notice of Guaranteed Delivery. See “The Rights Offering — Method of Exercising Rights” and “The Rights Offering — Payment for Shares.” The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated interest bearing account at Eastern Bank pending distribution of the Shares from the Rights Offering. All interest will accrue to the benefit of the Fund and investors will not earn interest on payments submitted. It is anticipated that any portion of shareholder payments not used will be returned by the Subscription Agent within ten (10) Business Days after the Confirmation Date.

Shareholder inquires should be directed to Georgeson Inc. (the “Information Agent”) at (888) 293-6908.

Sale of Rights. The Rights are transferable until the Expiration Date and will be admitted for trading on the NYSE. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the NYSE will begin three Business Days prior to the Record Date and may be conducted until the close of trading on the last Business Day prior to the Expiration Date. The value of the Rights, if any, will be reflected by the market price. Rights may be sold by individual holders or may be submitted to the Subscription Agent for sale. Any Rights submitted to the Subscription Agent for sale must be received by the Subscription Agent on or before 4:00 p.m. Eastern Time August 6, 2009, one Business Day prior to the Expiration Date, due to normal settlement procedures. Trading of the Rights on the NYSE will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter will be conducted on a regular way basis until and including the last Business Day prior to the Expiration Date. Shares will begin trading ex-Rights two Business Days prior to the Record Date. Trading “ex-Rights” means that Shares traded at such time will not carry with them the benefit of the Rights to be issued in the Rights Offering. If the Subscription Agent receives Rights for sale in a timely manner, it will use its best efforts to sell the Rights on the NYSE. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the price actually received by the Subscription Agent on the day the Rights are sold. Neither the Fund nor the Subscription Agent will be responsible if Rights cannot be sold and neither has guaranteed any minimum sales price for the Rights.

Shareholders are urged to obtain a recent trading price for the Rights on the NYSE from their broker, bank, financial advisor or the financial press.

Offering Fees and Expenses. The Fund has agreed to pay the Dealer Manager a fee for its marketing and soliciting services equal to an aggregate of 3.75% of the aggregate Subscription Price for the Shares issued pursuant to the Rights Offering. The Dealer Manager will reallow to certain broker-dealers in the soliciting group formed by the Dealer Manager solicitation fees of 1.875% of the Subscription Price for Shares issued pursuant to the Rights Offering as a result of their selling efforts, subject to a maximum.

The Dealer Manager may purchase unsubscribed for Shares at the Subscription Price less a 3.75% discount and may resell such Shares to broker-dealers that are members of a selling group at the Subscription Price less a selling concession not in excess of 1.50%. The Dealer Manager may allow, and the selling members may reallow, a concession of not more than 0.50% to other brokers and dealers as described in this prospectus. Other offering expenses incurred by the Fund are estimated at \$431,050 which includes up to \$150,000 that may be paid to the Dealer Manager as partial reimbursement for its expenses relating to the Offering.

Restrictions on Foreign Shareholders. . . . Subscription Certificates will only be mailed to Record Date Shareholders on the Record Date whose addresses are within the United States (other than an APO or FPO address). Record Date Shareholders whose addresses are outside the United States or who have an APO or FPO address and who wish to subscribe to the Offering either in part or in full should contact the Subscription Agent, The Colbent Corporation, by written instruction or recorded telephone conversation no later than three Business Days prior to the Expiration Date. The Fund will determine whether the Offering may be made to any such shareholder. If the Subscription Agent has received no instruction by such date, the Subscription Agent will attempt to sell all Rights and remit the actual proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the price actually received by the Subscription Agent on the day the Rights are sold.

Use of Proceeds The net proceeds of the Offering are estimated to be approximately \$23,959,862. This figure is based on the Estimated Subscription Price per Share of \$15.35 and assumes all Shares offered are sold and that the expenses related to the Offering estimated at approximately \$431,050 are paid. The Adviser anticipates that it will take no longer than three months for the Fund to invest these proceeds in accordance with its investment objective and policies under current market conditions. Pending investment, the proceeds will be invested in short-term debt instruments. See “Use of Proceeds” below.

Information Regarding the Fund

The Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940 (the “1940 Act”) and organized as a Delaware statutory trust. The Fund was initially organized as a Delaware corporation on June 7, 1971 and converted to a Delaware statutory trust pursuant to an Agreement and Declaration of Trust dated June 13, 2006. Its investment objective is to seek a high rate of return, primarily from interest income and trading activity from a portfolio principally consisting of debt securities. It will seek capital appreciation and gain principally by purchasing debt securities at prices the Adviser believes are below their intrinsic value. The Fund will also look to benefit from trading securities to optimize risk-adjusted yields in the Fund. Under normal circumstances, the Fund will invest at least 80% of its total assets in debt securities. The Fund may invest up to 25% of its assets in below investment grade securities (also known as “junk bonds”), and may, but has no current plans to, borrow funds to purchase securities. See “Investment Objective and Policies.” No assurance can be given that the Fund’s investment objective will be achieved. As of July 10, 2009, the Fund had 4,907,678 Shares outstanding. Shares trade on the NYSE under the symbol “BDF.” The average weekly trading volume of the Shares on the NYSE during the six months ended June 30, 2009 was 55,806 Shares. As of July 10, 2009, the aggregate net assets of the Fund were approximately \$87 million.

The Fund's annual portfolio turnover rate during fiscal years ended March 31, 2009, 2008, and 2007 was approximately 21.46%, 17.25%, and 25.90%, respectively. The Adviser may trade securities actively, which could increase the Fund's transaction costs (thus lowering performance) and increase your taxable distributions. The Fund will engage in short-term trading if it believes a transaction, net of costs (including custodian charges and brokerage commissions, if any), will result in improving the appreciation potential or income of its portfolio. Most of the Fund's transactions are expected to be affected in the over-the-counter market directly with market makers acting as principal and will not involve the payment of any brokerage commissions.

Information Regarding the Adviser

MBIA Capital Management Corp. (the "Adviser") acts as the investment adviser to the Fund. The Adviser's officers and employees have substantial experience in evaluating and investing in debt securities. The Fund pays the Adviser from the Fund's assets each month an investment advisory fee at an annualized rate of 0.50% of the first \$100 million of the net asset value of the Fund on the last day of each month and 0.40% of the net asset value of the Fund on the last day of such month in excess of \$100 million. See "Management of the Fund — Investment Adviser."

Risk Factors and Special Considerations

Dilution If you do not exercise all of your Rights, you will likely own a smaller proportional interest in the Fund when the Rights Offering is over (i.e., proportional dilution). In addition, whether or not you exercise your Rights, because the Subscription Price (and net proceeds to the Fund) will be below the Fund's NAV per Share on the Expiration Date the per Share NAV of your Shares will be diluted (reduced) immediately as a result of the Offering (i.e., economic dilution). For example, assuming that all Rights are exercised, that the Fund's NAV on the Expiration Date is \$17.85 (which was the NAV on July 10, 2009), and that the Subscription Price is \$15.35 per share (which was 86% of the NAV on July 10, 2009), the Fund's NAV on this date would be reduced by approximately \$0.84 per share, after giving affect to Dealer Manager fees and other offering expenses. See "Risk Factors and Special Considerations — Dilution," on page 31 herein.

Discount From NAV Shares of closed-end funds frequently trade at a market price that is below their NAV. This is commonly referred to as "trading at a discount." This characteristic of Shares of closed-end funds is a risk separate and distinct from the risk that the Fund's NAV may decrease. Recently, the Fund's Shares have traded at substantial discounts to NAV. See "Share Price Data" on page 11 for historic information on the Fund's trading discounts. The risk of purchasing Shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their Shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Accordingly, the Fund is designed primarily for long-term investors and should not be considered a vehicle for trading purposes. NAV will be reduced following the offering by the amount of offering costs paid by the Fund. See "Risk Factors — Risk of Market Price Discount From Net Asset Value."

Fixed Income Investment Risk. Changes in interest rates will cause the value of securities held in the Fund's portfolio to vary inversely to changes in prevailing interest rates. Interest rate changes have a greater effect on the price of fixed

income securities that have longer durations. Duration is a measure of the expected life of a debt security that is used to determine the sensitivity of the security's price to changes in interest rates. Generally, the longer the Fund's duration, the more sensitive the Fund will be to changes in interest rates. For example, the price of a fixed income fund with a duration of five years would be expected to fall approximately 5% if interest rates rose 1%. If, however, a security is held to maturity, no gain or loss will be realized as a result of changes in prevailing rates. The value of these securities will also be affected by general market and economic conditions and by the creditworthiness of the issuer. Fluctuations in the value of the Fund's securities will cause concomitant fluctuations in the NAV per Share of the Fund. See "Investment Objectives and Policies — Investment Policies — General."

Below Investment Grade Securities

Risk

The Fund may invest up to 25% of its total assets in debt securities rated Ba or B by Moody's Investor Service, Inc. ("Moody's") or BB or B by Standard & Poor's Corporation ("Standard & Poor's") at the time of purchase or in unrated securities of comparable quality. The Fund may also invest no more than 10% of its total assets in debt securities rated B by Moody's or Standard & Poor's at the time of purchase or in unrated securities of comparable quality. Securities rated below Ba by Moody's or below BB by Standard & Poor's are commonly known as "high yield securities" and sometimes as "junk bonds." High yield ("junk") bonds involve substantial risk of loss and are considered predominantly speculative with respect to the issuer's ability to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and those securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks:

- increased price sensitivity to changing interest rates and to a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and
- if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed, which may last for a significant period of time

Current adverse economic conditions are more likely to lead to a weakened capacity of high yield issuers to make principal payments and interest payments when compared with investment grade issuers. The Adviser expects the default rate of high yield issuers to increase meaningfully from the recent past. However, the Adviser believes that current spreads on bonds of high-yield issuers should compensate investors for the risk of increased default rates. The principal amount of high yield securities outstanding has proliferated in the past decade as an increasing number of issuers have used high yield securities for corporate financing.

The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security or securities. There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under those circumstances, may be less than the prices used in calculating the Fund's NAV. See "Risk Factors — High Yield Securities Risk."

FEE TABLE

Shareholder Transaction Expenses

Sales Load (as a percentage of the offering price)(1)	3.75%
Expenses of the Offering (as a percentage of offering price)(2)	1.70%
Dividend Reinvestment Plan Fees	None

Annual Fund Expenses (as a percentage of net assets attributable to Shares)(3)

Management Fees(4)	0.49%
Other Expenses	0.32%
Total Annual Expenses	0.81%

(1) The Fund has agreed to pay the Dealer Manager a fee for its marketing and soliciting services equal to 3.75% of the aggregate Subscription Price for Shares issued pursuant to the Offering. The Dealer Manager will reallow to broker-dealers included in the soliciting group to be formed and managed by the Dealer Manager, solicitation fees equal to 1.875% of the subscription price per Share for each Share issued pursuant to the Rights Offering as a result of their soliciting efforts, subject to a maximum.

The Dealer Manager may purchase unsubscribed for Shares at the Subscription Price less a 3.75% discount and may resell such Shares to broker-dealers that are members of a selling group at the Subscription Price less a selling concession not in excess of 1.50%. The Dealer Manager may allow, and the selling members may reallow, a concession of not more than 0.50% to other brokers and dealers.

(2) These costs include those incurred in connection with this Offering, which are estimated at \$431,050 or approximately 1.80% of the total estimated net proceeds of the offer. These fees and expenses will be borne by the Fund and indirectly by all of the Fund’s shareholders, including those shareholders who do not exercise their rights.

(3) Amounts are based on estimated amounts for the Fund’s current fiscal year after giving effect to anticipated net proceeds of the Offering assuming that all of the Rights are exercised.

(4) The Fund pays the Adviser an annual fee of 0.50% on the first \$100 million of the Fund’s month-end net assets, and 0.40% on assets in excess of \$100 million.

The purpose of the above table is to assist investors in understanding the various costs and expenses that an investor will bear directly or indirectly.

Example

You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:

<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
\$63	\$79	\$97	\$150

This example should not be considered a representation of past or future expenses or rate of return. For more complete descriptions of certain of the Fund’s costs and expenses, see “Management of the Fund — Expenses of the Fund” in this prospectus and the SAI.

FINANCIAL HIGHLIGHTS

The table below sets forth selected financial data for a Share outstanding throughout each period presented. The financial highlights as of or for each annual period presented have been audited by Tait, Weller & Baker LLP, as stated in their report, which is incorporated by reference into the SAI. The following information should be read in conjunction with the Financial Statements and Notes thereto, which are incorporated by reference into or are included in the SAI. The table below contains per Share operating performance data, total investment returns, ratios to average net assets and other supplemental data.

	Year Ended March 31,				
	2009	2008	2007	2006	2005
Per Share Operating Performance:					
Net asset value, beginning of period	\$ 19.01	\$ 20.01	\$ 19.72	\$ 20.62	\$ 21.32
Net investment income(1)	1.06	1.10	1.09	1.10	1.14
Net realized and unrealized gain/(loss) on investments(1)	(3.29)	(0.95)	0.35	(0.85)	(0.59)
Total from investment operations	(2.23)	0.15	1.44	0.25	0.55
Less Distributions:					
Dividends from net investment income	(1.15)	(1.15)	(1.15)	(1.15)	(1.14)
Distributions from tax return of capital	—	—	—	—	(0.11)
Total distributions	(1.15)	(1.15)	(1.15)	(1.15)	(1.25)
Net asset value, end of period	\$ 15.63	\$ 19.01	\$ 20.01	\$ 19.72	\$ 20.62
Per Share market price, end of period	\$ 13.77	\$ 17.14	\$ 18.30	\$ 17.75	\$ 18.26
Total Investment Return(1)					
Based on market value	(13.62)%	(0.10)%	9.93	3.52%	0.22%
Ratios and Supplemental Data:					
Net assets, end of period (in 000's)	\$76,720	\$93,282	\$98,197	\$96,759	\$101,181
Ratio of expenses to average net assets	1.21%	0.88%	1.00%	0.90%	0.89%
Ratio of net investment income to average net assets	6.18%	5.66%	5.57%	5.42%	5.43%
Portfolio turnover rate	21.46%	17.25%	25.90%	24.33%	6.78%
Number of Shares outstanding at end of period (in 000's)	4,908	4,908	4,908	4,908	4,908

(1) Total investment return is calculated assuming a purchase of Shares at the market price on the first day and a sale at the market price on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. The total investment return, if for less than a full year, is not annualized. Past performance is not a guarantee of future results.

THE FUND

Rivus Bond Fund is a diversified, closed-end management investment company organized as a Delaware statutory trust and was formed on June 7, 1971. The Fund was initially organized as a Delaware corporation on June 7, 1971 and converted to a Delaware statutory trust pursuant to an Agreement and Declaration of Trust dated June 13, 2006. The Fund's investment objective is to seek a high rate of return, primarily from interest income and trading activity, from a portfolio principally consisting of debt securities. It will seek capital appreciation and gain by purchasing debt securities at prices that the Adviser believes are below their intrinsic value. The Fund will also look to benefit from trading securities to optimize the risk adjusted yields in the Fund. Under normal circumstances,

the Fund will invest at least 80% of its total assets in debt securities. The Fund may invest up to 25% of its assets in below investment grade securities (also known as “junk bonds”), and may, but has no current plans to, borrow funds to purchase securities. See “Investment Objective and Policies.” No assurance can be given that the Fund’s investment objective will be achieved.

