PROSPECTUS

24,750,000 Shares

MainStay DefinedTerm Municipal Opportunities Fund

Common Shares
$20.00 per Share

The Fund. MainStay DefinedTerm Municipal Opportunities Fund (the "Fund") is a recently organized, diversified, closed-end management investment company. The Fund will have an approximate 12-year limited term unless otherwise determined by the Fund's Board of Trustees.

Investment Objectives. The Fund's primary investment objective is to seek current income exempt from regular U.S. Federal income taxes (but which may be includable in taxable income for purposes of the Federal alternative minimum tax). The Fund's secondary objective is total return. There can be no assurance that the Fund's investment objectives will be achieved.

Investment Strategy. The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its "Managed Assets" (as defined below) in municipal bonds, the interest on which is, in the opinion of bond counsel to the issuers, generally excludable from gross income for regular U.S. Federal income tax purposes (except that the interest may be includable in taxable income for purposes of the Federal alternative minimum tax).

No Prior Trading History. **Because the Fund is recently organized, its shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value ("NAV"), which may increase investor risk. This risk may be greater for investors expecting to sell their shares in a relatively short period of time after completion of the public offering.**

Investing in the Common Shares involves certain risks. You could lose some or all of your investment. See "Risks" beginning on page 40 of this prospectus. Investing in junk bonds is speculative and presents a high degree of risk.

The NAV per Common Share will be reduced immediately following this offering as a result of the payment of certain offering costs. See "Risks—Market Discount From Net Asset Value Risk."

The Fund's Common Shares have been authorized for listing on the New York Stock Exchange, subject to notice of issuance. The trading or ticker symbol of the Common Shares is "MMD."

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

	Per Share	Total(3)
Public offering price	$20.00	$495,000,000
Sales load(1)	$.90	$22,275,000
Estimated offering costs	$.04	$990,000
Proceeds, after expenses, to the Fund(2)	$19.06	$471,735,000

(1) New York Life Investment Management LLC ("New York Life Investments" or the "Manager") and MacKay Shields LLC ("MacKay Shields" or "Sub-Advisor") (and not the Fund) have agreed to pay from their own assets structuring fees to Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. in connection with this offering. The Manager and the Sub-Advisor (and not the Fund) may also pay certain qualifying underwriters a structuring fee, sales incentive fee or additional compensation with the offering. Each of the Manager and the Sub-Advisor will be responsible for one-half of such structuring fee, sales incentive fee or additional compensation. See "Underwriting."

(2) The Fund has agreed to pay the underwriters $165,083, or $188,040 (if the underwriters exercise the overallotment in full) representing $.00667 per Common Share as a partial reimbursement of expenses. Total offering expenses to be paid by the Fund (other than the sales load but inclusive of such $.00667 per Common Share reimbursement of underwriters' expenses) are estimated to be approximately $990,000, which represents $.04 per Common Share. The Manager has agreed to pay (i) all of the Fund's organizational expenses, which are estimated to be $330,000, and (ii) the Fund's offering expenses (other than the sales load but inclusive of such $.00667 per Common Share as reimbursement of the underwriters' expenses), which are estimated to be $78,000 to the extent offering expenses are in excess of $.04 per share.

(3) The Fund has granted the underwriters an option to purchase up to 3,441,908 additional shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover overallotments, if any. If this option is exercised in full, the total public offering price, sales load, estimated offering costs and proceeds, after expenses, to the Fund will be approximately $563,838,160, $25,372,717, $1,127,676, and $537,337,767, respectively. See "Underwriting."

The underwriters expect to deliver the Common Shares to purchasers on or about June 29, 2012.

BofA Merrill Lynch   Citigroup   Morgan Stanley   Wells Fargo Securities   Raymond James

BB&T Capital Markets   J.J.B. Hilliard, W.L. Lyons, LLC   Janney Montgomery Scott

Ladenburg Thalmann & Co. Inc.   Maxim Group LLC   Wedbush Securities Inc.   Wunderlich Securities

The date of this prospectus is June 26, 2012.

Portfolio Content. Municipal bonds are types of debt obligations, which may have a variety of issuers, including governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds include, among other instruments, general obligation bonds, revenue bonds, municipal leases, certificates of participation, private activity bonds, and moral obligation bonds, as well as short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations. Under normal market conditions, the Fund may not invest more than 25% of its Managed Assets in municipal bonds in any one industry or in any one state of origin and no more than 5% of its Managed Assets in any one issuer.

Although the Fund may invest in municipal bonds rated in any rating category or in unrated municipal bonds, MacKay Shields, the Fund's Sub-Advisor, intends to invest at least 75% of the Managed Assets in investment grade quality bonds as rated by at least one independent rating agency (such as bonds rated BBB- or higher by Standard & Poor's, a division of McGraw-Hill Companies, Inc. (''S&P'') or Fitch Ratings, Inc. (''Fitch'') or Baa3 or higher by Moody's Investor Service, Inc. (''Moody's'')). It is possible that the Fund could invest up to 100% of its Managed Assets in these securities. The Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds (commonly referred to as ''junk bonds''). Investing in junk bonds is speculative and presents a high degree of risk. If the independent ratings agencies assign different ratings to the same security, the Fund will use the higher rating for purposes of determining the security's credit quality. The Fund may also invest up to 20% of its Managed Assets in taxable municipal securities. The Fund can invest in bonds of any maturity; however, it will generally invest in municipal bonds that have a maturity of five years or longer at the time of purchase. The Fund may invest up to 30% of its Managed Assets in municipal bonds that pay interest that may be includable in taxable income for purposes of the Federal alternative minimum tax.

The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing preferred shares (''Preferred Shares''), or funds borrowed from banks or other financial institutions (*i.e.*, credit facility). See ''Leverage Program.''

''Managed Assets'' means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the purpose of creating Effective Leverage (as defined below) or Fund liabilities related to the liquidation preference of any Preferred Shares issued). Total assets for this purpose shall include assets attributable to the Fund's use of Effective Leverage, such as, but not limited to, the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility).

Manager and Sub-Advisor. New York Life Investments, an indirect, wholly-owned subsidiary of New York Life Insurance Company (''New York Life''), will administer the Fund's business affairs and manage the investment operations of the Fund and the composition of the portfolio of the Fund, subject to the supervision of the Board of Trustees. The Manager intends to delegate its portfolio management responsibilities to MacKay Shields, also an indirect, wholly-owned subsidiary of New York Life. See ''Management of the Fund'' in this prospectus and ''The Manager and Sub-Advisor'' in the Fund's Statement of Additional Information (the ''SAI'').

Limited Term. Pursuant to the terms of the Fund's Amended and Restated Agreement and Declaration of Trust (''Declaration of Trust''), the Fund will commence the process of liquidation and dissolution at the close of business on December 31, 2024 (the ''Termination Date'') unless otherwise extended by a majority of the Board of Trustees (as discussed in further detail below). During the six-month period preceding the Termination Date or Extended Termination Date (as defined below), the Board of Trustees may, without shareholder approval unless such approval is required by the Investment Company Act of 1940, as amended (the ''1940 Act''), determine to (i) merge or consolidate the Fund so long as the surviving or resulting entity is an open-end registered investment company that is managed by the same investment adviser which serves as the investment adviser to the Fund at that time or is an affiliate of such investment adviser; or (ii) convert the Fund from a closed-end fund into an open-end registered investment company. Upon liquidation and termination of the Fund, shareholders will receive an amount equal to the Fund's NAV at that time, which may be greater or less than the price at which Common Shares are being offered in this offering. The Fund's investment objectives and policies are not designed to return to investors who purchase Common Shares in this offering their initial investment on the Termination Date, and such initial investors that purchase Common Shares after the completion of this offering may receive more or less than their original investment upon termination.

Prior to the commencement of the six-month period preceding the Termination Date, a majority of the Board of Trustees may extend the Termination Date for a period of not more than two years or such shorter time as may be determined (the ''Extended Termination Date''), upon a determination that taking such actions as described in (i) or (ii) above would not, given prevailing market conditions, be in the best interests of the Fund's shareholders. The Termination Date may be extended an unlimited number of times by the Board of Trustees prior to the first business day of the sixth month before the next occurring Extended Termination Date.

Leverage. The Fund intends to use leverage to seek to achieve its investment objectives. The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.*, credit facility). In addition, although it has no current intention to do so, the Fund may also invest in derivative instruments that have the economic effect of leverage, such as futures, options, and swaps to seek enhanced returns or to seek to reduce the risk of loss of (hedge) certain of its holdings (collectively, ''Derivative Transactions''). The use of the proceeds received from tender option bond transactions, issuing Preferred Shares, borrowing from banks or other financial institutions and Derivative Transactions is referred to as ''Effective Leverage.'' Based on current market conditions, it is anticipated that the Fund's overall Effective Leverage will be approximately 33% of the Managed Assets. The Fund may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time (*i.e.,* higher or lower than the anticipated 33%). However, in no event will the Fund's overall Effective Leverage exceed 50% of the Managed Assets. In addition, the Fund may borrow for temporary, emergency or other purposes as permitted by the 1940 Act. Subject to market conditions, the Fund anticipates using leverage primarily through the use of proceeds received from tender option bond transactions and issuing Preferred Shares.

The use of leverage is subject to numerous risks and will cause the Fund's NAV to be more volatile than if leverage was not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Fund's NAV to decline more than if the Fund had not used leverage. A reduction in the Fund's NAV may cause a reduction in the market price of its Common Shares. The use of leverage also may cause more volatility in the level of the Fund's distributions. See ''Leverage Program,'' ''Risks—General Leverage Risk'' and ''Description of Shares.''

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the Common Shares, and you should retain it for future reference. This prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. The SAI, dated , 2012, as it may be supplemented, containing additional information about the Fund, has been filed with the Securities and Exchange Commission (the ''SEC'') and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the SAI, the table of contents of which is on page 70 of this prospectus, annual and semi-annual reports to shareholders when available, and other information about the Fund, and make shareholder inquiries by calling 855-456-9683; by writing to the Fund at MainStay Investments, 169 Lackawanna Avenue, Parsippany, New Jersey 07054; or from the Fund's website (*www.mainstayinvestments.com*). You also may obtain a copy of the SAI (and other information regarding the Fund) from the SEC's website (*http://www.sec.gov*).

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

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You should rely on the information contained in or incorporated by reference into this prospectus. The Fund has not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date of this prospectus. Subsequent to the date of this prospectus, the fund will update this prospectus during the period that this prospectus is required to be delivered, if the fund determines any material information contained in this prospectus becomes materially inaccurate. Our business, financial condition and prospects may have changed since then.

PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Common Shares. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information (the "SAI"), especially the information set forth in this prospectus under the heading "Risks."

The Fund . . . . MainStay DefinedTerm Municipal Opportunities Fund (the ''Fund'') is a recently organized, diversified, closed-end management investment company. See ''The Fund.'' The Fund will have an approximate 12-year limited term unless otherwise determined by the Fund's Board of Trustees. See ''—Limited Term'' and ''Risks—Limited Term Risk.''

The Offering . . . . The Fund is offering common shares of beneficial interest (''Common Shares'') at $20.00 per share through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. You must purchase at least 100 Common Shares in this offering. The Fund has given the Underwriters an option to purchase up to 3,441,908 additional Common Shares to cover over-allotments. New York Life Investment Management LLC (''New York Life Investments'' or the ''Manager''), the Fund's Manager, has agreed to pay all of the Fund's organizational expenses and the Fund's offering costs (other than the sales load, but inclusive of the $.00667 per Common Share reimbursement of the underwriters' expenses) to the extent offering costs are in excess of $.04 per Common Share. See ''Underwriting.''