As of July 10, 2009, the Fund had 4,907,678 Shares outstanding. Shares are publicly held and are listed and traded on the NYSE under the symbol “BDF.” The average weekly trading volume of the Shares on the NYSE during the six months ended June 30, 2009 was 55,806 Shares. As of July 10, 2009, the aggregate net assets of the Fund were approximately \$87 million, the NAV was \$17.85, the Share price was \$16.28, and the discount was 8.80%. Historically, Shares have traded at a discount to its NAV.

The following table sets forth, for the periods indicated, the high and low closing sales prices for the Shares on the NYSE, the NAVs per Share that immediately preceded the high and low closing sales prices, and the discount or premium that each sales price represented as a percentage of the preceding NAV:

Share Price Data¹

<u>Quarter Ended</u>	<u>High Closing Sales Price</u>	<u>NAV Preceding High Sales Price</u>	<u>Discount as % of NAV</u>	<u>Low Closing Sales Price</u>	<u>NAV Preceding Low Sales Price</u>	<u>Discount as % of NAV</u>
06/30/09	\$15.99	\$17.59	9.096%	\$13.50	\$15.63	13.628%
03/31/09	\$15.87	\$16.39	3.173%	\$13.17	\$15.45	14.757%
12/31/08	\$14.81	\$15.96	7.206%	\$ 9.93	\$16.06	38.169%
09/30/08	\$16.72	\$18.15	7.879%	\$13.75	\$17.84	22.926%
06/30/08	\$17.75	\$19.08	6.971%	\$16.77	\$18.62	9.936%
03/31/08	\$18.19	\$19.39	6.189%	\$16.87	\$18.97	11.070%
12/31/07	\$18.04	\$19.65	8.193%	\$16.97	\$19.53	13.108%
09/30/07	\$18.14	\$19.64	7.637%	\$16.48	\$19.35	14.832%
06/30/07	\$18.58	\$19.88	6.539%	\$17.56	\$19.50	9.949%
03/31/07	\$18.45	\$19.72	6.440%	\$17.89	\$19.64	8.910%
12/31/06	\$18.26	\$19.90	8.241%	\$17.76	\$19.57	9.249%
09/30/06	\$18.25	\$19.90	8.291%	\$16.71	\$19.34	13.599%
06/30/06	\$17.72	\$19.72	10.142%	\$16.82	\$19.17	12.259%

¹ Prior to March 24, 2008, the NAV was calculated on a weekly basis. Subsequent to March 24, 2008, the NAV is calculated on a daily basis.

THE OFFERING

Terms of the Offering

The Fund is issuing to its holders of Shares on the Record Date (“Record Date Shareholders”) Rights to subscribe for additional Shares. Each Record Date Shareholder will receive one transferable Right for each Share owned on the Record Date. The Rights entitle the holder to acquire one Share at the Subscription Price for every three Rights held. The number of Rights to be issued to a Record Date Shareholder will be rounded up to the nearest number of Rights evenly divisible by three. In the case of Shares held of record by Cede & Co. (“Cede”), as nominee for The Depository Trust Company, or any other depository or nominee (which may be the case if you hold your Shares in street name), the number of Rights issued to Cede or such other depository or nominee will be adjusted to permit rounding up (to the nearest number of Rights evenly divisible by three) of the Rights to be received by beneficial owners for whom it is the holder of record only if Cede or such other depository or nominee provides to the Fund on or before the close of business on July 23, 2009 written representation of the number of Rights required for such rounding. Rights may be exercised at any time during the period which commences on July 15, 2009, and ends at 5:00 p.m., Eastern Time, on August 7, 2009 (the “Subscription Period”), unless extended by the Fund to a date not later than August 21, 2009, at 5:00 p.m., Eastern Time. See “Expiration of the Rights Offering” below. The right to acquire one additional Share for every three Rights held during the Subscription Period at the Subscription Price is hereinafter referred to as the “Primary Subscription.”

In addition, any Record Date Shareholder who fully exercises all Rights initially issued to him, her or it is entitled to subscribe for Shares which were not otherwise subscribed for by others in the Primary Subscription (the “Over-Subscription Privilege”). For purposes of determining the maximum number of Shares a Record Date Shareholder may acquire pursuant to the Rights Offering, broker-dealers whose Shares are held of record by Cede, as nominee for The Depository Trust Company, or by any other depository or nominee, will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under “Over-Subscription Privilege.” Holders of Rights who are not Record Date Shareholders may purchase Shares in the Primary Subscription, but are not entitled to subscribe for Shares pursuant to the Over-Subscription Privilege.

Officers of the Adviser have indicated to the Fund that the Affiliated Parties, as Record Date Shareholders, have been authorized to purchase Shares through the Primary Subscription and the Over-Subscription Privilege to the extent the Shares becomes available to them in accordance with the Primary Subscription and the allotment provisions of the Over-Subscription Privilege. Such over-subscriptions by the Affiliated Parties may disproportionately increase their already existing ownership resulting in a higher percentage ownership of outstanding Shares of the Fund. Any Shares acquired in the Rights Offering by the Affiliated Parties as “affiliates” of the Fund, as that term is defined under the Securities Act of 1933 (the “Securities Act”), may only be sold in accordance with Rule 144 under the Securities Act or another applicable exemption or pursuant to an effective registration statement under the Securities Act. In general, under Rule 144, as currently in effect, an “affiliate” of the Fund is entitled to sell, within any three-month period, a number of Shares that does not exceed the greater of 1% of the then outstanding Shares or the average weekly reported trading volume of the Shares during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain restrictions on the manner of sale, to notice requirements and to the availability of current public information about the Fund. In addition, any profit resulting from the sale of Shares so acquired, if the Shares are held for a period of less than six months, will be returned to the Fund.

Rights will be evidenced by certificates (“Subscription Certificates”). The number of Rights issued to each Record Date Shareholder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and Shares paid for is set forth below in “Method of Exercising Rights” and “Payment for Shares.” A Rights holder will have no right to rescind a purchase after the Subscription Agent has received payment. See “Payment for Shares” below. Shares of beneficial interest issued pursuant to an exercise of Rights will be listed and available for trading on the NYSE.

The Rights are transferable until the Expiration Date and have been admitted for trading on the NYSE. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels

and sold through the Subscription Agent. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the NYSE will begin three Business Days before the Record Date and may be conducted until the close of trading on the last Business Day prior to the Expiration Date. Trading of the Rights on the NYSE will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter will be conducted on a regular way basis until and including the last Business Day prior to the Expiration Date. The method by which Rights may be transferred is set forth below in "Method of Transferring Rights." The underlying Shares will also be admitted for trading on the NYSE.

After the expiration of the Subscription Period, the Dealer Manager may offer Shares not subscribed for to the public at the Subscription Price or to other dealers at the Subscription Price less a selling concession.

Purpose of the Offering

The Board of Trustees of the Fund (the "Board") has determined that it would be in the best interests of the Fund and its shareholders to increase the assets of the Fund available for investment. In order to assist the Board in making such determination, it consulted with the Adviser and representatives of the Dealer Manager to help it identify and analyze the factors the Board should consider in making its determination and to provide recommendations regarding the structure, timing and terms of an offering.

In considering the authorization to conduct the Rights Offering, the Board of Trustees deliberated extensively on the potential ownership dilution to be experienced by partially or non-participating shareholders and possible net asset value dilution to be experienced by all shareholders and the increase of the Adviser's compensation as a result of the Rights Offering. In addition to these factors, the Board also considered: (i) the current market price of the Fund's shares and the fact that they consistently trade at a price below the Fund's NAV per share; (ii) the increased assets to be available upon completion of the offer for making additional investments consistent with the Fund's investment objective; (iii) the terms and expenses in connection with the offer relative to other alternatives for raising capital, including fees payable to the dealer manager; (iv) the size of the offer in relation to the number of shares outstanding; (v) the potential changes to the market price of the Fund's shares, both before and after the announcement of the offer; and (vi) the general condition of the securities markets. Based on the Board's consideration of these factors and others, the Board concluded in good faith that the offer would result in a net benefit to the Fund's existing shareholders.

To assist in determining that this offer is in the best interest of the Fund and its shareholders, the Board consulted with the Dealer Manager. The Adviser and Dealer Manager provided the Board with financial advisory, marketing and soliciting services relating to this offer, including advice with respect to the structure, timing and terms of the offer. In this regard, the Board considered, among other things, using a fixed pricing versus a variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable offering, the effect on the Fund if the Offering is not fully subscribed and the experience of the Dealer Manager in conducting such offerings.

Among the numerous reasons for the Fund's conducting the Offering, management has emphasized the following two primary reasons:

Taking Advantage of Investment Opportunities: As of the date of this prospectus, the Fund is fully invested in accordance with its investment objective. The increase in yield spreads of investment grade and high yield fixed income securities against U.S. Treasuries affords an attractive opportunity for fixed income investment. For example, the Option Adjusted Spread ("OAS") on the Barclays Capital U.S. Corporate Investment Grade Index over U.S. Treasuries has risen from a low of 1.81% on December 31, 2007 to 3.06% on June 30, 2009. Over the same period, yields on the benchmark 10-year U.S. Treasury notes have fallen from 4.02% to 3.53% and yields on 30-year U.S. Treasury bonds have fallen from 4.45% to 4.33%. Similarly, the OAS on the Barclays Capital High Yield Index over U.S. Treasuries rose from 5.69% on December 31, 2007 to 9.45% on June 30, 2009. The rise in spreads increases the yield advantage of investment grade and high yield fixed income securities compared to U.S. Treasuries while mitigating the potential principal loss from the risk of rising interest rates going forward.

During the recent past, the high stress in the credit and money markets has resulted in a substantial increase in spreads for investment grade and high yield fixed income securities despite generally sound corporate balance sheets and liquidity. Spreads on investment grade and high yield fixed income securities have narrowed since March 31, 2009 as investors' risk aversion has declined but remain at historically wide levels. The Adviser believes that the current wide spreads will continue to narrow over time as the overall economy improves with the help of continuing and potential future fiscal and monetary interventions although the Adviser recognizes that the market will likely exhibit continued volatility. The Adviser believes that this spread narrowing in investment grade and high yield fixed income securities will generate attractive returns for investors.

Generally, the Adviser believes that higher spreads and more attractive relative characteristics of higher yielding sectors makes commitment of additional funds, at this time, an attractive opportunity for shareholders.

Spreading Expenses Across More Assets. As a fund's assets increase, the fixed costs are spread across a larger asset base, thus resulting in a lower expense ratio (i.e., the ratio of expenses to fund assets). This is because all funds have certain fixed costs (e.g., fidelity bonds, insurance, legal, accounting and printing costs, etc.) which are not charged in proportion to the fund's size. The opposite occurs as a fund's assets decrease, that is, the fixed costs are spread across a smaller asset base thus resulting in a higher expense ratio.

The current actual expense ratio ("Current Actual Expense Ratio") is estimated by management to be 0.91% on an annualized basis based on total current net assets of approximately \$86.5 million (as of June 30, 2009). Fees paid to the Adviser comprise 0.50% of this Current Actual Expense Ratio, and this percentage is expected to lower to 0.49% as a result of increased assets pursuant to the Offering. The remaining component of the Current Actual Expense Ratio (i.e., 0.41%) consists primarily of expenses charged as a fixed-dollar amount (e.g., legal fees, customary proxy related expenses, administrative/internal accounting costs and insurance). Since these expenses are not charged on a percentage basis, they do not tend to be significantly affected by increases or decreases in the Fund's total net assets. Using the actual routine and customary expenses incurred by the Fund during fiscal year ending March 31, 2009, the fixed-dollar expenses totaled \$355,000, or 0.41% of current total net assets. This excludes extraordinary expenses of \$245,000 incurred during the March 31, 2009 which were one-time non-recurring expenses. It is this fixed-dollar amount that would be spread over the larger asset base from the Offering and thus result in a decrease in the Current Actual Expense Ratio. Assuming that (i) the Subscription Price is \$15.35 (which was 86% of the Fund's NAV on July 10, 2009), and (ii) the Rights Offering is fully subscribed, the Fund's estimated expense ratio would be 0.81%. This compares favorably to the Current Actual Expense Ratio of 0.91% — a difference of 0.10% per annum — representing a significant increase in operating efficiency. This difference is much smaller if certain expenses that management does not consider to be typical operating expenses are excluded.

Other reasons supporting the Offering include the following:

Increased Liquidity. The larger number of Shares outstanding after the Offering should help create a more efficient and active market for the Fund's Shares and reduce the effect of individual transactions on market price, all of which are believed generally to increase liquidity. In addition, by making the Rights transferable, there is a good probability that the number of shareholders in the Fund will increase after the Offering, which would also increase the likelihood of greater liquidity in the Fund's Shares.

Better Trade Execution. Larger funds can buy "in quantity" and can sometimes receive better execution and lower commissions from brokers because of their size.

Retaining Good Investments. In a closed-end investment company like the Fund, the lack of new capital to invest, generated through the sale of a fund's securities, limits the fund's ability to take advantage of new attractive opportunities as they may arise in the future. Rather than sell good investments to free up cash to take advantage of these new opportunities, the Adviser believes that shareholders are better served by raising more cash through the Offering. In addition, this approach, in the long-term, tends to be more tax-efficient by reducing the amount of capital gains realized by the Fund.

Reduced Transaction Costs. The Rights Offering rewards existing shareholders by providing them an opportunity to purchase additional Shares at a price that is below market value and NAV without the

transaction costs that would be associated with open-market purchases or initial public offerings (e.g., brokerage commissions and underwriting fees).

Improving Analyst Coverage. Increasing the Fund's size may increase analyst coverage which may in turn stimulate investor interest in the Fund and ultimately result in narrowing and maintaining a narrow discount.

It should be further understood by investors that the Fund's Adviser will benefit from the Offering because the Adviser's fee is based on the average net assets of the Fund. See "Management of the Fund." It is impossible to state precisely the amount of additional compensation the Adviser will receive as a result of the Offering because the proceeds of the Offering will be invested in additional portfolio securities which will fluctuate in value. However, assuming all Rights are exercised and that the Fund receives the maximum proceeds of the Offering, the annual compensation to be received by the Adviser would be increased by approximately \$108,000.

Subscription Price

The Subscription Price for the Shares to be issued in the Rights Offering will be equal to 86% of the NAV on the Pricing Date. Management believes that this pricing formula (as opposed to a higher percentage discount or a pre-determined fixed price) will provide an incentive to shareholders (as well as others who might trade in the transferable Rights) to participate in the Offering and limit dilution to shareholders.

Over-Subscription Privilege

If some Record Date Shareholders do not exercise all of the Rights initially issued to them to purchase Shares of the Fund, those Record Date Shareholders who have exercised all of the Rights initially issued to them will be offered, by means of the Over-Subscription Privilege, the right to acquire more than the number of Shares for which the Rights issued to them are exercisable. Record Date Shareholders who exercise all the Rights initially issued to them will have the opportunity to indicate on the Subscription Certificate how many Shares they are willing to acquire pursuant to the Over-Subscription Privilege.