Who May Want to Invest . . . . . . New York Life Investments and MacKay Shields LLC (''MacKay Shields'' or the ''Sub-Advisor'') believe that current market conditions have created an opportunity to invest in a portfolio of municipal securities at attractive prices. The Manager believes that returns can be enhanced by adjusting a portfolio's credit quality, maturity, and taxation profile through a credit cycle. Additionally, the Manager believes that the Fund's limited term, closed-end structure allows investors to take advantage of the current municipal market by purchasing a managed portfolio of municipal securities at discounted market valuations, without the diminution of value that could occur in an open-end structure. The closed-end structure allows the Fund to maintain a stable pool of assets, without the need to keep assets in low-yielding instruments like cash or cash equivalents or to liquidate assets, sometimes at inopportune times, to meet redemption requests. The Fund's limited term structure may also mitigate trading discount concerns for long-term investors because the Fund intends to terminate and/or merge into an open-end fund. See ''—Limited Term'' and ''Certain Provisions in the Declaration of Trust and By-Laws.''

Investment Objectives and Policies . . . . The Fund's primary investment objective is to seek current income exempt from regular U.S. Federal income taxes (but which may be includable in taxable income for purposes of the Federal alternative minimum tax). The Fund has a secondary objective of total return. There can be no assurance that the Fund's investment objectives will be achieved.

The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its ''Managed Assets'' (as defined below) in municipal bonds, the interest on which is, in the opinion of bond counsel to the issuers, generally excludable from gross income for regular

U.S. Federal income tax purposes (except that the interest may be includable in taxable income for purposes of the Federal alternative minimum tax).

Municipal bonds are types of debt obligations, which may have a variety of issuers, including governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds include, among other instruments, general obligation bonds, revenue bonds, municipal leases, certificates of participation, private activity bonds, and moral obligation bonds, as well as short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations. Under normal market conditions, the Fund may not invest more than 25% of its Managed Assets in municipal bonds in any one industry or in any one state of origin and no more than 5% of its Managed Assets in any one issuer.

Although the Fund may invest in municipal bonds rated in any rating category or in unrated municipal bonds, MacKay Shields intends to invest at least 75% of the Managed Assets in investment grade quality municipal bonds as rated by at least one independent rating agency (such as bonds rated BBB- or higher by Standard & Poor's, a division of McGraw-Hill Companies, Inc. (''S&P'') or Fitch Ratings, Inc. (''Fitch'') or Baa3 or higher by Moody's Investor Service, Inc. (''Moody's'')). It is possible that the Fund could invest up to 100% of its Managed Assets in these securities. The Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds (commonly referred to as ''junk bonds''). Investing in junk bonds is speculative and presents a high degree of risk. If the independent ratings agencies assign different ratings to the same security, the Fund will use the higher rating for purposes of determining the security's credit quality. The Fund may also invest up to 20% in taxable municipal securities. The Fund can invest in bonds of any maturity; however, it will generally invest in municipal bonds that have a maturity of five years or longer at the time of purchase. The Fund may invest up to 30% of its Managed Assets in municipal bonds that pay interest that may be includable in taxable income for purposes of the Federal alternative minimum tax.

The Fund may invest in other registered investment companies, including open- and closed-end funds and exchange-traded funds (''ETFs''), subject to the limitations of the Investment Company Act of 1940, as amended (the ''1940 Act''). Income or gain from such investments may result in taxable distributions by the Fund.

The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility). See ''Leverage Program.''

The Fund may invest in securities that, at the time of investment, are illiquid (determined using the Securities and Exchange Commission's (''SEC'') standard applicable to registered investment companies, *i.e.,* securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). However, the Fund will not invest more than 15% of its Managed Assets in securities that, at the time of investment, are illiquid.

"Managed Assets" means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the purpose of creating Effective Leverage (as defined below) or Fund liabilities related to the liquidation preference of any Preferred Shares issued). Total assets for this purpose shall include assets attributable to the Fund's use of Effective Leverage, such as, but not limited to, the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility).

All percentage limitations described in this prospectus are measured at the time of investment and may be exceeded on a going-forward basis as a result of credit rating downgrades or market value fluctuations of the Fund's portfolio securities. To the extent the Fund invests in other registered investment companies, the Fund may count such holdings towards various guideline tests (such as the 80% policy), so long as the earnings on the underlying holdings of such investment companies are exempt from regular U.S. Federal income taxes (but which may be includable in taxable income for purposes of the Federal alternative minimum tax).

The Fund's 80% policy and certain of the investment restrictions listed in the SAI are considered fundamental and may not be changed without approval by holders of a majority of the outstanding voting securities of the Fund, as defined in the 1940 Act, which includes Common Shares and Preferred Shares, if any, voting together as a single class, and the holders of the outstanding Preferred Shares voting as a single class. The remainder of the Fund's investment policies, including its investment strategy, are considered non-fundamental and may be changed by the Fund's board of trustees ("Board of Trustees") without shareholder approval provided that shareholders receive at least 60 days' prior notice of any such change adopted by the Board of Trustees. See "The Fund's Investments" and "Risks" in this prospectus and "Investment Objectives and Policies," "Investment Restrictions" and "Additional Information About the Fund's Investments and Investment Risks" in the SAI.

Investment Philosophy and Process

The Sub-Advisor believes inefficiencies exist in the tax-exempt and tax-advantaged securities markets. In order to capitalize on these opportunities, the Sub-Advisor applies both a top-down and bottom-up research investment process. The Sub-Advisor's top-down analysis considers the economic, interest rate, inflation outlook and other economic variables to guide overall portfolio structure. The Sub-Advisor employs a value-oriented security selection process to invest in securities it believes to be mispriced which offer a yield advantage. In choosing investments, the Sub-Advisor analyzes the credit quality of issuers and considers the yields available on municipal bonds with different maturities. In addition, the Sub-Advisor reviews macroeconomic events, technical characteristics in the municipal bond market, tax policies, as well as analyzing individual municipal securities and sectors. The Sub-Advisor seeks to reduce volatility through its disciplined investment process and investment risk management.

The Sub-Advisor may sell a security if it no longer believes the security will contribute to meeting the investment objectives of the Fund. In considering whether to sell a security, the Sub-Advisor may evaluate, among other things, the condition of the economy and meaningful changes in the issuer's financial condition.

Manager and Sub-Advisor	New York Life Investments will administer the Fund's business affairs and manage the investment operations of the Fund and the composition of the portfolio of the Fund, subject to the supervision of the Board of Trustees. The Manager intends to delegate its portfolio management responsibilities to MacKay Shields. The Sub-Advisor will be responsible for the day-to-day management of the Fund's portfolio. The Manager, a Delaware limited liability company, commenced operations in April 2000 and is an indirect, wholly-owned subsidiary of New York Life Insurance Company (''New York Life''). As of March 31, 2012, the Manager and its affiliates managed approximately $335.5 billion in assets. See ''Management of the Fund—Manager'' in this prospectus and ''The Manager and The Sub-Advisor—The Management Agreement'' in the SAI. MacKay Shields, a registered investment adviser located at 9 West 57th Street, 33rd Floor, New York, New York 10019, was incorporated in 1969 as an independent investment advisory firm and was privately held until 1984 when it was acquired by New York Life, and is now an indirect, wholly-owned subsidiary of New York Life. As of March 31, 2012, MacKay Shields managed approximately $64.8 billion in assets, including $4.5 billion in municipal securities. See ''Management of the Fund—Sub-Advisor'' in this prospectus and ''The Manager and The Sub-Advisor—The Sub-Advisory Agreement'' in the SAI.
Limited Term	Pursuant to the terms of the Declaration of Trust, the Fund will commence the process of liquidation and dissolution at the close of business on December 31, 2024 (the ''Termination Date'') unless otherwise extended by a majority of the Board of Trustees (as discussed in further detail below). During the six-month period preceding the Termination Date or Extended Termination Date (as defined below), the Board of Trustees may, without shareholder approval unless such approval is required by the 1940 Act, determine to (i) merge or consolidate the Fund so long as the surviving or resulting entity is an open-end registered investment company that is managed by the same investment adviser which serves as the investment adviser to the Fund at that time or is an affiliate of such investment adviser; or (ii) convert the Fund from a closed-end fund into an open-end registered investment company. Upon liquidation and termination of the Fund, shareholders will receive an amount equal to the Fund's net asset value (''NAV'') at that time, which may be greater or less than the price at which Common Shares are being offered in this offering. The Fund's investment objectives and policies are not designed to return to investors who purchase Common Shares in this offering their initial investment on the Termination Date, and such initial investors that purchase Common Shares after the completion of this offering may receive more or less than their original investment upon termination. Prior to the commencement of the six-month period preceding the Termination Date, a majority of the Board of Trustees may extend the Termination Date for a period of not more than two years or such shorter time as may be determined (''Extended Termination Date''), upon a determination that taking such actions as described in (i) or (ii) above would not, given prevailing market conditions, be in the best interests of the Fund's shareholders. The Termination Date may be extended an unlimited number of times by the Board of Trustees prior to the first business day of the sixth month before the next occurring Extended

Termination Date. See "Certain Provisions in the Declaration of Trust and By-Laws" and "—Special Risk Considerations—Limited Term Risk."

Leverage Program. . . . . The Fund intends to use leverage to seek to achieve its investment objectives. The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility). In addition, although it has no current intention to do so, the Fund may also invest in derivative instruments that have the economic effect of leverage, such as futures, options, and swaps to seek enhanced returns or to seek to reduce the risk of loss of (hedge) certain of its holdings (collectively, "Derivative Transactions"). The use by the Fund of proceeds received from tender option bond transactions, issuing Preferred Shares, borrowing from banks or other financial institutions and Derivative Transactions is referred to as "Effective Leverage." Based on current market conditions, it is anticipated that the Fund's overall Effective Leverage will be approximately 33% of the Managed Assets. The Fund may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time (*i.e.,* higher or lower than the anticipated 33%). However, in no event will the Fund's overall Effective Leverage exceed 50% of the Managed Assets. In addition, the Fund may borrow for temporary, emergency or other purposes as permitted by the 1940 Act. Subject to market conditions, the Fund anticipates using leverage primarily through the use of proceeds received from tender option bond transactions and issuing Preferred Shares.

The use of leverage is subject to numerous risks and will cause the Fund's NAV to be more volatile than if leverage was not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Fund's NAV to decline more than if the Fund had not used leverage. A reduction in the Fund's NAV may cause a reduction in the market price of its Common Shares.

Use of leverage creates an opportunity for increased income and return for holders of the Common Shares but, at the same time, creates risks, including the likelihood of greater volatility in the NAV and market price of, and distributions on, the Common Shares. The management fees paid by the Fund will be calculated on the basis of the Managed Assets, which includes proceeds from (and assets subject to) the Fund's Effective Leverage minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of Effective Leverage). Therefore, the management and sub-advisory fees payable to the Manager and Sub-Advisor, respectively, will be higher when leverage is utilized. This will create a conflict of interest between the Manager and Sub-Advisor, on the one hand, and the holders of the Common Shares, on the other hand. To monitor this potential conflict, the Board of Trustees intends to periodically review the Fund's use of leverage, including its impact on the Fund's performance and on the fees paid to the Manager and Sub-Advisor.

There can be no assurance that the Fund's leverage strategy will be successful or that the Fund will be able to use leverage at all. Recent developments in the credit markets may adversely affect the ability of the Fund to borrow for investment purposes and may increase the costs of such borrowings, which would reduce returns, and potentially distributions, to the holders of the Common Shares.

There can be no assurance that once the Fund has obtained proceeds through leverage transactions, the Fund will be able, at the maturity of the leverage transaction, to "roll over", replace, or otherwise extend such leverage. If the Fund is unable to extend such leverage, the Fund will be compelled to liquidate portfolio holdings to retire its leverage, and may do so on terms unattractive to the Fund or at a time or subject to market conditions, which are not beneficial to the Fund's overall performance. Such reduction in leverage may also impact negatively the Fund's performance in the future.