The method by which the Shares will be distributed and allocated pursuant to the Over-Subscription Privilege is as follows: Shares of beneficial interest will be available for purchase pursuant to the Over-Subscription Privilege only to the extent that the maximum number of Shares is not subscribed for through the exercise of the Primary Subscription by the Expiration Date. If the Shares so available ("Excess Shares") are not sufficient to satisfy all subscriptions pursuant to the Over-Subscription Privilege, the Excess Shares will be allocated pro rata (subject to the elimination of fractional Shares) among those Rights holders exercising the Over-Subscription Privilege, in proportion, not to the number of Shares requested pursuant to the Over-Subscription Privilege, but to the number of Shares held on the Record Date; provided, however, that if this pro rata allocation results in any Rights holder being allocated a greater number of Excess Shares than the Rights holder subscribed for pursuant to the exercise of such Rights holder's Over-Subscription Privilege, then the Rights holder will be allocated only such number of Excess Shares as such Rights holder subscribed for and the remaining Excess Shares will be allocated among all other Rights holders exercising Over-Subscription Privileges. The formula to be used in allocating the Excess Shares is as follows:

$$\frac{\text{Holder's Record Date Position}}{\text{Total Record Date Position by All Over-Subscribers}} \times \text{Excess Shares Remaining}$$

The Fund will offer at a 3.75% discount to the Subscription Price any Shares which are not subscribed for under the Primary Subscription or the Over-Subscription Privilege to the Dealer Manager. The Dealer Manager may, but is not required, to purchase Shares not subscribed for and resell such Shares to the public at the Subscription Price. The Dealer Manager also may resell such Shares to other dealers at the Subscription Price, less a selling concession.

Expiration of the Rights Offering

The Rights Offering will expire at 5:00 p.m., Eastern Time, on the Expiration Date (August 7, 2009), unless extended by the Fund to a date not later than August 21, 2009, at 5:00 p.m., Eastern Time (the "Extended Expiration

Date”). Rights will expire on the Expiration Date (or Extended Expiration Date as the case may be) and thereafter may not be exercised.

Subscription Agent

The Subscription Agent is The Colbent Corporation, which will receive, for its administrative, processing, invoicing and other services as Subscription Agent, a fee estimated to be \$15,000 and reimbursement for all out-of-pocket expenses related to the Offering. Questions regarding the Subscription Certificates should be directed to the Information Agent by one of the methods described below. The Fund reserves the right to accept Subscription Certificates actually received on a timely basis at any of the addresses listed.

- | | |
|--|---|
| (1) By First Class Mail: | The Colbent Corporation
Rivus Bond Fund Rights Offering
Att: Corporate Actions
PO Box 859208
Braintree, MA 02185-9208 |
| (2) By Express Mail of Overnight Courier: | The Colbent Corporation
Rivus Bond Fund Rights Offering
Att: Corporate Actions
161 Bay State Road
Braintree, MA 02184 |
| (3) By Hand: | The Colbent Corporation
Rivus Bond Fund Rights Offering
Att: Corporate Actions
161 Bay State Drive
Braintree, Massachusetts 02184 |
| (4) By Facsimile: | (Guarantees of Delivery Only):
(781) 930-4939 |

Broker Confirmation number: (781) 930-4900

DELIVERY TO AN ADDRESS OR VIA FACSIMILE OTHER THAN THE ABOVE DOES NOT CONSTITUTE GOOD DELIVERY.

Information Agent

Any questions or requests for assistance may be directed to the Information Agent at its telephone number and address listed below:

The Information Agent for the Offering is:

Georgeson Inc.
199 Water Street, 26th Floor
New York, New York 10038
Toll-Free: (888) 293-6908

or

For banks and brokers: (212) 440-9800

The Information Agent will receive a fee estimated to be \$15,000 and reimbursement for out-of-pocket expenses related to the Offering.

Shareholders may also contact their brokers or nominees for information with respect to the Rights Offering.

Method of Exercising Rights

Rights may be exercised by filling in and signing the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under “Payment for Shares.” Rights holders may also exercise Rights by contacting a bank, trust company or broker-dealer who can arrange, on behalf of the Rights holder, to guarantee delivery of payment and of a properly completed and executed Subscription Certificate. A fee may be charged for this service. Rights holders should contact their bank, trust company or broker-dealer for information regarding such fees, if any. Completed Subscription Certificates and full payment for the Shares subscribed for must be received by the Subscription Agent prior to 5:00 p.m., Eastern time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under “Payment for Shares”) at one of the offices of the Subscription Agent at the addresses set forth above.

Qualified financial institutions that hold Shares as nominee for the account of others should notify the respective beneficial owners of such Shares as soon as possible to ascertain such beneficial owners’ intentions and to obtain instructions with respect to the Rights. For purposes of this Prospectus, “Qualified Financial Institution” shall mean a registered broker-dealer, commercial bank or trust company, securities depository or participant therein, or nominee thereof. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Subscription Agent with the proper payment. In addition, beneficial owners of Shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with the beneficial owners’ instructions.

Shareholders who are registered holders can choose between either option set forth under “Payment for Shares” below.

Payment for Shares

Payment for Shares shall be calculated by multiplying the Estimated Subscription Price of \$15.35 per Share times the sum of (i) the number of Rights held and intended to be exercised in the Primary Subscription, plus (ii) the number of additional Shares for which a shareholder wishes to over-subscribe under the Over-Subscription Privilege. For example, if a shareholder receives 300 Rights and wishes to subscribe for 100 Shares in the Primary Subscription, and also wishes to over-subscribe for 50 additional Shares pursuant to the Over-Subscription Privilege, he, she or it would send in $\$15.35 \times 100$ plus $\$15.35 \times 50$. Rights holders who wish to acquire Shares in the Primary Subscription or pursuant to the Over-Subscription Privilege may choose between the following methods of payment:

a. If, prior to 5:00 p.m., Eastern Time, on the Expiration Date, the Subscription Agent shall have received a Notice of Guaranteed Delivery by telegram or otherwise, from a bank, trust company or broker-dealer firm guaranteeing delivery of (i) payment of the Estimated Subscription Price of \$15.35 per Share for the Shares subscribed for in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege and (ii) a properly completed and executed Subscription Certificate, the subscription will be accepted by the Subscription Agent. The Subscription Agent will not honor a Notice of Guaranteed Delivery unless a properly completed and executed Subscription Certificate is received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the third Business Day after the Expiration Date (the “Protect Period”).

b. Alternatively, a shareholder can, together with the properly completed and executed Subscription Certificate, send payment for the Shares acquired in the Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege, to the Subscription Agent based on the Estimated Subscription Price of \$15.35 per Share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the Expiration Date.

If the Estimated Subscription Price is greater than the actual Subscription Price, the excess payment will be applied toward the purchase of additional Shares to the extent that there remain unsubscribed Shares available after the Primary and Over-Subscription allocations are completed and a Rights holder desires to purchase additional

Shares pursuant to his, her or its Over-Subscription Privilege. To the extent that sufficient unsubscribed Shares are not available to apply all of the excess payment toward the purchase of such additional Shares, available Shares will be allocated in the manner consistent with that described in the section entitled “Over-Subscription Privilege” above. Any excess payment will be refunded to you to the extent that additional Shares are unavailable.

A PAYMENT PURSUANT TO THE SECOND METHOD DESCRIBED ABOVE MUST ACCOMPANY ANY SUBSCRIPTION CERTIFICATE FOR SUCH SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

Within five (5) Business Days following the completion of the Protect Period, a confirmation will be sent by the Subscription Agent to each shareholder (or, if the Fund’s Shares on the Record Date are held by a Qualified Financial Institution, to such Qualified Financial Institution). The date of the confirmation is referred to as the “Confirmation Date.” The confirmation will show (i) the number of Shares acquired pursuant to the Primary Subscription; (ii) the number of Shares, if any, acquired pursuant to the Over-Subscription Privilege; (iii) the Subscription Price and total purchase price for the Shares; and (iv) any additional amount payable by such shareholder to the Fund (e.g., if the Estimated Subscription Price was less than the Subscription Price on the Pricing Date) or any excess to be refunded by the Fund to such shareholder (e.g., if the Estimated Subscription Price was more than the Subscription Price on the Pricing Date). Any additional payment required from a shareholder must be received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the tenth Business Day after the Confirmation Date, and any excess payment to be refunded by the Fund to such shareholder will be mailed by the Subscription Agent within ten (10) Business Days after the Confirmation Date. All payments by a shareholder must be made in United States Dollars by money order or by checks drawn on banks located in the Continental United States payable to “**Rivus Bond Fund.**”

Whichever of the above two methods is used, issuance and delivery of Shares subscribed for are subject to collection of funds and actual payment pursuant to any notice of guaranteed delivery.

The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated interest bearing account at Eastern Bank pending distribution of the Shares from the Rights Offering. All interest will accrue to the benefit of the Fund and investors will not earn interest on payments submitted.

YOU WILL HAVE NO RIGHT TO RESCIND YOUR SUBSCRIPTION AFTER THE SUBSCRIPTION AGENT HAS RECEIVED THE SUBSCRIPTION CERTIFICATE OR NOTICE OF GUARANTEED DELIVERY.

If a holder of Rights who acquires Shares pursuant to the Primary Subscription or the Over-Subscription Privilege does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Shares which could be acquired by such holder upon exercise of the Primary Subscription or the Over-Subscription Privilege; (iii) sell all or a portion of the Shares purchased by the holder in the open market, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares and to enforce the relevant guaranty of payment.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.

The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the Subscription Certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., Eastern Time, on the Expiration Date. Because uncertified personal checks may take at least five Business Days to clear, you are strongly urged to pay, or arrange for payment, by means of a certified or cashier’s check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or

reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Subscription Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Method of Transferring Rights

Sales through Subscription Agent. Rights holders who do not wish to exercise any or all of their Rights may instruct the Subscription Agent to sell any unexercised Rights. Subscription Certificates representing the Rights to be sold by the Subscription Agent must be received by the Subscription Agent by 4 p.m. Eastern Time on August 6, 2009 (or if the Rights Offering is extended, until a comparable number of Business Days before the final Expiration Date). Upon the timely receipt by the Subscription Agent of appropriate instructions to sell Rights, the Subscription Agent will use its best efforts to complete the sale; and the Subscription Agent will remit the proceeds of sale to the Rights holders within 5 days after the Expiration Date to the extent practicable. No brokerage commissions will be charged to holders who elect to direct the Subscription Agent to sell their Rights, and the Fund will pay to the Subscription Agent a one-time fee of \$5.75 for a shareholder to sell any or all of his Rights. If the Rights can be sold, sales of such Rights will be deemed to have been effected at the price actually received by the Subscription Agent on the day such Rights are sold. The Subscription Agent will also attempt to sell all Rights which remain unclaimed as a result of Subscription Certificates being returned by the postal authorities to the Subscription Agent as undeliverable as of the fourth Business Day prior to the Expiration Date. Such sales will be made at the price actually received on behalf of the non-claiming shareholders. The Subscription Agent will hold the proceeds from those sales for the benefit of such non-claiming shareholders until such proceeds are either claimed or become subject to escheat. There can be no assurance that the Subscription Agent will be able to complete the sale of any such Rights, and neither the Fund nor the Subscription Agent has guaranteed any minimum sales price for the Rights. All such Rights will be sold at the market price, if any, on the NYSE.

Other Transfers. The Rights are transferable and will be admitted for trading on the NYSE. Assuming a market for the Rights exists, the Rights may be purchased and sold through usual brokerage channels until the Expiration Date. In such case, you will need to instruct your broker to sell any unexercised Rights in time for the broker to execute the transaction by the close of trading on the Expiration Date. The Rights evidenced by a single Subscription Certificate may be transferred in whole or in part by delivering to the Subscription Agent a Subscription Certificate properly endorsed for transfer, with instructions to register such portion of the Rights evidenced thereby in the name of the transferee and to issue a new Subscription Certificate to the transferee evidencing such transferred Rights. In such event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the transferring Rights holder or, if the transferring Rights holder so instructs, to an additional transferee.

Except for the fees charged by the Subscription Agent and Dealer Manager, including the one-time \$5.75 fee per shareholder related to sales through the Subscription Agent, all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights and none of such commissions, fees or expenses will be paid by the Fund, the Dealer Manager or the Subscription Agent. Neither the Fund nor the Subscription Agent shall have any liability to a transferee or transferor of Rights if Subscription Certificates are not received in time for exercise or sale prior to the Expiration Date.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Primary Subscription and the Over-Subscription Privilege may be effected through, the facilities of DTC.

Delivery of Shares

Participants in the Fund's dividend reinvestment plan will have any Shares that they acquire pursuant to the offer credited to their dividend reinvestment accounts in the plan. Shareholders whose shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have any shares that they acquire credited to the account of Cede or the other depository or nominee. With respect to all other

shareholders, shares acquired will be issued after payment for all the shares subscribed for has cleared, which may take up to 15 days from the date of receipt of the payment.

Foreign Restrictions

Subscription Certificates will only be mailed to Record Date Shareholders whose addresses are within the United States. Record Date Shareholders whose addresses are outside the United States or who have an APO or FPO address and who wish to subscribe to the Rights Offering either in part or in full should contact the Subscription Agent by telephone, by written instruction or recorded telephone conversation no later than three Business Days prior to the Expiration Date. The Fund will determine whether the Rights Offering may be made to any such shareholder. If the Subscription Agent has received no instruction by the third Business Day prior to the Expiration Date or the Fund has determined that the Rights Offering may not be made to a particular shareholder, the Subscription Agent will attempt to sell all of such shareholder's Rights and remit the actual proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the price actually received by the Subscription Agent on the day the Rights are sold.

Federal Income Tax Consequences Associated With the Rights Offering

The following is a general summary of the significant federal income tax consequences of the receipt of Rights by a Record Date Shareholder and a subsequent lapse, exercise or sale of such Rights. The discussion also addresses the significant federal income tax consequences to a holder that purchases Rights in a secondary-market transaction (e.g., on the NYSE). The discussion is based upon applicable current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder and other authorities currently in effect. The Code and Treasury Regulations are subject to change or differing interpretations by legislative or administrative action, which may be retroactive. The discussion does not address any state, local or foreign tax consequences of the Rights Offering. Record Date Shareholders and exercising Rights holders are urged and advised to consult their own tax advisors regarding the tax consequences of the Rights Offering, including U.S. federal, state, local or foreign tax consequences, relevant to their particular circumstances.

For purposes of the following discussion, the term "Old Share" shall mean a currently outstanding Share with respect to which a Right is issued and the term "New Share" shall mean a newly issued Share that is received upon the exercise of a Right.

The value of a Right will not be includible in the income of a Record Date Shareholder at the time the Right is issued. The basis of a Right issued to a Record Date Shareholder will be zero, and the basis of the Old Share will remain unchanged, unless either (a) the fair market value of the Right on the date of distribution is at least 15% of the fair market value of the Old Share, or (b) such shareholder affirmatively elects (in the manner set out in Treasury regulations under the Code) to allocate to the Right a portion of the basis of the Old Share. If either (a) or (b) applies, such shareholder must allocate basis between the Old Share and the Right in proportion to their fair market values on the date of distribution. If made, the election discussed in (b) is effective with respect to all Rights received by a Record Date Shareholder. The election is made by attaching a statement to the Record Date Shareholder's federal income tax return for the taxable year which includes the Record Date. The basis of a Right purchased in the market will generally be its purchase price. The holding period of a Right issued to a Record Date Shareholder will include the holding period of the Old Share.