Tender Option Bonds. . . . . The Fund may leverage its assets through the use of proceeds received from tender option bond transactions. In a tender option bond transaction, a tender option bond trust (a "TOB Issuer") is typically established by a third party sponsor forming a special purpose trust into which the Fund, or an agent on behalf of the Fund, transfers municipal bonds or other municipal securities. A TOB Issuer typically issues two classes of beneficial interests: short-term floating rate notes ("TOB Floaters"), which are sold to third party investors, and residual interest municipal tender option bonds ("TOB Residuals"), which are generally issued to the Fund. The Fund may invest in both TOB Floaters and TOB Residuals. The Fund may not invest more than 5% of its Managed Assets in any single TOB Issuer. The Fund does not currently intend to invest in TOB Residuals issued by a TOB Issuer that was not formed for the Fund, although it reserves the right to do so in the future. The Fund may invest in both TOB Floaters and TOB Residuals issued by the same TOB Issuer.

Under accounting rules, securities of the Fund that are deposited into a TOB Issuer are treated as investments of the Fund, and are presented on the Fund's Schedule of Investments and outstanding TOB Floaters issued by a TOB Issuer are presented as liabilities in the Fund's Statement of Assets and Liabilities. Interest income from the underlying security is recorded by the Fund on an accrual basis. Interest expense incurred on the TOB Floaters and other expense related to remarketing, administration and trustee services to a TOB Issuer are reported as expenses of the Fund.

For TOB Floaters, generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying securities deposited in the TOB Issuer, the Fund, if it is the holder of the TOB Floaters, relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the TOB Issuer provide for a liquidation of the municipal security deposited in the TOB Issuer and the application of the proceeds to pay off the TOB Floaters.

There are inherent risks with respect to investing in a TOB Issuer. These risks include, among others, the bankruptcy or default of the issuer of the securities deposited in the TOB Issuer, a substantial downgrade in the credit quality of the issuer of the securities deposited in the TOB Issuer, the inability of the TOB Issuer to obtain liquidity support for the TOB Floaters, a substantial decline in the market value of the securities deposited in the TOB Issuer, or the inability of the sponsor to remarket any TOB Floaters tendered to it by holders of the TOB Floaters. See "—Special Risk Considerations—Tender Option Bonds Risk" and "Risks—Tender Option Bonds Risk."

Temporary Investments . . . . During temporary defensive periods or in order to keep the Fund's cash fully invested, including during the period when the net proceeds of the offering of Common Shares are being invested, the Fund may deviate from its investment objectives and investment strategies. During such periods, the Fund may invest all or a portion of its Managed Assets in certain short-term (less than one year to maturity) and medium-term (not greater than five years to maturity) debt securities or hold cash. The short- and medium-term debt securities in which the Fund may invest consist of: (i) obligations of the U.S. government, its agencies or instrumentalities; (ii) bank deposits and bank obligations (including certificates of deposit, time deposits and bankers' acceptances) of the U.S. or foreign banks denominated in any currency; (iii) floating rate securities and other instruments denominated in any currency issued by various governments or international development agencies; (iv) finance company and corporate commercial paper and other short-term corporate debt obligations of the U.S. or foreign corporations; (v) repurchase agreements with banks and broker-dealers with respect to such securities; and (vi) shares of money market funds. See "The Fund's Investments — Temporary Investments; Invest-Up Period; Termination."

Distributions . . . . Commencing with the Fund's initial dividend, the Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to the holders of the Common Shares. The initial monthly dividend on the Common Shares is expected to be declared within approximately 45 days after completion of this offering and paid approximately 60 to 90 days after completion of this offering. It is expected that the Fund's distributions will generally be treated as tax-exempt income for purposes of the regular U.S. Federal income tax. A portion of the Fund's distributions may be (i) subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes, and (ii) includable in taxable income for purposes of the Federal alternative minimum tax. The Fund will distribute to holders of the Common Shares at least annually all or substantially all of its investment company taxable income after the payment of dividends and interest, if any, owed with respect to any outstanding Preferred Shares or other forms of leverage utilized by the Fund. The Fund intends to pay any capital gains distributions at least annually. If the Fund realizes a long-term capital gain, it will be required to allocate such gain between the Common Shares and any Preferred Shares issued by the Fund in proportion to the total dividends paid to each class for the year in which the income is realized.

Various factors will affect the level of the Fund's income, including the asset mix and average maturity of the Fund's portfolio, the amount of leverage utilized by the Fund and the cost of such leverage and the Fund's use of hedging. To permit the Fund to maintain a more stable monthly distribution, the Fund may from time to time distribute less than the entire amount of income earned in a particular period. The undistributed income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of income actually earned by the Fund during that period. Undistributed income will add to the Fund's NAV (and indirectly benefits the Manager and the Sub-Advisor by increasing their fees) and, correspondingly, distributions from undistributed income will reduce the Fund's NAV. See "Distributions" and "Leverage Program."

Cash distributions to the holders of the Common Shares may be reinvested under the Fund's Dividend Reinvestment Plan (the "Plan") in additional whole and fractional shares if you or your representative elect to enroll in ("opt-in") the Plan. See "Distributions" and "Dividend Reinvestment Plan."

Custodian, Transfer Agent and Sub-Administrator . . . . The Fund has retained State Street Bank and Trust Company ("State Street") as custodian, and Computershare Trust Company, N.A. as the transfer agent for the Fund. Pursuant to an agreement with the Manager, State Street provides sub-administration and sub-accounting services for the Fund. The Manager and the Board of Trustees will be responsible for overseeing the activities of the custodian, transfer agent, and sub-administrator. See "Custodian, Transfer Agent and Sub-Administrator."

Listing . . . . The Fund's Common Shares have been authorized for listing on the New York Stock Exchange ("NYSE"), subject to notice of issuance. The trading or ticker symbol of the Common Shares is "MMD."

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

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

The Board of Trustees has reviewed the structure of the Fund in light of its investment objectives and policies and believes that the closed-end fund structure is appropriate. As described in this prospectus, however, the Board of Trustees may review periodically the trading range and activity of the Common Shares with respect to their NAV, and the Board of Trustees may take certain actions to seek to reduce or eliminate any such discount to NAV. Such actions may include open market repurchases or tender offers for the Common Shares or the possible conversion of the Fund to an open-end fund. There can be no assurance that the Board of Trustees will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to their NAV. See "Structure of the Fund; Common Share Repurchases and Conversion to Open-End Fund."

U.S. Federal Income Tax Matters . . . .

It is expected that the Fund's distributions will generally be treated as tax-exempt income for purposes of the regular U.S. Federal income tax. A portion of the Fund's distributions may be (i) subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes, and (ii) includable in taxable income for purposes of the Federal alternative minimum tax. See "U.S. Federal Income Tax Matters."

Special Risk Considerations . . . .

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

No Operating History. The Fund is a recently organized, diversified, closed-end management investment company with no operating history. It is designed for long-term investing and not as a vehicle for trading. This risk may be greater for investors expecting to sell their shares in a relatively short period of time after completion of the public offering.

Investment Risk. An investment in the Common Shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. As with any stock, the price of the Common Shares will fluctuate with market conditions and other factors. The Fund intends to use leverage, which will magnify the Fund's investment, market and certain other risks. See "Leverage Program" and "Leverage Program—Effects of Leverage."

Market Risk and Selection Risk. Market risk is the possibility that the market values of securities owned by the Fund will decline. There is a risk that the bond market will go down in value, including the possibility that the market will go down sharply and unpredictably. The prices of debt securities tend to fall as interest rates rise, and such declines tend to be greater among debt securities with longer maturities. Market risk is often greater among certain types of debt securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Fund to greater market risk than a fund that does not own these types of securities. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater the Fund's outstanding commitments for these securities, the greater the Fund's exposure to market price fluctuations. Selection risk is the risk that the securities that the Sub-Advisor selects will underperform the bond market, the relevant market indices, or other funds with similar investment objectives and investment strategies.

Interest Rate Risk. Generally, when market interest rates rise, prices of debt securities fall, and vice versa. Interest rate risk is the risk that the debt securities in the Fund's portfolio will decline in value because of increases in market interest rates. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund's value. In typical market interest rate environments, the prices of longer-term debt securities generally fluctuate more than the prices of shorter-term debt securities as interest rates change. These risks may be greater in the current market environment because certain interest rates are near historically low levels. As interest rates decline, issuers of municipal bonds that have the right to call those securities may prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities and potentially reducing the Fund's income. The Fund may utilize certain strategies, including taking positions in futures and options for the purpose of reducing the interest rate sensitivity of the Fund's debt securities and decreasing the Fund's exposure to interest rate risk. The Fund is not required to hedge its exposure to interest rate risk and may choose not to do so. In addition, there is no assurance that any attempts by the Fund to reduce interest rate risk will be successful.

Credit Risk. Credit risk is the risk that an issuer of a municipal bond will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal bonds carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund's NAV or dividends. Because the Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds, the Fund may be subject to increased credit risk as compared to a fund that invests primarily in investment grade municipal bonds.

Municipal Bond Market Risk. Economic exposure to the municipal bond market involves certain risks. The Fund's economic exposure to municipal bonds includes municipal bonds in the Fund's portfolio and municipal bonds to which the Fund is exposed through the ownership of TOB Residuals. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital was severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal bonds. Certain municipal bonds may not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about the municipal bonds to which the Fund is economically exposed is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of the Sub-Advisor than would be a stock fund or taxable bond fund. The secondary market for municipal bonds, particularly non-investment grade bonds, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the ability to sell such bonds at attractive prices or at prices approximating those at which the Fund currently values them.

In addition, many state and municipal governments that issue securities are under significant economic and financial stress and may not be able to satisfy their obligations. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among Federal, state and local governments. The taxing power of any governmental entity may be limited by provisions of state constitutions or laws and an entity's credit generally will depend on many factors, including the entity's tax base, the extent to which the entity relies on Federal or state aid, and other factors which are beyond the entity's control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes or could limit the tax exemption of certain types of municipal bonds that the Fund may invest in. Issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal bonds could experience delays in collecting principal and interest and such holders may not, in all circumstances, be able to collect all principal and interest to which they are entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from such issuer's general revenues and not from any particular source. Timely payments depend on the issuer's credit quality, ability to raise tax revenues and the ability to maintain an adequate tax base.

Revenue bonds are issued by state or local agencies to finance the development of low-income, multi-family housing, and involve special risks in addition to those associated with municipal bonds generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. Such bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Increases in interest rates payable on senior obligations may make it more difficult for issuers to meet payment obligations on subordinated bonds.

Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipments without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event that the governmental issuer is prevented from maintaining occupancy of the lease premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover ownership of the assets.

Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Fund may be dependent upon the municipal authority issuing the certificate of participation to exercise remedies with respect to the underlying securities. Certificates of participation also entail a risk of default or bankruptcy, both of the issuer of the municipal lease and also the municipal agency issuing the certificate of participation.

Municipalities and other public authorities issue private activity bonds to finance development of industrial facilities for use by a private enterprise, which is solely responsible for paying the principal and interest on the bond. Moral obligation bonds are generally issued by special purpose public authorities of a state or municipality. If the issuer is unable to meet its obligations, repayment of these bonds becomes a moral commitment, but not a legal obligation, of the state or municipality.

To be tax-exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the Fund from its investment in such bonds and distributed to shareholders may be taxable. It is possible that interest on a municipal bond may be declared taxable after the issuance of the bond, and this determination may apply retroactively to the date of the issuance of the bond, which could cause a portion of prior distributions made by the Fund to be taxable to shareholders in the year of receipt.

Non-Investment Grade Municipal Bond Risk. Non-investment grade quality municipal bonds are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and are commonly referred to as "junk bonds." The value of high yield, lower quality bonds is affected by the creditworthiness of the issuers of the bonds and by general economic and specific industry conditions. Issuers of non-investment grade bonds are not as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments. Non-investment grade bonds may be particularly susceptible to economic downturns. It is likely that an economic recession could severely disrupt the market for such bonds and may have an adverse impact on the value of such bonds. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such bonds to repay principal and pay interest thereon and increase the incidence of default for such securities.