No loss will be recognized by a Record Date Shareholder if a Right distributed to such shareholder expires unexercised because the basis of the Old Share may be allocated to a Right only if the Right is exercised or sold. If a Right that has been purchased in the market expires unexercised, the purchaser will recognize a short-term capital loss (if the purchaser holds the Rights as capital assets at the time of their lapse) equal to the basis of the Right.

Any gain or loss on the sale of a Right will be a capital gain or loss if the Right is held as a capital asset (which in the case of Rights issued to Record Date Shareholders will depend on whether the Old Share is held as a capital asset), and will be a long-term capital gain or loss if the holding period is deemed to exceed one year.

No gain or loss will be recognized by a shareholder upon the exercise of a Right, and the basis of a New Share acquired upon exercise will equal the sum of the basis, if any, of the Right and the Subscription Price for the New Share. The holding period for the New Share will begin on the date when the Right is exercised.

Employee and Benefit Plan Considerations

Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and/or plans subject to Section 4975 of the Code including corporate savings and 401(k) plans, Keogh Plans of self-employed individuals and Individual Retirement Accounts (“IRA”) (each a “Benefit Plan” and collectively, “Benefit Plans”), should be aware that additional contributions of cash in order to exercise Rights may be treated as Benefit Plan contributions and, when taken together with contributions previously made, may subject a Benefit Plan to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Code, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Benefit Plans contemplating making additional cash contributions to exercise Rights should consult with their counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income (“UBTI”) under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains prudence and diversification requirements, and ERISA and the Code contain prohibited transaction rules that may impact the exercise of Rights. Among the prohibited transaction exemptions issued by the Department of Labor that may exempt a Benefit Plan’s exercise of Rights are Prohibited Transaction Exemption 84-24 (governing purchases of Shares in investment companies) and Prohibited Transaction Exemption 75-1 (covering sales of securities).

Due to the complexity of these rules and the penalties for noncompliance, Benefit Plans are urged to consult with their own advisors regarding the consequences of their exercise of Rights under ERISA and the Code.

Dividend Distributions

In addition, investors who exercise Rights will be buying Shares shortly before the Fund normally declares taxable quarterly dividends and distributions. This is commonly known as “buying the dividend.” The quarterly dividend and distribution may be taxable to shareholders even though a portion of it effectively represents a return of the purchase price of the Shares bought.

USE OF PROCEEDS

The net proceeds of the Offering, assuming the Offering is fully subscribed, are estimated to be approximately \$23,959,862 million, based on an Estimated Subscription Price of \$15.35 per Share, and after deducting expenses related to the Offering estimated at approximately \$431,050. The foregoing estimate of the net proceeds of the Offering is based on the NAV of the Fund’s Shares on July 10, 2009. Accordingly, the assumptions and projections contained in this prospectus are subject to change significantly depending on changes in market conditions for the Fund’s Shares and performance of the Fund’s portfolio. The Fund will invest the net proceeds of the Offering in accordance with its investment objective and policies. The Adviser anticipates that the proceeds will be invested promptly as investment opportunities are identified, depending on market conditions and the availability of appropriate securities, and it is anticipated to take not more than approximately three months. Pending investment, the proceeds will be invested in short-term debt instruments.

CAPITALIZATION

The Fund is authorized to issue an unlimited number of Shares of Beneficial Interests, par value of \$0.01 per Share. Shares have no preemptive, conversion, exchange or redemption rights. Each Share has equal voting,

dividend, distribution and liquidation rights. The Shares outstanding are, and those Shares issuable in the Offering when issued will be, fully paid and non-assessable. Shareholders are entitled to one vote per Share. All voting rights for the election of trustees are non-cumulative, which has the effect of allowing holders of more than 50% of the outstanding Shares, voting for the election of Trustees to elect 100% of the trustees then nominated for election if they choose to do so and, in such event, the holders of the remaining Shares will be unable to elect any trustees. The Fund holds an annual meeting of shareholders each fiscal year. The foregoing description is subject to the provisions contained in the Fund's Declaration of Trust and Bylaws.

The following chart shows the number of Shares authorized and outstanding as of June 30, 2009:

<u>Title of Class</u>	<u>Amount Authorized</u>	<u>Amount Held by Registrant or for its Account</u>	<u>Amount Outstanding Exclusive of Amounts Held by Registrant or for its Account</u>
Shares of Beneficial Interest, 0.01 par value . . .	Unlimited	None	4,907,678

Repurchase of Shares of Beneficial Interest

Shares of closed-end investment companies often trade at a discount to their NAV, and Shares of the Fund have in the past and may in the future trade at a discount to their NAV. The market price of Shares of the Fund is determined by such factors as relative demand for and supply of such Shares in the market, the Fund's NAV, general market and economic conditions and other factors beyond the control of the Fund. Although the Fund's shareholders do not have the right to require the Fund to redeem their Shares, the Fund may take action, from time to time, to repurchase its Shares in the open market or make tender offers for its Shares at its NAV. This may, but will not necessarily, have the effect of reducing any market discount from NAV. Because the Fund has never repurchased its Shares and has no present intention to do so, the Board has not established procedures and criteria applicable to repurchases of shares by the Fund.

MANAGEMENT OF THE FUND

Board of Trustees

The Board is responsible for overseeing the overall management and operations of the Fund. The SAI contains additional information about the Fund's trustees. Subject to the general supervision of the Board, the Adviser manages the Fund's portfolio, makes decisions with respect to and places orders for all purchases and sales of the Fund's securities, and maintains records relating to such purchases and sales.

A discussion of the basis for the Board's approval of the investment advisory agreement for the Fund is available in the semi-annual report to shareholders for the period ended September 30, 2008.

Investment Adviser and Portfolio Management

Investment Adviser. The Fund is advised by MBIA Capital Management Corp. (the "Adviser"), whose principal business address is 113 King Street, Armonk, New York 10504. The Adviser has been providing advisory services to the Fund since June 2005. As of December 31, 2008, the Adviser had a total of \$43.6 billion in assets under management. The Adviser serves as an investment adviser to pension funds, endowments, local government entities, insurance companies and several other investment companies. The Adviser is a wholly-owned subsidiary of MBIA, Inc., a Connecticut corporation, whose common stock is a publicly traded on the NYSE under the symbol "MBI." MBIA, Inc., through its subsidiaries, is in the business of providing financial guarantee insurance and investment management and financial services to public finance clients and financial institutions on a global basis.

Pursuant to an advisory agreement (the "Advisory Agreement") with the Fund dated as of October 31, 2005, the Adviser manages the investment and reinvestment of the Fund's assets, and administers the Fund's affairs, subject to the direction of the Fund's Board and officers. As compensation for its services, the Adviser is entitled to a fee equal to, on an annual basis, 0.50% on the first \$100 million of the Fund's month end net assets and 0.40% on the excess. On September 10, 2008, the Board, including those persons who are interested persons and a majority of the trustees who are not parties to the Advisory Agreement or interested persons of such parties (the "Disinterested

Trustees”), approved an extension of the Advisory Agreement through September 2009. At the time of the approval of the latest extension, Mr. W. Thacher Brown, a trustee, was an interested person of the Fund. The Advisory Agreement was last submitted to a vote of the shareholders on September 28, 2005. The Advisory Agreement may be continued annually if approved by both (1) the vote of a majority of the Board or the vote of a majority of the outstanding voting securities of the Fund (as provided in the 1940 Act) and (2) by the vote of a majority of the Disinterested Trustees cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement may be terminated at any time by either party without the payment of any penalty on 60 days’ written notice to the other party (1) by the Fund pursuant to action by the Board or upon the vote of a majority of the outstanding voting securities of the Fund; or (2) by the Adviser. The Agreement will terminate automatically in the event of its assignment (as such term is defined in the 1940 Act and the rules thereunder). See the Fund’s SAI for more information about the Fund’s Investment Advisory Agreement. A discussion regarding the basis for the Board’s approval of the Investment Advisory Agreement is available in the Fund’s semi-annual report to shareholders for the semi-annual period ended September 30, 2008.

Portfolio Management.

Robert T. Claiborne, CFA, Officer of the Adviser and Vice President of the Fund. Mr. Claiborne has acted as a portfolio manager of the Fund since 2005.

Gautam Khanna, CPA, CFA, Officer of the Adviser and Vice President of the Fund, has acted as a portfolio manager for the Fund since 2005.

Both Mr. Claiborne and Mr. Khanna are principally responsible for the day-to-day management of the Fund’s portfolio.

The SAI provides additional information about the portfolio managers’ compensation, other accounts managed by the portfolio managers and their ownership of securities in the Fund.

Benefit to the Adviser

The Fund’s Adviser will benefit from the Offering because the Adviser’s fee is based on the average net assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser will receive as a result of the Offering because the proceeds of the Offering will be invested in additional portfolio securities which will fluctuate in value. However, assuming all Rights are exercised and that the Fund receives the maximum proceeds of the Offering, the annual compensation to be received by the Adviser would be increased by approximately \$108,000.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Shares and on terms which may or may not be similar to the Offering. Any such future rights offering will be made in accordance with the 1940 Act. Under the laws of Delaware, the state in which the Fund is organized, the Board is authorized to approve rights offerings without obtaining shareholder approval. The staff of the Securities and Exchange Commission has interpreted the 1940 Act as not requiring shareholder approval of a rights offering at a price below the then current NAV so long as certain conditions are met, including a good faith determination by a fund’s board of trustees that such offering would result in a net benefit to existing shareholders.

Expenses of the Fund

Except as indicated above, the Fund will pay all of its expenses, including fees of the trustees not affiliated with the Adviser and board meeting expenses; fees of the Adviser and Administrator; interest charges; franchise and other taxes; organizational expenses; charges and expenses of the Fund’s legal counsel and independent accountants; expenses of repurchasing Shares; expenses of issuing any preferred Shares or indebtedness; expenses of issuing shares, shareholder reports, notices, proxy statements and reports to governmental offices; brokerage and other expenses connected with the execution, recording and settlement of portfolio security transactions; expenses connected with negotiating, effecting purchase or sale, or registering privately issued portfolio securities; expenses of fidelity bonding and other insurance expenses including insurance premiums; expenses of shareholder meetings; SEC and state registration fees; NYSE listing fees; and fees payable to the National Association of Securities

Dealers, Inc. in connection with this Offering and fees of any rating agencies retained to rate any preferred Shares issued by the Fund.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's objective is to seek a high rate of return, primarily from interest income and trading activity, from a portfolio principally consisting of debt securities. It will seek capital appreciation and gain principally by purchasing debt securities at prices the Adviser believes are below their intrinsic value. The Fund will also look to benefit from trading securities to optimize the risk adjusted yields in the Fund. The Fund may, but has no current plans to, borrow to obtain investment leverage. There can be no assurance that the Fund will achieve its objective.

Investment Policies — General

The Fund will normally invest at least 80% of its assets in debt securities. Seventy-five percent of the Fund's assets will be invested in following types of higher quality, non-convertible debt securities (including bonds and debentures):

- debt securities (with or without attached warrants) rated, at the time of purchase, within the four highest grades as determined by Moody's (i.e., Aaa, Aa, A or Baa) or Standard & Poor's (i.e., AAA, AA, A or BBB) (collectively, the "NRSRO Rated Securities");
- short-term debt securities ("debentures") which are not NRSRO Rated Securities, but which are obligations of issuers having, at the time of purchase, any NRSRO Rated Securities and which debentures are considered by the Adviser to have an investment quality comparable to NRSRO Rated Securities;
- obligations of the United States Government, its agencies or instrumentalities; and
- bank debt securities (with or without attached warrants) which, although not NRSRO Rated Securities, are considered by the Adviser to have an investment quality comparable NRSRO Rated Securities.

The securities rated Baa by Moody's or BBB by Standard & Poor's held in this portion of the Fund's portfolio have speculative characteristics. In addition, changes in economic conditions or other circumstances are more likely to result in an issuer of these types of securities having a weakened capacity to make principal and interest payments on such securities than would be the case of issuers with higher rated securities. The ratings criteria described above apply at the time of acquisition of the security. In the event that a security held in this portion of the Fund's portfolio is downgraded to below Baa or BBB, the Fund will no longer include such security in this portion of the Fund's portfolio. The Fund does not expect that the value of warrants in this part of its portfolio will often be significant. The Moody's and Standard & Poor's descriptions of the various rating categories, including the speculative characteristics of the lower categories, are set forth in Appendix A, "Ratings of Corporate Obligations and Commercial Paper."

The balance of the Fund's investments is expected to be principally in debt securities that do not meet the standards described above and in preferred stocks which may be convertible or may be accompanied by warrants or other equity securities. Any securities in this part of the portfolio may be of lower quality and may not be rated by any NRSRO. For a description of the characteristics and risks of such lower-rated debt securities, see "Below Investment Grade Corporate Bonds" below, and "Risk Factors and Special Considerations — Below Investment Grade Securities." All warrants remaining after sale of the securities to which they were attached and common stocks acquired on conversion or exercise of warrants will be included in this part of the Fund's portfolio. Any such warrants or common stocks may be held until a long-term holding period has been established for tax purposes, after which they ordinarily will be sold.

The Fund focuses on a relative value strategy. The Fund seeks to identify opportunities to purchase securities with high risk-adjusted yields across various fixed income sectors in order to maintain and increase the Fund's income, and therefore the Fund's dividend payment. The Fund's average duration is expected to be near the duration of the Barclays Capital U.S. Corporate Investment Grade Credit Index which is the Fund's benchmark. On March 31, 2009, the Fund's duration was 5.12 years and the duration of the Fund's benchmark was 5.80 years. The Adviser expects that the Fund's duration will remain between 4 and 8 years; however, the Fund's duration may be

lengthened or shortened depending on market conditions. Duration is a measure of the expected life of a debt security that is used to determine the sensitivity of the security's price to changes in interest rates. Generally, the longer the Fund's duration, the more sensitive the Fund will be to changes in interest rates. For example, the price of a fixed income fund with a duration of five years would be expected to fall approximately 5% if interest rates rose 1%.

The Fund may purchase securities selling at a premium over or at a discount from their face amount.

When the Adviser believes that market conditions make it appropriate, for temporary, defensive purposes the Fund may invest up to 100% of its assets in cash, high quality short-term money market instruments, and in bills, notes or bonds issued by the U.S. Treasury Department or by other agencies of the U.S. Government. When the Fund makes investments for defensive purposes, it may not achieve its investment objective.