Non-investment grade municipal bonds, though typically high yielding, are characterized by high risk. These bonds are subject to a greater risk of default. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated bonds. The retail secondary market for non-investment grade bonds may be less liquid than that of investment grade bonds; adverse conditions could make it difficult at times for the Fund to sell certain bonds or could result in lower prices than those used in calculating the Fund's NAV. Because of the substantial risks associated with non-investment grade bonds, you could lose money on your investment in Common Shares, both in the short term and the long term.

The prices of bonds generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of bonds also is inversely related to the coupons of such bonds. Accordingly, non-investment grade bonds may be relatively less sensitive to interest rate changes than higher quality bonds of comparable maturity because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with non-investment grade bonds potentially can have a greater effect on the value of such bonds than may be the case with higher quality issues of comparable maturity.

The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations, which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Sub-Advisor also will independently evaluate these bonds and the ability for the issuers of such bonds to pay interest and principal. To the extent that the Fund invests in non-investment grade bonds that have not been rated by a rating agency, the Fund's ability to achieve its investment objectives will be more dependent on the Sub-Advisor's credit analysis than would be the case when the Fund invests in rated bonds.

Insurance Risk. The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will generally affect the value of those securities. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced defaults or otherwise suffered credit deterioration. Such losses have reduced the insurers' capital and may have called into question their continued ability to perform their obligations under such insurance if called upon in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided, the rating of the underlying municipal security will generally be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the NAV of the Common Shares represented by such insured obligation.

Limited Term Risk. Unless action is otherwise taken by the Board of Trustees in accordance with the Declaration of Trust, the Fund will commence the process of liquidation and dissolution at the close of business on the Termination Date. The Fund will not seek to return an initial investment in Common Shares by an investor on the Termination Date. Instead, the Fund will distribute an amount equal to the Fund's NAV at that time, which may be greater or less than an investor's initial investment. The Fund's limited term may cause it to sell securities when it otherwise would not, which could cause the Fund's returns to decrease and the market price of the Common Shares to fall. Rather than reinvesting the proceeds of its matured, called or sold securities, the Fund may distribute the proceeds in one or more liquidating distributions prior to the final termination, which may cause the Fund's fixed expenses to increase when expressed as a percentage of assets under management. Alternatively, the Fund may invest the proceeds in lower yielding securities or hold the proceeds in cash or cash equivalents, which may adversely affect the performance of the Fund.

General Leverage Risk. The use of leverage creates an opportunity for increased net investment income dividends for holders of Common Shares, but also creates risks for the holders of Common Shares. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs than if it were not implemented. Increases and decreases in the value of the Fund's portfolio will be magnified when the Fund uses leverage. As a result, leverage may cause greater changes in the Fund's NAV. The Fund will also have to pay interest or dividends on its leverage, which may reduce the return on the Common Shares. This interest expense may be greater than the Fund's return on the underlying investment. The Fund's leveraging strategy may not be successful.

Subject to market conditions, the Fund may issue Preferred Shares as a form of financial leverage. Any such Preferred Shares of the Fund would be senior to the Common Shares, such that holders of Preferred Shares would have priority over the distribution of the Fund's assets, including dividends and liquidating distributions. If Preferred Shares are issued and outstanding, holders of the Preferred Shares would elect two trustees of the Fund, voting separately as a class.

If the Fund borrows funds from banks or other financial institutions (*i.e.,* credit facility), the Fund may be required to prepay outstanding amounts or incur a penalty rate of interest upon the occurrence of certain events of default. The Fund would also likely have to indemnify the lenders under a credit facility against liabilities they may incur in connection therewith. In addition, the Fund expects that any credit facility would contain covenants that, among other things, likely would limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change certain of its investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. The Fund may be required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses.

The Fund may also use leverage through its investments in TOB Residuals and Derivative Transactions. See "—Tender Option Bonds Risk," and "—Derivatives Risks."

The Fund anticipates that leverage for investment purposes will pay interest or dividends based on shorter-term interest rates that would be periodically reset. So long as the Fund's portfolio provides a higher rate of return, net of expenses, than the rate paid on leverage as reset periodically, the leverage may cause the holders of Common Shares to receive a higher current rate of return than if the Fund were not leveraged. If, however, long-term and/or short-term rates rise, the rate paid on leverage could exceed the rate of return on securities held by the Fund, reducing return to the holders of Common Shares. Recent developments in the credit markets may adversely affect the ability of the Fund to borrow for investment purposes and may increase the costs of such borrowings, which would reduce returns to the holders of Common Shares.

There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for holders of Common Shares, including:

- the likelihood of greater volatility of NAV, market price and dividend rate of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in the interest or dividend rates that the Fund must pay on any leverage will reduce the return to the holders of the Common Shares;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares;
- when the Fund uses financial leverage, the management fees payable to the Manager and the Sub-Advisor will be higher than if the Fund did not use leverage; and
- leverage may increase operating costs, which may reduce total return.

The use of proceeds received from tender option bond transactions will require the Fund to earmark or segregate liquid assets to cover its obligations. While the segregated assets may be invested in liquid securities, they may not be used for other operational purposes. Consequently, the use of leverage may limit the Fund's flexibility and may require that the Fund sell other portfolio investments to pay Fund expenses, to maintain assets in an amount sufficient to cover the Fund's leveraged exposure or to meet other obligations at a time when it may be disadvantageous to sell such assets.

Certain types of borrowings by the Fund may result in the Fund being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the short-term corporate debt securities or Preferred Shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act.

There can be no assurance that once the Fund has obtained proceeds through leverage transactions, the Fund will be able, at the maturity of the leverage transaction, to "roll over", replace, or otherwise extend such leverage. If the Fund is unable to extend such leverage, the Fund will be compelled to liquidate portfolio holdings to retire its leverage, and may do so on terms unattractive to the Fund or at a time or subject to market conditions, which are not beneficial to the Fund's overall performance. Such reduction in leverage may also impact negatively the Fund's performance in the future.