U.S. Government Obligations

Obligations of the U.S. Treasury include bills, notes and bonds issued by the U.S. Treasury and separately traded interest and component parts of such obligations that are transferable through the federal book-entry system known as Separately Traded Registered Interest and Principal Securities ("STRIPS") and Coupon Under Book Entry Safekeeping ("CUBES"). Obligations of certain agencies and instrumentalities of the U.S. Government, such as the Government National Mortgage Association and the Export-Import Bank of the United States, are supported by the full faith and credit of the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Student Loan Marketing Association, are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; still others, such as those of the Federal Farm Credit Banks or the Federal Home Loan Mortgage Corporation, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. Government would provide financial support to U.S. Government-sponsored agencies or instrumentalities if it is not obligated to do so by law. The Fund may invest in mortgage pass-through securities and in collateralized mortgage obligations ("CMO") that are issued or guaranteed by agencies or instrumentalities of the U.S. Government. Mortgage pass-through securities represent interests in an underlying pool of mortgage loans. CMOs are debt obligations or multiclass pass-through certificates backed by mortgage pass-through securities or pools of whole mortgage loans. The investment characteristics of such mortgage-backed securities differ from traditional debt securities. The major differences include the fact that interest payments and principal repayments on such securities are generally made more frequently (usually monthly), and principal generally may be paid at any time because the underlying mortgage loans generally may be prepaid at any time. Prepayment rates are influenced by changes in current interest rates and a variety of economic, geographic, social, and other factors and cannot be predicted with certainty. Prepayment rates on the underlying mortgage loans tend to increase during periods of declining interest rates. If general interest rates also decline, the amounts available for reinvestment by the Fund during such periods are likely to be reinvested at lower interest rates than the Fund was earning on the mortgage-backed securities that were prepaid. Mortgage-backed securities may decrease in value as a result of increases in interest rates and may benefit less than other fixed income securities from declining interest rates because of the risk of prepayment. See "Risk Factors and Special Considerations — Below Investment Grade Securities — Prepayment Risk." These differences can result in significantly greater price and yield volatility than is the case with traditional debt securities.

Repurchase Agreements

The Fund may enter into repurchase agreements with domestic banks or broker-dealers deemed creditworthy under guidelines approved by the Fund's Board. A repurchase agreement is a short-term investment in which the purchaser (i.e., the Fund) acquires ownership of a debt security, and the seller agrees to repurchase the obligation at a future time and set price, usually not more than seven days from the date of purchase, thereby determining the yield during the purchaser's holding period. The value of the underlying securities will be at least equal at all times to the total amount of the repurchase agreement obligation, including the interest factor. If the seller were to default on its obligation to repurchase the underlying instrument, the Fund could experience loss due to delay in liquidating the collateral and to adverse market action. Also, it is possible that the Fund may be unable to substantiate its interest in the underlying securities. To minimize this risk, the securities underlying the repurchase agreement will be held

by a custodian at all times in an amount at least equal to the repurchase price, including accrued interest, and the Fund will perfect a security interest in such underlying securities.

Short-Term Trading

A technique which the Fund intends to use in seeking its investment objective is short-term trading. The Adviser may trade securities actively, which could increase its transaction costs (thus lowering performance) and increase your taxable distributions including, potentially, short-term capital gains. The Adviser anticipates that the Fund will engage in short-term trading depending upon market developments and consistent with the investment objectives and policies of the Fund. The Adviser does not anticipate the portfolio turnover rate to exceed 100%. The Adviser does not expect a material increase in the Portfolio Turnover Rate as a result of investing the proceeds of the Rights Offering. As used herein, “short-term trading” means selling securities held for a short period of time, usually several months, but often less than one month and occasionally less than one day. Short-term trading will be used by the Fund principally in two situations:

Market Developments. Short-term trading will be used when the Fund sells a security to avoid depreciation in what the Fund anticipates will be a decline in the market prices of debt securities (e.g., when there is a rise in interest rates) or when the Fund purchases a security in anticipation of a rise in the market prices of debt securities (e.g., when there is a decline in interest rates) and later sells such security. Short-term trading of this type involves a continuous evaluation of price levels, the long-term trend of interest rates, interest rates available currently on debt securities, and factors expected to influence interest rates in the near future, such as significant increases or decreases in the overall demand for or supply of debt securities. For example, an unusually large supply might occur when a substantial number of issues are brought to market at or about the same time. The Adviser believes that by continually making these evaluations, it will be able to take advantage of anticipated changes in prices by selling some of the Fund’s debt securities when it anticipates a decline in prices or by purchasing debt securities (possibly with borrowed funds) if it anticipates a rise in prices.

Short-term trading of this type is illustrated by the following examples. If, in the Adviser’s judgment, interest rates are likely to decline and debt security prices likely to rise, the Fund may seek to replace short-term debt securities or debt securities having a relatively high interest rate with long-term debt securities or debt securities selling at a discount from their principal amount if the Adviser believes that, at such times, the prices of such debt securities will appreciate more than the prices of other debt securities. At such times, the Fund may borrow money for the purpose of purchasing securities as discussed in the SAI under “Additional Information About Investment Objective And Policies — Investment Policies — Leverage and Borrowing.” If the Adviser believes that interest rates are likely to increase and debt security prices likely to decline, the Fund may replace long-term or discount debt securities with short-term securities or debt securities selling at or above their call prices if the Adviser believes that, at such times, the prices of such debt securities may depreciate less than the prices of other debt securities.

Of course, if the Adviser’s expectations of changes in interest rates and prices prove to be incorrect, the Fund’s potential capital gains will be reduced or its potential capital losses will be increased.

Yield Spread Disparities. Short-term trading will also be used when the Fund sells a security and purchases another at approximately the same time in order to take advantage of what the Adviser believes is a temporary disparity in the normal yield relationship between the two securities (the “yield spread disparity”). When the Adviser’s evaluation of two debt securities indicates that the yields available on such securities in relation to each other are not in line with this normal (or expected) relationship, there is said to be a “disparity” in the relationship of the yields of the two securities. The Fund attempts to discover such distorted relationships, to determine that the distortion is temporary, and to make portfolio transactions based upon them, in anticipation that the normal yield relationship between the two securities will be restored (or achieved) and the portfolio will be benefited by the resulting change in prices. In some cases, the Adviser’s evaluation is based upon historical relationships between debt securities, but many factors relating to the current market are also involved in the recognition of yield spread disparities. While yield spread disparities have occurred in the past, there is no assurance that they will continue to occur in the future.

Such trading of debt securities is sometimes referred to as “bond swapping” and will be undertaken even if levels of interest rates on debt securities remain unchanged. Yield spread disparities occur frequently for reasons not directly related to the general movement of interest rates, such as changes in the overall demand for or supply of various types of debt securities, changes in the investment objectives, market expectations or cash requirements of investors, and the requirements of dealers to correct long or short inventory positions.

The Adviser believes that, by such portfolio transactions, it may be able to increase the appreciation potential or income of the Fund’s portfolio. Of course, if the Adviser’s evaluations of the normal relationship between the yields of two securities are incorrect, the potential capital appreciation and income of the Fund’s portfolio may be lower than if short-term trading had not been utilized or its potential capital losses may be increased.

Short-term trading will be used principally in connection with higher quality, non-convertible debt securities, which are often better suited for short-term trading because generally the market in such securities is of greater depth and offers greater liquidity than the market in debt securities of lower quality. It is anticipated that short-term trading will be less applicable to convertible securities since such securities will usually be purchased when the Fund believes that the market value of the underlying equity security is likely to appreciate over a period of time.

Whether any appreciation or increase in income will be realized by short-term trading will depend upon the ability of the Adviser to evaluate particular securities and anticipate relevant market factors, including interest rate trends and variations from such trends. Short-term trading such as that contemplated by the Fund places a premium upon the ability of the Adviser to obtain relevant information, evaluate it promptly, and take advantage of its evaluations by completing transactions on a favorable basis. To the extent that the Adviser does not accurately evaluate particular securities or anticipate changes in market factors, short-term trading may result in a loss to the Fund.

Below Investment Grade Corporate Bonds

The Fund may invest up to 25% of its total assets (measured at the time of investment) in lower quality debt securities. These debt securities are securities rated Ba or B by Moody’s or BB or B by Standard & Poor’s and unrated securities of comparable quality; provided, however, that the Fund may invest no more than 10% of its total assets in debt securities rated B by Moody’s or Standard & Poor’s or in unrated securities of comparable quality. Lower rated debt securities, also referred to as “junk bonds,” are considered to be speculative and involve greater risk of default or price changes due to changes in the issuer’s creditworthiness. Yields and market values of these bonds will fluctuate over time, reflecting changing interest rates and the market’s perception of credit quality and the outlook for economic growth. When economic conditions appear to be deteriorating, lower rated bonds may decline in value, regardless of prevailing interest rates. Accordingly, adverse economic developments, including the current recession as well as a substantial period of rising interest rates, may disrupt the high yield bond market, affecting both the value and liquidity of such bonds. The market prices of these securities may fluctuate more than those of higher rated securities and may decline significantly in periods of general economic difficulty, which may follow periods of rising interest rates. The current national economic downturn could adversely affect the ability of issuers of such bonds to make payments of principal and interest to a greater extent than issuers of higher rated bonds might be affected. The Adviser expects the default rate of high yield issuers to increase materially from the recent past. However, the Adviser believes that current spreads on bonds of high yield issuers should compensate investors for the risk of increased default rates.

When-Issued Securities

The Fund may enter into commitments to purchase securities on a forward or when-issued basis. When-issued securities are securities purchased for delivery beyond the normal settlement date at a stated price and yield. In the Fund’s case, these securities are subject to settlement within 45 days of the purchase date. The interest rate realized on these securities is fixed as of the purchase date. The Fund does not pay for such securities prior to the settlement date and no interest accrues to the Fund before settlement. These securities are subject to market fluctuation due to changes in market interest rates. The Fund will enter into these commitments with the intent of buying the security

but may dispose of such security prior to settlement. At the time the commitment is entered into, the Fund will establish and maintain a segregated account in an amount sufficient to cover the obligation under the when-issued contract. At the time the Fund makes the commitment to purchase securities on a when-issued basis, it will record the transaction and thereafter reflect the value of such security purchased in determining its NAV. At the time of delivery of the security, its value may be more or less than the fixed purchase price.

Portfolio Turnover Rate

The Fund's annual portfolio turnover rate during fiscal years ended March 31, 2009, 2008, and 2007 was approximately 21.46%, 17.25%, and 25.90%, respectively. The turnover rate will depend on a number of factors, including the qualification of the Fund as a regulated investment company under the Code and the number of trading opportunities that occur in which the Fund believes that it can improve the return on its portfolio. The number of such opportunities will be substantially influenced by the general volatility of the bond market and the Fund's evaluation of its portfolio in relation to unanticipated market movements.

A high turnover rate necessarily involves greater expenses to the Fund. The Adviser may trade securities actively, which could increase the Fund's transaction costs (thus lowering performance) and increase your taxable distributions. The Fund will engage in short-term trading if it believes a transaction, net of costs (including custodian charges and brokerage commissions, if any), will result in improving the appreciation potential or income of its portfolio. Most of the Fund's transactions are expected to be affected in the over-the-counter market directly with market makers acting as principal and will not involve the payment of any brokerage commissions.

The Fund from time to time may engage in short-term transactions in order to take advantage of what the Adviser believes to be market inefficiencies in the pricing of fixed income securities. The Adviser expects that the Fund's annual rate of portfolio turnover may exceed 100% at times when the Fund is taking advantage of short-term trading opportunities or if a complete reallocation of the Fund's investment portfolio becomes advisable. A 100% annual turnover rate would occur if all of the securities in the Fund's portfolio were replaced once within a period of one year.

Investment Restrictions

The Fund is subject to a number of investment restrictions, some of which are deemed fundamental and may not be changed without the affirmative vote of a majority of the outstanding voting securities of the Fund, and some of which are not fundamental and may be changed by the Fund's Board. The Fund's fundamental investment policies may be changed only with the approval of the holders of a "majority of the Fund's outstanding voting securities," which, as used in this prospectus, means the lesser of (1) 67% of the Shares represented at a meeting at which more than 50% of the outstanding Shares are present in person or by proxy, or (2) more than 50% of the outstanding Shares. Any investment policy or restriction which involves a maximum percentage of securities or assets is not considered to be violated unless an excess over the percentage occurs immediately after an acquisition of securities or utilization of assets and results therefrom. The Fund's fundamental policies are set forth below.

1. The Fund will not issue any senior securities (as defined in the 1940 Act), except insofar as any borrowings permitted in (3) below might be considered to be the issuance of senior securities.

2. The Fund may write, purchase, hold, exercise and dispose of, put and call options on fixed income securities and on futures contracts on fixed income securities, provided that immediately after an option has been purchased or written by the Fund, the aggregate market value of the securities underlying all such options (in the case of options on future contracts, the securities covered by such contracts) does not exceed 20% of the Fund's total assets. The Fund may acquire a contractual commitment (a "Stand-by Commitment") giving it the option to sell modified pass-through mortgage-backed securities guaranteed by the Government National Mortgage Association or long-term U.S. Government bonds to the party issuing the commitment, unless the acquisition would cause the market value of all securities which are the subject of Stand-by Commitments held by the Fund to exceed 10% of its total assets. The Fund will not purchase securities on margin except that it may obtain such short-term credits as may be necessary for the clearance of purchases or sales of securities, and may make margin deposits in connection with the acquisition and holding of futures contracts. The Fund may make short sales hedged by futures contracts for an equivalent amount of securities, provided, however, that short sales will only be made of securities which fall within

the categories of higher quality non-convertible debt securities in which, under normal circumstances, at least 75% of the Fund's assets will be invested. (See "Investment Policies — General" above.)

3. The Fund will not borrow money, except that it may borrow money from banks (i) on an unsecured basis, provided that immediately after such borrowings, the amount of all borrowings is not more than 20% of the fair market value of the Fund's assets (including the proceeds of the borrowings) less its liabilities or (ii) for temporary or emergency purposes but only in an amount not exceeding 5% of the market value of its total assets.

4. The Fund will not underwrite the securities of other issuers, but this restriction shall not be applicable to the acquisition, holding and sale of securities acquired in private placement as provided in (9)(g) below.

5. The Fund will not invest more than 25% of the market value of its total assets in the securities of issuers in any single industry.

6. The Fund will not purchase or sell real estate; however, the Fund may purchase or hold securities issued by companies such as real estate investment trusts which deal in real estate or interests therein.

7. The Fund may purchase and sell interest rate futures contracts and make deposits of assets as margin in connection therewith, as necessary, but otherwise will not purchase or sell commodities or commodity contracts.

8. The Fund will not make loans to other persons, except that it may (i) purchase debt securities in accordance with its investment objectives, (ii) lend its portfolio securities to brokers, dealers and banks which it deems qualified, if the borrower agrees to pledge collateral to the Fund equal in value at all times to at least 100% of the value of the securities loaned, and (iii) lend cash to securities dealers or banks which it deems qualified, initially on a wholly secured basis, in amounts which, immediately after any such loans, do not exceed in the aggregate 15% of the value of its total assets, nor 5% of such value to any one securities dealer or bank.

9. (a) The Fund will not mortgage, pledge or hypothecate its assets to secure any borrowing except to secure temporary or emergency borrowing and then only in an amount not exceeding 15% of the market value of its total assets. This restriction shall not be applicable to margin deposits made in connection with the acquisition or holding of futures contracts, or to deposits of assets made in connection with short sales.

(b) The Fund will not invest less than 75% of the value of its total assets in (A) cash and cash items, (B) government securities (as defined in the 1940 Act) and (C) other securities (limited in respect of any one issuer to an amount not exceeding 5% of the value of its total assets).

(c) The Fund will not purchase more than 10% of the outstanding voting securities of any one issuer.

(d) The Fund will not purchase the securities of an issuer, if, to the Fund's knowledge, one or more officers or directors of the Fund or of the investment adviser of the Fund individually own beneficially more than 0.5%, and those owning more than 0.5% together with beneficially more than 5%, of the outstanding securities of such issuer.

(e) The Fund will not invest more than 5% of the value of its total assets in securities of issuers which, with their predecessors, any guarantor of the securities or any corporation affiliated with the issuer which was agreed to supply to issuer funds sufficient to pay the interest charges on the securities, have not had at least three years' continuous operation.

(f) The Fund will not participate on a joint or a joint and several basis in any securities trading account.

(g) The Fund will not purchase securities which the Fund may not be free to sell to the public without registration of the securities under the Securities Act of 1933 if such an acquisition would cause the Fund to have more than 15% of the market value of its total assets invested in such securities. Euro-dollar obligations held by the Fund will not be included within this percentage limitation.

(h) The Fund will not acquire any futures contracts to deliver or acquire any security, and will not make any short sales, if, immediately thereafter, the aggregate value of the securities required to be delivered and to be acquired by the Fund pursuant to futures contracts would exceed 20% of the total assets of the Fund.

The foregoing policies are fundamental and may not be changed without shareholder approval.

The Fund's policies which are not deemed fundamental and which may be changed by the Board without shareholder approval are set forth below:

a. The Fund will not invest in companies for the purpose of exercising control or management.

b. The Fund may not invest in the securities of other investment companies, except that it may invest in securities of no-load open-end money market investment companies and investment companies that invest in high yield debt securities if, immediately after any purchase of the securities of any such investment company: (i) securities issued by such investment company and all other investment companies owned by the Fund do not have an aggregate value in excess of 10% of the value of the total assets of the Fund; (ii) the Fund does not own more than three percent of the total outstanding voting stock of such investment company; and (iii) the Fund does not own securities issued by such investment company having an aggregate value in excess of 5% of the value of the total assets of the Fund. The Fund's investment in securities of other investment companies will be subject to the proportionate share of the management fees and other expenses attributable to such securities of other investment companies.

c. The Fund will not invest in the securities of foreign issuers, except for (i) those securities of the Canadian Government, its provinces and municipalities which are payable in United States currency, and (ii) securities of foreign issuers which are payable in United States dollars ("Yankee Bonds"). The Fund may also invest in Euro-dollar obligations with maturities up to one year, but the Fund will not acquire Yankee Bonds or Euro-dollar obligations if the acquisition would cause more than 15% of the Fund's assets to be invested in Yankee Bonds and Euro-dollar obligations.

d. The Fund will not invest more than 2% of the value of its total assets in warrants (valued at the lower of cost or market), except warrants acquired on initial issuance where the warrants are attached to or otherwise in a unit with other securities.

The SAI contains additional information about Fund's investment objectives and policies.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Investing in Shares of the Fund will provide you with an equity ownership interest in the Fund. The NAV of the Shares fluctuate with and be affected by, among other things, market discount risk, issuer risk, credit risk, high-yield risk, interest rate risk, reinvestment risk, mortgage-related and other asset-backed securities risk, mortgage market/subprime risk, government entity risk, convertible securities risk, preferred securities risk, management risk, valuation risk, focused investment risk, derivatives risk, counterparty risk, equity securities and related market risk, smaller company risk, other investment companies risk, inflation/deflation risk, liquidity risk, and market disruption. These risks are summarized below.

Credit Risk

Credit risk is the risk that one or more of the Fund's investments in debt securities or other instruments will decline in price, or fail to pay interest, liquidation value or principal when due, because the issuer of the obligation or the issuer of a reference security experiences an actual or perceived decline in its financial status, or fails to pay principal or interest when due. If an issuer defaults, the Fund will lose money.

Interest Rate Risk

Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. Interest rate risk is the risk that debt obligations and other instruments in the Fund's portfolio will decline in value because of increases in market interest rates. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. Because the Fund will normally have an intermediate average portfolio duration (*i.e.*, a two- to eight-year time frame), the Shares' NAV and market price per Share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities. During periods of rising interest rates, the average life of certain types of securities may be extended due to slower than expected payments. This may lock in a below market yield, increase the security's duration and reduce the

security's value. In addition to directly affecting debt securities, rising interest rates may also have an adverse effect on the value of any equity securities held by the Fund. The Fund's use of leverage, if any, will tend to increase the Fund's interest rate risk.

The Fund may invest in variable and floating rate debt securities, which generally are less sensitive to interest rate changes, but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. The Fund also may invest in inverse floating rate debt securities, which may decrease in value if interest rates increase. Inverse floating rate debt securities may also exhibit greater price volatility than a fixed rate debt obligation with similar credit quality. When the Fund holds variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Shares.

Dilution

If you do not exercise all of your Rights, you will likely own a smaller proportional interest in the Fund when the Rights Offering is over (i.e., proportional dilution). In addition, whether or not you exercise your Rights, because the Subscription Price (and net proceeds to the Fund) will be below the Fund's NAV per Share on the Expiration Date the per Share NAV of your Shares will be diluted (reduced) immediately as a result of the Offering (i.e., economic dilution). In other words, because:

- the Subscription Price per Share is 86% of the NAV on the Pricing Date;
- you will indirectly bear the expenses of the Offering; and
- the number of Shares outstanding after the Offering will have increased proportionately more than the increase in the size of the Fund's net assets

you will experience economic dilution in addition to proportional dilution.

The Fund cannot state precisely the amount of any dilution because it is not known at this time

- what the NAV per Share will be on the Expiration Date; or
- what proportion of the Rights will be exercised.

In addition, because the Dealer Manager may purchase and resell Shares not subscribed for, you could be further diluted.

The impact of the Offering on NAV is shown by the following example, assuming a Subscription Price of \$15.35, full Primary Subscription and Over-Subscription Privilege exercise, payment of the Dealer Manager and soliciting fees, and \$431,050 in estimated expenses related to the Offering.

Net Asset Value per Share ("NAV")	\$17.85
Subscription Price	\$15.35
Reduction in NAV(\$)	\$ 0.84
Reduction in NAV(%)	4.70%

If you do not wish to exercise your Rights, you should consider selling these Rights as set forth in this prospectus. Any cash you receive from selling your Rights will serve as a partial offset of any possible economic dilution of your interest in the Fund. The Fund cannot give any assurance, however, that a market for the Rights will develop or that the Rights will have any marketable value.

Risk of Market Price Discount From Net Asset Value

Shares of closed-end funds frequently trade at a market price that is below their NAV. This is commonly referred to as "trading at a discount." This characteristic of shares of closed-end funds is a risk separate and distinct from the risk that the Fund's NAV may decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their

investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Accordingly, the Fund is designed primarily for long-term investors and should not be considered a vehicle for trading purposes. NAV will be reduced following the offering by the sales load and the offering costs paid by the Fund and immediately following any offering of preferred shares by the costs of that offering paid by the Fund. The Fund's Shares are not redeemable at the request of shareholders. The Fund may repurchase its Shares in the open market or in private transactions, although it has no present intention to do so. Shareholders desiring liquidity may, subject to applicable securities laws, trade their Shares in the Fund on the NYSE or other markets on which such Shares may trade at the then current market value, which may differ from the then current NAV.

Whether investors will realize a gain or loss upon the sale of the Fund's Shares will depend upon whether the market value of the Shares at the time of sale is above or below the price the investor paid, taking into account transaction costs, for the Shares and is not directly dependent upon the Fund's NAV. Because the market value of the Fund's Shares will be determined by factors such as the relative demand for and supply of the Shares in the market, general market conditions and other factors beyond the control of the Fund, the Fund cannot predict whether its Shares will trade at, below or above NAV.

Subscription Price Risk

The Subscription Price could be more than the market price of the Fund's Shares on the Pricing Date, and once you have submitted a Subscription Certificate, you may not revoke it, even if you would pay more than the then current market price.

Below Investment Grade Securities

The Fund may invest up to 25% of its total assets in debt securities rated at the time of purchase Ba or B by Moody's Investor Service, Inc. or BB or B by Standard & Poor's Corporation or in unrated securities of comparable quality in the Adviser's judgment. Such securities are commonly known as "high yield securities" and sometimes as "junk bonds." The Fund may also invest no more than 10% of its total assets in debt securities rated B by Moody's or Standard & Poor's or in unrated securities of comparable quality in the Adviser's judgment. Investors should recognize that the high yield securities in which the Fund will invest have speculative characteristics. Generally, lower rated or unrated securities of equivalent credit quality offer a higher return potential than higher rated securities but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of a default or bankruptcy of the issuers of such securities. Lower rated securities and comparable unrated securities will likely have larger uncertainties or major risk exposure to adverse conditions and are predominantly speculative. The occurrence of adverse conditions and uncertainties would likely reduce the value of such securities held by the Fund, with a commensurate effect on the value of Shares of the Fund. While the market values of lower rated securities and unrated securities of equivalent credit quality tend to react less to fluctuations in interest rate levels than do those of higher-rated securities, the market value of certain of these lower rated securities also tends to be more sensitive to changes in economic conditions, including unemployment rates, inflation rates and negative investor perception than higher-rated securities. In addition, lower-rated securities and unrated securities of equivalent credit quality generally present a higher degree of credit risk, and may be less liquid than certain other fixed income securities. The Fund may incur additional expenses to the extent that it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

Securities which are rated Ba by Moody's or BB by Standard & Poor's have speculative characteristics with respect to capacity to pay interest and repay principal. Securities which are rated B generally lack the characteristics of a desirable investment, and assurance of interest and principal payments over any long period of time may be small. Securities which are rated Caa by Moody's or CCC by Standard & Poor's or below are of poor standing and highly speculative. Those issues may be in default or present elements of danger with respect to principal or interest. Securities rated C by Moody's, D by Standard & Poor's are in the lowest rating class. Such ratings indicate that payments are in default, or that a bankruptcy petition has been filed with respect to the issuer or that the issuer is regarded as having extremely poor prospects. It is unlikely that future payments of principal or interest will be made to the Fund with respect to these highly speculative securities other than as a result of the sale of the securities or the foreclosure or other forms of liquidation of the collateral underlying the securities.

In general, the ratings of the NRSROs, such as Moody's and Standard & Poor's, represent the opinions of these NRSROs as to the quality of securities that they choose to rate. Such ratings are relative and subjective, and are not absolute standards of quality and do not evaluate the market value risk of the securities. Credit ratings do not provide assurance against default or other loss of money. It is possible that an NRSRO might not change its rating of a particular issue to reflect subsequent events. These ratings will be used by the Fund as data in the selection of portfolio securities, but the Fund also will rely upon the independent advice of the Adviser to evaluate potential investments.

See also "Investment Objective and Policies — Below Investment Grade Corporate Bonds."

Reinvestment Risk

Income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio's current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to invest in lower-yielding securities. A decline in income received by the Fund from its investments is likely to have a negative effect on the market price, NAV and/or overall return of the Shares.

Mortgage-Related and Other Asset-Backed Securities Risk

The Fund may invest its assets in a variety of mortgage-related securities issued by government agencies or other governmental entities or by private originators or issuers. These may include, without limitation, mortgage pass-through securities, collateralized mortgage obligations ("CMOs"), commercial or residential mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities ("SMBSs") and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Fund may also invest in other types of asset-backed securities, including collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities.

Mortgage-related and other asset-backed securities often involve risks that are different from or more acute than risks associated with other types of debt instruments. For instance, these securities may be particularly sensitive to changes in prevailing interest rates. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates, and may reduce the market value of the securities. This is known as extension risk. In addition, mortgage-related securities are subject to prepayment risk — the risk that borrowers may pay off their mortgages sooner than expected, particularly when interest rates decline. This can reduce the Fund's returns because the Fund may have to reinvest that money at lower prevailing interest rates. For instance, the Fund may invest in SMBSs where one class receives all of the interest from the mortgage assets (the interest-only, or "IO" class), while the other class will receive all of the principal (the principal-only, or "PO" class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on the Fund's yield to maturity from these investments. The Fund's investments in other asset-backed securities are subject to risks similar to those associated with mortgage-backed securities, as well as additional risks associated with their structure and the nature of the assets underlying the security and the servicing of those assets. For instance, certain CDOs in which the Fund may invest are backed by pools of high-risk, below investment grade debt securities and may involve substantial credit and other risks. Further, due their often complicated structures, various mortgage-related and particularly asset-backed securities may be difficult to value and may constitute illiquid investments.

Investments in mortgage-related securities may involve particularly high levels of risk under current market conditions. There is currently no investment limitation or other policy limiting the Fund's ability to invest in CDOs; however, the Adviser does not anticipate that the Fund will invest more than 5% of the Fund's assets in CDOs.

Mortgage Market/Subprime Risk

The residential mortgage market in the United States recently has experienced difficulties that may adversely affect the performance and market value of certain of the Fund's mortgage-related investments. Delinquencies and

losses on residential mortgage loans (especially subprime and second-lien mortgage loans) generally have increased recently and may continue to increase, and a decline in or flattening of housing values (as has recently been experienced and may continue to be experienced in many housing markets) may exacerbate such delinquencies and losses. Borrowers with adjustable rate mortgage loans are more sensitive to changes in interest rates, which affect their monthly mortgage payments, and may be unable to secure replacement mortgages at comparably low interest rates. Also, a number of residential mortgage loan originators have recently experienced serious financial difficulties or bankruptcy. Owing largely to the foregoing, reduced investor demand for mortgage loans and mortgage-related securities and increased investor yield requirements have caused limited liquidity in the secondary market for mortgage-related securities, which can adversely affect the market value of mortgage-related securities. It is possible that such limited liquidity in such secondary markets could continue or worsen.

Government-Entity Risk

As noted, the Fund may invest in mortgage-related and other debt securities issued or guaranteed by certain U.S. government agencies, instrumentalities and sponsored enterprises. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by GNMA, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks or FHLMC, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of FNMA, are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. Although U.S. Government-sponsored enterprises, such as the Federal Home Loan Banks, FHLMC, FNMA and the Student Loan Marketing Association may be chartered or sponsored by Congress, they are not funded by Congressional appropriations, and their securities are not issued by the U.S. Treasury or supported by the full faith and credit of the U.S. Government and involve increased credit risks. Certain governmental entities, including FNMA and FHLMC, have been subject to regulatory scrutiny regarding their accounting policies and practices and other concerns that may result in legislation, changes in regulatory oversight and/or other consequences that could adversely affect the credit quality, availability or investment character of securities issued by these entities.

Convertible Securities Risk

Convertible securities generally offer lower interest or dividend yields than non-convertible debt securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, a convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before company's common stockholders but after holders of any senior debt obligations of the company. Consequently, the issuer's convertible securities generally entail less risk than its common stock but more risk than its debt obligations.

Preferred Securities Risk

In addition to equity securities and related market risk, credit risk, and possibly high yield risk, investment in preferred stocks involves certain other risks. Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. If the Fund owns a preferred stock that is deferring its distribution, the Fund may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred stocks often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred stocks are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred stocks may trade less frequently and in a more

limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. Government securities.

Management Risk

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

Valuation Risk

When market quotations are not readily available or are deemed to be unreliable, the Fund values its investments at fair value as determined in good faith pursuant to policies and procedures approved by the Board of Trustees. See “Determination of Net Asset Value.” Fair value pricing may require subjective determinations about the value of a security or other asset. As a result, there can be no assurance that fair value pricing will result in adjustments to the prices of securities or other assets, or that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security or other asset will be materially different from quoted or published prices, from the prices used by others for the same security or other asset and/or from the value that actually could be or is realized upon the sale of that security or other asset.

Focused Investment Risk

Although the Fund has a policy not to concentrate investments in any particular industry, it may (consistent with that policy) invest up to 25% of its assets in any particular industry. To the extent that the Fund focuses its investments in a particular industry, the NAV of the Shares will be more susceptible to events or factors affecting companies in that industry. These may include, but are not limited to, governmental regulation, inflation, rising interest rates, cost increases in raw materials, fuel and other operating expenses, technological innovations that may render existing products and equipment obsolete, competition from new entrants, high research and development costs, increased costs associated with compliance with environmental or other regulation and other economic, market, political or other developments specific to that industry. Also, the Fund may have greater risk to the extent that it invests a substantial portion of its assets in companies in related sectors, such as natural resources, which may share common characteristics, are often subject to similar business risks and regulatory burdens, and whose securities may react similarly to the types of events and factors described above.

Equity Securities and Related Market Risk

The Fund may hold common stocks and other equity securities from time to time, including those it has received through the conversion of a convertible security held by the Fund or in connection with the restructuring of a debt security. The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Debt securities are also subject to the market risks described above; however, equity securities generally have greater price volatility than bonds and other debt securities.

Smaller Company Risk

The general risks associated with debt instruments or equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Small capitalization companies involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply

than other securities. They may also have limited liquidity. These securities may therefore be more vulnerable to adverse developments than securities of larger companies, and the Fund may have difficulty purchasing or selling securities positions in smaller companies at prevailing market prices. Also, there may be less publicly available information about smaller companies or less market interest in their securities as compared to larger companies. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Other Investment Companies Risk

The Fund may invest up to 10% of its assets in securities of other open- or closed-end investment companies, including exchange traded funds or “ETFs”, to the extent that such investments are consistent with the Fund’s investment objective and policies and permissible under the 1940 Act. As a shareholder in an investment company, the Fund will bear its ratable Share of that investment company’s expenses, and would remain subject to payment of the Fund’s investment management fees with respect to the assets so invested. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may utilize leverage, in which case an investment would subject the Fund to additional risks associated with leverage.

Inflation/Deflation Risk

Inflation risk is the risk that the value of assets or income from the Fund’s investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Fund’s portfolio could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund’s portfolio.

Liquidity Risk

The Fund may invest in illiquid securities (*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). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose readily of illiquid securities when that would be beneficial at a favorable time or price or at prices approximating those at which the Fund currently values them. Further, the lack of an established secondary market for illiquid securities may make it more difficult to value such securities, which may negatively impact the price the Fund would receive upon disposition of such securities.

Market Disruption and Geopolitical Risk

The war with Iraq, its aftermath and the continuing occupation of Iraq are likely to have a substantial impact on the U.S. and world economies and securities markets. The nature, scope and duration of the war and occupation and the potential costs of rebuilding the Iraqi infrastructure cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period and similar future events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, credit risk, inflation and other factors relating to the Shares.

Repurchase Agreements

The use of repurchase agreements involves risks of loss and decreased yields as a result of related costs. For example, if the seller of securities under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund’s ability to dispose of the underlying securities may be

restricted if the securities are deemed to be merely collateral for a loan. Also, it is possible that the Fund may be unable to substantiate its interest in the underlying securities. If the seller fails to repurchase the securities, the Fund may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. See “Investment Objectives and Policies — Repurchase Agreements.”

DIVIDENDS AND DISTRIBUTIONS

The Fund distributes at least quarterly substantially all of its net investment income, if any, and annually all of its capital gains, if any, except to the extent such gains are offset against capital loss carryforwards. For information concerning the tax treatment for such distributions to the Fund and to shareholders, see “Taxation of the Fund.”

DIVIDEND REINVESTMENT PLAN

Shareholders whose Shares are registered in their own names may elect to be participants in the Fund’s Automatic Dividend Investment Plan (the “Plan”), pursuant to which dividends and capital gain distributions to shareholders will be paid in or reinvested in additional Shares of the Fund (the “Dividend Shares”). PNC Global Investment Servicing, Inc. (the “Transfer Agent”) acts as agent for participants under the Plan. Shareholders whose Shares are held in the name of a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan.

Dividends and distributions are reinvested under the Plan in one of two ways. If the Fund declares a dividend or distribution payable in cash or in Shares to be issued by the Fund at the lower of market price or NAV, the Transfer Agent, on behalf of participants in the Plan, (i) accepts the dividend or distribution in full and fractional Shares provided that the market price plus brokerage commissions on the Friday preceding the dividend or distribution (the “Comparison Date”) is at least 95% of NAV or (ii) if market price plus brokerage commission on the Comparison Date is less than 95% of NAV the Transfer Agent, on behalf of participants in the Plan, accepts the dividend or distribution in cash, and uses such cash to purchase Shares on the NYSE for the benefit of participants in the Plan. Alternatively, if the Fund declares a dividend or distribution in cash or in Shares issued at NAV, the Transfer Agent, on behalf of participants in the Plan, either (i) accepts such dividend or distribution in full and fractional Shares if the NAV is equal to or less than the market price plus brokerage commissions on the Comparison Date or (ii) accepts the dividend or distribution in cash, if the NAV is greater than the market price plus brokerage commissions on the Comparison Date, and uses such cash to purchase Shares on the NYSE for the benefit of participants in the Plan. The Plan may be terminated by a participant by delivery of written notice to the Transfer Agent.

Distributions of investment company taxable income that are invested in additional Shares generally are taxable to shareholders as ordinary income. A capital gain distribution that is reinvested in Shares is taxable to shareholders as long-term capital gain, regardless of the length of time a shareholder has held the Shares or whether such gain was realized by the Fund before the shareholder acquired such Shares and was reflected in the price paid for the Shares.

TAXATION OF THE FUND

This section and the discussion in the SAI summarize certain U.S. federal income tax considerations affecting the Fund and its shareholders. This discussion is for general information only and does not purport to consider all aspects of U.S. federal income taxation that might be relevant to beneficial owners of shares of the Fund. The summary is based upon current provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder (the “Regulations”), and administrative and judicial interpretations thereof, all of which are subject to change, which change could be retroactive, and may affect the conclusions expressed herein. The summary applies only to beneficial owners of the Fund’s shares in whose hands such shares are capital assets within the meaning of Section 1221 of the Code, and may not apply to certain types of beneficial owners of the Fund’s shares, including, but not limited to, insurance companies, tax-exempt organizations, shareholders holding the Fund’s shares through tax-advantaged accounts (such as an individual retirement account (an “IRA”), a 401(k) plan account, or other qualified retirement account), financial institutions, pass-through entities, broker-dealers, entities that are not organized under the laws of the United States or a political subdivision thereof, persons who are neither

a citizen nor resident of the United States, shareholders holding the Fund's shares as part of a hedge, straddle or conversion transaction, and shareholders who are subject to the alternative minimum tax. Persons who may be subject to tax in more than one country should consult the provisions of any applicable tax treaty to determine the potential tax consequences to them.

The Fund has not requested nor will it request an advance ruling from the Internal Revenue Service (the "IRS") as to the federal income tax matters described below. The IRS could adopt positions contrary to those discussed below and such positions could be sustained. In addition, the following discussion applicable to each shareholder of the Fund addresses only some of the federal income tax considerations generally affecting investments in the Fund. **Each shareholder is urged and advised to consult such shareholder's own tax advisor with respect to the tax consequences of the ownership, purchase and disposition of an investment in the Fund including, but not limited to, the applicability of U.S. federal, state, local, foreign and other tax laws affecting the particular shareholder of the Fund's shares and to possible effects of changes in federal or other tax laws.**

Taxation of the Fund

The Fund has elected, and intends to continue to qualify for, taxation as a regulated investment company ("RIC") under the Code. By qualifying as a RIC, the Fund (but not the shareholders) will not be subject to federal income tax on that portion of its investment company taxable income and net realized capital gains that it distributes to its shareholders. Qualification as a RIC under the Code requires, among other things, that: (a) the Fund derive at least 90% of its gross income for each taxable year from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the "Qualifying Income Requirement"), and net income from certain qualified publicly traded partnerships; (b) the Fund diversify its holdings so that, at the close of each quarter of the taxable year: (i) at least 50% of the value of its assets is comprised of cash, cash items (including receivables), U.S. government securities, securities of other RICs and other securities, with those other securities limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of its total assets and that does not represent more than 10% of the outstanding voting securities of such issuer; and (ii) not more than 25% of the value of its assets is invested in the securities (other than U.S. government securities or securities of other RICs) of any one issuer or the securities (other than the securities of other RICs) of two or more issuers controlled by it and engaged in the same, similar or related trades or businesses, or one or more "qualified publicly traded partnerships"; and (c) the Fund distributes for each taxable year the sum of (i) at least 90% of its investment company taxable income (which includes dividends, taxable interest, taxable original issue discount income, market discount income, income from securities lending, net short-term capital gain in excess of net long-term capital loss, certain net realized foreign currency exchange gains, and any other taxable income other than "net capital gain" as defined below and is reduced by deductible expenses all determined without regard to any deduction for dividends paid); and (ii) 90% of its (tax-exempt interest, if any, net of expenses allocable thereto.

As a RIC, the Fund generally will not be subject to U.S. federal income tax on the portion of its income and capital gains that it distributes to its shareholders in any taxable year for which it distributes, in compliance with the Code's timing and other requirements at least 90% of its investment company taxable income and at least 90% of the excess of its gross tax-exempt interest income, if any, over certain disallowed deductions ("net tax-exempt interest"). The Fund may retain for investment all or a portion of its net capital gain (i.e., the excess of its net long-term capital gain over its net short-term capital loss). If the Fund retains any investment company taxable income or net capital gain, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it may designate the retained amount as undistributed net capital gain in a notice to its shareholders, who will be (i) required to include in income for federal income tax purposes, as long-term capital gain, their shares of such undistributed amount; and (ii) entitled to credit their proportionate shares of tax paid by the Fund against their federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes, the tax basis of the shares owned by a shareholder of the Fund will be increased by the amount of undistributed net capital gain included in the shareholder's gross income and decreased by the federal income tax paid by the Fund on that amount of capital gain.

If for any taxable year the Fund fails to qualify as a RIC, it will be subject to tax in the same manner as an ordinary corporation subject to tax on a graduated basis with a maximum tax rate of 35% and all distributions from earnings and profits (as determined under the U.S. federal income tax principles) to its shareholders will be taxable as ordinary dividend income eligible for the 15% non-corporate shareholder rate (for taxable years beginning prior to January 1, 2011) and the dividends-received deduction for corporation shareholders.

If the Fund fails to distribute by December 31 of each calendar year an amount equal to the sum of (1) at least 98% of its taxable ordinary income (excluding capital gains and losses) for such year, (2) at least 98% of the excess of its capital gains over its capital losses (as adjusted for certain ordinary losses) for the twelve month period ending on October 31 of such year), and (3) all taxable ordinary income and the excess of capital gains over capital losses for the prior year that were not distributed during such year and on which it did not pay federal income tax, the Fund will be subject to a nondeductible 4% excise tax (the "Excise Tax") on the undistributed amounts. A distribution will be treated as paid on December 31 of the calendar year if it is declared by the Fund in October, November, or December of that year to shareholders of record on a date in such month and paid by it during January of the following year. Such distributions will be taxable to shareholders (other than those not subject to federal income tax) in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received. The Fund generally intends to actually distribute or be deemed to have distributed substantially all of its net income and gain, if any, by the end of each calendar year in compliance with these requirements so that it will generally not be required to pay the Excise Tax. The Fund may in certain circumstances be required to liquidate its investments in order to make sufficient distributions to avoid Excise Tax liability at a time when the investment adviser might not otherwise have chosen to do so, and liquidation of investments in such circumstances may affect the ability of the Fund to satisfy the requirements for qualification as a RIC. No assurances can be given that the Fund will not be subject to the Excise Tax and, in fact, in certain instances if warranted, the Fund may choose to pay the Excise Tax as opposed to making an additional distribution.

Taxation of Shareholders

Distributions. Distributions paid out of the Fund's current and accumulated earnings and profits (as determined at the end of the year), whether reinvested in additional shares or paid in cash, are generally taxable and must be reported by each shareholder who is required to file a federal income tax return. Distributions in excess of the Fund's current and accumulated earnings and profits, as computed for federal income tax purposes, will first be treated as a return of capital up to the amount of a shareholder's tax basis in his or her Fund shares and then as capital gain.

For federal income tax purposes, distributions of investment company taxable income are generally taxable as ordinary income, and distributions of gains from the sale of investments that the Fund owned for one year or less will be taxable as ordinary income. Distributions designated by the Fund as "capital gain dividends" (distributions from the excess of net long-term capital gain over short-term capital losses) will be taxable to shareholders as long-term capital gain regardless of the length of time they have held their shares of the Fund. Such dividends do not qualify as dividends for purposes of the dividends received deduction described below.

Present law taxes both long-term and short-term capital gains of corporations at the rates applicable to ordinary income. For non-corporate taxpayers, however, short-term capital gains and ordinary income are currently taxed at a maximum rate of 35% while long-term capital gains recognized are taxed at a maximum rate of 15%.

Non-corporate shareholders of the Fund may be eligible for the 15% long-term capital gain rate applicable to distributions of "qualified dividend income" received by such non-corporate shareholders in taxable years beginning before January 1, 2011. The Fund's distribution will be treated as qualified dividend income and therefore eligible for the 15% rate to the extent that it receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that certain holding periods and other requirements are met. A corporate shareholder of the Fund may be eligible for the dividends received deduction on the Fund's distributions attributable to dividends received by the Fund from domestic corporations, which, if received directly by the corporate shareholder, would qualify for such a deduction. For eligible corporate shareholders, the dividends received deduction may be subject to certain reductions, and a distribution by the Fund attributable to dividends of a

domestic corporation will be eligible for the deduction only if certain holding period and other requirements are met.

Not later than 60 days after the close of each calendar year, the Fund will inform shareholders of the federal income tax status of its dividends and distributions including the portion of such dividends, if any, that qualifies as long-term capital gain.

Different tax treatment, including penalties on certain excess contributions and deferrals, certain pre-retirement and post-retirement distributions, and certain prohibited transactions, is accorded to accounts maintained as qualified retirement plans. **Shareholders are urged and advised to consult their own tax advisors for more information.**

Sales, Exchanges or Redemptions. Upon the disposition of shares of the Fund (whether by redemption, sale or exchange), a shareholder may realize a capital gain or loss. Such capital gain or loss will be long-term or short-term depending upon the shareholder's holding period for the shares. The capital gain will be long-term if the shares were held for more than 12 months and short-term if held for 12 months or less. Any loss realized on a disposition will be disallowed under the "wash sale" rules to the extent that the shares disposed of by the shareholder are replaced by the shareholder within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a shareholder on a disposition of shares held by the shareholder for six months or less will be treated as a long-term capital loss to the extent of any distributions of capital gain dividends received by the shareholder and disallowed to the extent of any distributions of exempt-interest dividends received by the shareholder with respect to such shares. Capital losses are generally deductible only against capital gains except that individuals may deduct up to \$3,000 of capital losses against ordinary income.

Backup Withholding. The Fund generally is required to withhold, and remit to the U.S. Treasury, subject to certain exemptions, an amount equal to 28% of all distributions and redemption proceeds paid or credited to a shareholder of the Fund if (i) the shareholder fails to furnish the Fund with the correct taxpayer identification ("TIN") certified under penalties of perjury, (ii) the shareholder fails to provide a certified statement that the shareholder is not subject to backup withholding, or (iii) the IRS or a broker has notified the Fund that the number furnished by the shareholder is incorrect or that the shareholder is subject to backup withholding as a result of failure to report interest or dividend income. If the backup withholding provisions are applicable, any such distributions or proceeds, whether taken in cash or reinvested in shares, will be reduced by the amounts required to be withheld. Backup withholding is not an additional tax. Any amounts withheld may be credited against a shareholder's U.S. federal income tax liability.

The foregoing is only a summary of certain U.S. federal income tax considerations affecting the Fund and its shareholders. These provisions are subject to change by legislative or administrative action, and any such change may be retroactive. **Each shareholder is urged and advised to consult such shareholder's own tax advisor with respect to the tax consequences of the ownership, purchase and disposition of an investment in the Fund including, but not limited to, the applicability of U.S. federal, state, local, foreign and other tax laws affecting the particular shareholder of the Fund's shares and to possible effects of changes in federal or other tax laws.**

State and Local Tax Matters

All shareholders are urged and advised to consult with their own tax advisor about state and local tax matters.

Non-U.S. Shareholders

All non-U.S. shareholders are urged and advised to consult their own tax advisors as to the tax consequences of an investment in the Fund.

DETERMINATION OF NET ASSET VALUE

The NAV per Share of the Fund is computed based upon the value of the Fund's portfolio securities and other assets. The NAV per Share of the Fund is determined as of the close of regular trading on the New York Stock Exchange (the "Exchange") (currently 4:00 p.m. Eastern time). The Fund calculates NAV per Share of the Fund by subtracting the Fund's liabilities (including accrued expenses, dividends payable and any borrowings of the Fund) from the Fund's total assets (the value of the securities the Fund holds plus cash or other assets, including interest accrued but not yet received) and dividing the result by the total number of Shares of the Fund outstanding.

Prices for fixed income securities normally are supplied by an independent pricing service. Fixed income securities maturing within 60 days of the valuation date are valued at amortized cost. Prices for equity securities are determined by an independent pricing service at its last sale price on the exchange where the security is traded most extensively (the "primary exchange"). In the absence of any sales on the primary exchange, equity securities will be valued at the mean between the closing asked and bid quotations. An unlisted security is valued at the mean between the closing asked and bid quotations in the market where the security is traded most extensively. When market quotations are not readily available or are deemed to be unreliable by the Adviser, a security's current market value, is valued at fair value as determined in good faith by or under the direction of the Board of the Fund.

DISTRIBUTION ARRANGEMENTS

Boenning & Scattergood, Inc., 4 Tower Bridge, 200 Barr Harbor Drive, Suite 300, West Conshohocken, Pennsylvania, a broker-dealer and member of the National Association of Securities Dealers, Inc., will act as the Dealer Manager for the Offering. Under the terms and subject to the conditions contained in the Dealer Manager Agreement dated the date of this prospectus (the "Dealer Manager Agreement"), the Dealer Manager will provide marketing services in connection with the Offering and will solicit the exercise of Rights and participation in the Over-Subscription Privilege. The Offering is not contingent upon any number of Rights being exercised. The Fund has agreed to pay the Dealer Manager a fee for its marketing and soliciting services equal to 3.75% of the aggregate Subscription Price for Shares issued pursuant to the Offering. Any shareholder exercising Rights will state in writing, on the Subscription Certificate, that the transaction was solicited and designate the broker-dealer to receive compensation for the exercise of the rights.

The Dealer Manager will reallow to broker-dealers included in the soliciting group to be formed and managed by the Dealer Manager ("Soliciting Group Members") solicitation fees equal to 1.875% of the Subscription Price per Share for each Share issued pursuant to the Rights Offering as a result of their soliciting efforts, subject to a maximum fee based upon the number of Shares held by each broker-dealer through DTC on the Record Date. Fees will be paid to the Dealer Manager or broker-dealer designated, as the case may be, on the applicable portion of the Subscription Certificates. The Dealer Manager may, but is not required, to purchase Shares not subscribed for at the Subscription Price, less a 3.75% discount and resell such Shares to the public pursuant to this prospectus at the Subscription Price. The Dealer Manager may also resell such Shares to other dealers that are members of a selling group at the Subscription Price, less a selling concession of not in excess of 1.50%. The Dealer Manager may allow, and these selling group members may reallow, a concession of not more than 0.50% to other brokers and dealers.

In addition, the Fund may reimburse the Dealer Manager up to an aggregate of \$150,000 for its reasonable expenses incurred in connection with the Offering. The Fund has agreed to indemnify the Dealer Manager or contribute to losses arising out of certain liabilities including liabilities under the Securities Act. The Dealer Manager Agreement also provides that the Dealer Manager will not be subject to any liability to the Fund in rendering the services contemplated by such Agreement except for any act of bad faith, willful misconduct or gross negligence of the Dealer Manager or reckless disregard by the Dealer Manager of its obligations and duties under such Agreement.

The Fund has agreed not to offer or sell, or enter into any agreement to sell, any equity or equity related securities of the Fund or securities convertible into such securities for a period of 180 days after the date of the Dealer Manager Agreement, except for the Shares and beneficial interest issued in reinvestment of dividends or distributions or other limited circumstances.

The Fund will bear the expenses of the Offering, which will be paid from the proceeds of the Offering. These expenses include, but are not limited to: the expense of preparation and printing of the prospectus for the Offering, the expense of counsel and auditors in connection with the Offering, the out-of-pocket expenses incurred by the officers of the Fund and others in connection with the Offering.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

Custodian. PFPC Trust Company, 8800 Tincum Boulevard, Philadelphia, Pennsylvania 19153, serves as the custodian of the Fund's assets pursuant to a custody agreement.

Transfer Agent. PNC Global Investment Servicing, Inc., P.O. Box 43027 Providence, Rhode Island 02940, serves as the Fund's transfer agent and dividend disbursing agent and as registrar for Shares of the Fund.

LEGAL MATTERS

Certain legal matters will be passed on by Pepper Hamilton LLP, Philadelphia, Pennsylvania, counsel to the Fund in connection with the Offering. Certain matters will be passed on for the Dealer Manager by Reed Smith LLP.

EXPERTS

The financial statements of the Fund as of March 31, 2009 (which have been incorporated into the SAI and the registration statement, of which the SAI forms a part, by reference to the Fund's 2009 Annual Report to Shareholders), and the financial highlights for each of the five years in the period ended March 31, 2009, included in this prospectus, have been so incorporated and included in reliance on the reports of Tait, Weller & Baker LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. The address of Tait, Weller & Baker LLP is 1818 Market Street, Suite 2400, Philadelphia, Pennsylvania 19103.

REPORTS TO SHAREHOLDERS

The Fund sends unaudited semi-annual reports and audited annual reports, which include a list of investments held, to shareholders.

WHERE YOU CAN FIND MORE INFORMATION

The Fund is subject to the informational requirements of the Securities Exchange Act of 1934 and the 1940 Act and in accordance therewith is required to file reports, proxy statements and other information with the SEC. Any such reports, proxy statements and other information can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549, the SEC's New York Regional Office at 3 World Financial Center, Suite 400, New York, New York 10281 and its Chicago Regional Office at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. Reports, proxy statements and other information concerning the Fund can also be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

Additional information regarding the Fund and the Offering is contained in the Registration Statement on Form N-2, including amendments, exhibits and schedules thereto, filed by the Fund with the SEC. This prospectus does not contain all of the information set forth in the Registration Statement, including any amendments, exhibits and schedules thereto. For further information with respect to the Fund and the Shares offered hereby, reference is made to the Registration Statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

The Fund's SAI, annual and semi-annual reports and information about the Fund are accessible, may be viewed or downloaded, free of charge, from the EDGAR database on the SEC's website at <http://www.sec.gov>. Such information can also be reviewed and copied at the Public Reference Room of the Securities and Exchange

Commission in Washington, D.C. Copies of this information may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: *publicinfo@sec.gov* or by writing the Public Reference Room of the SEC, Washington, D.C., 20549-0102. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 942-8090. The Fund's SAI, annual and semi-annual reports and information about the Fund may be obtained without charge by calling (800) 331-1710.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND OR THE FUND'S ADVISER OR THE DEALER MANAGER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF BENEFICIAL INTEREST OFFERED BY THIS PROSPECTUS, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SHARES OF BENEFICIAL INTEREST BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE FACTS AS SET FORTH IN THE PROSPECTUS OR IN THE AFFAIRS OF THE FUND SINCE THE DATE HEREOF.

STATEMENT OF ADDITIONAL INFORMATION — TABLE OF CONTENTS

Additional information about the Fund is contained in a Statement of Additional Information, which is available upon request without charge by contacting the Fund at (800) 331-1710. Following is the Table of Contents for the Statement of Additional Information:

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APPENDIX A — RATINGS OF CORPORATE OBLIGATIONS AND COMMERCIAL PAPER

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's® ("S&P"). A description of the ratings assigned by Moody's and S&P® are provided below. These ratings represent the opinions of these rating services as to the quality of the securities that they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. The Adviser attempts to discern variations in credit rankings of the rating services and to anticipate changes in credit ranking. However, subsequent to purchase by a Fund, an issue of securities (or its issuer) may cease to be rated or its rating may be reduced below the minimum rating required for purchase by a Fund. In that event, the Adviser will consider whether it is in the best interest of a Fund to continue to hold the securities.

Moody's credit ratings must be construed solely as statements of opinion and not as statements of fact or recommendations to purchase, sell or hold any securities.

An S&P issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The issue credit rating is not a recommendation to purchase, sell or hold a financial obligation inasmuch as it does not comment as to market price or suitability for a particular investor.

Short-Term Credit Ratings

Moody's

Moody's employs the following ratings:

"*P-1*" — Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

"*P-2*" — Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term obligations.

"*P-3*" — Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term debt obligations.

"*NP*" — Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

S&P

An S&P short-term issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation having an original maturity of no more than 365 days. The following summarizes the rating categories used by S&P for short-term issues:

"*A-1*" — Obligations are rated in the highest category and indicate that the obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

"*A-2*" — Obligations are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

"*A-3*" — Obligations exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

“B” — Obligations are regarded as having significant speculative characteristics. Ratings of “B-1,” “B-2,” and “B-3” may be assigned to indicate finer distinctions within the “B” category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

“B-1” — Obligations are regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to other speculative — grade obligors.

“B-2” — Obligations are regarded as having significant speculative characteristics, and the obligor has an average speculative — grade capacity to meet its financial commitments over the short-term compared to other speculative — grade obligors.

“B-3” — Obligations are regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative — grade obligors.

“C” — Obligations are currently vulnerable to nonpayment and are dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation.

“D” — Obligations are in payment default. The “D” rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The “D” rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Local Currency and Foreign Currency Risks — Country risk considerations are a standard part of S&P’s analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor’s capacity to repay foreign currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government’s own relatively lower capacity to repay external versus domestic debt. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues. Foreign Currency issuer ratings are also distinguished from local currency issuer ratings to identify those instances where sovereign risks make them different for the same issuer.

Short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

Long-Term Credit Ratings

Moody’s

The following summarizes the ratings used by Moody’s for long-term debt:

“Aaa” — Obligations rated “Aaa” are judged to be of the highest quality, with minimal credit risk.

“Aa” — Obligations rated “Aa” are judged to be of high quality and are subject to very low credit risk.

“A” — Obligations rated “A” are considered upper-medium grade and are subject to low credit risk.

“Baa” — Obligations rated “Baa” are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

“Ba” — Obligations rated “Ba” are judged to have speculative elements and are subject to substantial credit risk.

“B” — Obligations rated “B” are considered speculative and are subject to high credit risk.

“Caa” — Obligations rated “Caa” are judged to be of poor standing and are subject to very high credit risk.

“Ca” — Obligations rated “Ca” are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

“C” — Obligations rated “C” are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody’s appends numerical modifiers 1, 2, and 3 to each generic rating classification from “Aa” through “Caa.” The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

S&P

The following summarizes the ratings used by S&P for long-term issues:

“AAA” — An obligation rated “AAA” has the highest rating assigned by S&P. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

“AA” — An obligation rated “AA” differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

“A” — An obligation rated “A” is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

“BBB” — An obligation rated “BBB” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated “BB,” “B,” “CCC,” “CC,” and “C” are regarded as having significant speculative characteristics. “BB” indicates the least degree of speculation and “C” the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

“BB” — An obligation rated “BB” is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

“B” — An obligation rated “B” is more vulnerable to nonpayment than obligations rated “BB,” but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor’s capacity or willingness to meet its financial commitment on the obligation.

“CCC” — An obligation rated “CCC” is currently vulnerable to nonpayment, and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

“CC” — An obligation rated “CC” is currently highly vulnerable to nonpayment.

“C” — A “C” rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the “C” rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument’s terms.

“D” — An obligation rated “D” is in payment default. The “D” rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P

believes that such payments will be made during such grace period. The “D” rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or minus (-) — The ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

“N. R.” — This indicates that no rating has been requested, that there is insufficient information on which to base a rating or that S&P does not rate a particular obligation as a matter of policy.

Local Currency and Foreign Currency Risks — Country risk considerations are a standard part of S&P’s analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor’s capacity to repay Foreign Currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government’s own relatively lower capacity to repay external versus domestic debt. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues. Foreign Currency issuer ratings are also distinguished from local currency issuer ratings to identify those instances where sovereign risks make them different for the same issuer.

Notes to Short-Term and Long-Term Credit Ratings

Moody’s

Watchlist: Moody’s uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (“UPG”), on review for possible downgrade (“DNG”), or more rarely with direction uncertain (“UNC”). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

Rating Outlooks: A Moody’s rating outlook is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (“POS”), Negative (“NEG”), Stable (“STA”) and Developing (“DEV” — contingent upon an event). In the few instances where an issuer has multiple outlooks of differing directions, an “(m)” modifier (indicating multiple, differing outlooks) will be displayed, and Moody’s written research will describe any differences and provide the rationale for these differences. A “RUR” (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, “NOO” (No Outlook) may be displayed.

S&P

Creditwatch: CreditWatch highlights the potential direction of a short- or long-term rating. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by S&P’s analytical staff. These may include mergers, recapitalizations, voter referendums, regulatory action or anticipated operating developments. Ratings appear on CreditWatch when such an event or a deviation from an expected trend occurs and additional information is necessary to evaluate the current rating. A listing, however, does not mean a rating change is inevitable, and whenever possible, a range of alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The “positive” designation means that a rating may be raised; “negative” means a rating may be lowered; and “developing” means that a rating may be raised, lowered or affirmed.

Rating Outlook: An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

- “Positive” means that a rating may be raised.
- “Negative” means that a rating may be lowered.
- “Stable” means that a rating is not likely to change.
- “Developing” means a rating may be raised or lowered.

1,650,893 Shares

Rivus Bond Fund

Shares of Beneficial Interest

Investment Adviser:
MBIA Capital Management Corp.

P R O S P E C T U S

July 15, 2009

BOENNING & SCATTERGOOD, INC.