The Fund may invest in the securities of other investment companies. Such securities may also be leveraged, and will therefore be subject to the leverage risks described above. This additional leverage may in certain market conditions reduce the NAV of the Common Shares and the returns to the holders of Common Shares.

Tender Option Bonds Risk. TOB Residuals are derivative municipal securities that have embedded in them the risk of economic leverage. There is no assurance that the Fund's strategy of using the proceeds received from tender option bond transactions to leverage its assets will be successful.

Distributions on TOB Residuals will bear an inverse relationship to short-term municipal bond interest rates. Distributions on the TOB Residuals paid to the Fund will be reduced or, in the extreme, eliminated as short-term municipal interest rates rise and will increase when short-term municipal interest rates fall. The amount of such reduction or increase is a function, in part, of the amount of TOB Floaters sold by the TOB Issuer of these securities relative to the amount of the TOB Residuals that it sells. The greater the amount of TOB Floaters sold relative to the TOB Residuals, the more volatile the distributions on the TOB Residuals will be. Short-term interest rates are at historic lows and may be more likely to rise in the current market environment.

The Fund's use of proceeds received from tender option bond transactions will create economic leverage. Any economic leverage achieved through the Fund's investment in TOB Residuals will create an opportunity for increased Common Share net income and returns, but will also create the possibility that Common Share long-term returns will be diminished if the cost of the TOB Floaters exceeds the return on the securities deposited in the TOB Issuer. If the income and gains earned on municipal securities deposited in a TOB Issuer that issues TOB Residuals to the Fund are greater than the payments due on the TOB Floaters, the Fund's returns will be greater than if it had not invested in the TOB Residuals.

The Fund has no current intention of investing in recourse TOB Residuals. However, circumstances may change and it is possible that in the future the Fund may elect to invest in recourse TOB Residuals to leverage its portfolio. If the Fund uses recourse TOB Residuals, the liquidity provider may seek recourse against assets of the Fund, and the Fund may have to pay the liquidity provider the difference between the purchase price of any TOB Floaters put to the liquidity provider by third party investors and the proceeds realized by the liquidity provider from the remarketing of those TOB Floaters or the sale of the assets in the TOB Issuer, which could cause the Fund to lose money in excess of its investment in a TOB Issuer.

Although the Fund generally would unwind a tender option bond transaction rather than try to sell a TOB Residual, if it did try to sell a TOB Residual, its ability to do so would depend on the liquidity of the TOB Residual. TOB Residuals have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in the TOB Issuer. The market price of TOB Residuals are more volatile than the underlying securities due to leverage. The leverage attributable to TOB

Residuals may be "called away" on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of NAV and market price of the Common Shares may be greater for a fund that relies primarily on tender option bond transactions to achieve a desired effective leverage ratio. The Fund may be required to sell its TOB Residuals at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

- If the Fund has a need for cash and the securities deposited in the TOB Issuer are not actively trading due to adverse market conditions;
- If the sponsors of TOB Issuers (as a collective group or individually) experience financial hardship and consequently seek to terminate their sponsorship of TOB Issuers; and
- If the value of an underlying security deposited in the TOB Issuer declines significantly (to a level below the notional value of the TOB Floaters issued by the TOB Issuer) and if additional collateral has not been posted by the Fund.

The Fund may invest in taxable TOB Residuals, issued by TOB Issuers formed with taxable municipal securities. The market for such taxable TOB Residuals is relatively new and undeveloped. Initially, there may be a limited number of counterparties, which may increase the credit risks, counterparty risks, liquidity risks and other risks of investing in taxable TOB Residuals. The Fund may not invest more than 20% of its Managed Assets in any single third party sponsor that establishes a TOB Issuer.

Tax Risk. It is expected that the Fund's distributions will generally be treated as tax-exempt income for purposes of the regular U.S. Federal income tax. A portion of the Fund's distributions may be (i) subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes, and (ii) includable in taxable income for purposes of the Federal alternative minimum tax. See "U.S. Federal Income Tax Matters."

The value of the Fund's investments and its NAV may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular U.S. Federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in U.S. Federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. For example, several recent proposals to reduce the Federal budget deficit have included consideration of elimination of the tax-exempt status of municipal securities.

The Fund is generally not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the U.S. Federal income tax consequences of their investments.

The Fund will invest in municipal bonds, generally in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those bonds will be excludable from gross income for U.S. Federal income tax purposes. Subsequent to the Fund's acquisition of such a municipal bond, however, the bond may be determined to pay, or to have paid, taxable income. As a result, the treatment of distributions previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund's shareholders to increased U.S. Federal income tax liabilities.

The Internal Revenue Service (''IRS'') may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

Potential Conflicts of Interest Risk—Allocation of Investment Opportunities. The Manager, the Sub-Advisor and their affiliates are involved with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Manager, the Sub-Advisor and their affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Manager, the Sub-Advisor and their affiliates intend to engage in such activities and may receive compensation from third parties for their services. The Manager, the Sub-Advisor and their affiliates have no obligation to share any investment opportunity, idea or strategy with the Fund. As a result, the Manager, the Sub-Advisor and their affiliates may compete with the Fund for appropriate investment opportunities. The results of the Fund's investment activities, therefore, may differ from those of the Fund's affiliates, or another account managed by the Fund's affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the Fund's affiliates or other accounts achieve profits on their trading for proprietary or other accounts. The Manager, the Sub-Advisor and their affiliates have adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the funds managed by the Manager, the Sub-Advisor and their affiliates in a fair and equitable manner. See ''Risks—Potential Conflicts of Interest—Allocation of Investment Opportunities.''

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The investment strategies, practices and risk analysis used by the Sub-Advisor may not produce the desired results.

Current Economic Conditions—Credit Crisis Liquidity and Volatility Risk. The markets for credit instruments have experienced periods of extreme illiquidity and volatility since the latter half of 2007. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of debt securities, including municipal bonds. These conditions resulted in, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Fund's municipal bonds uncertain and/or result in sudden and significant valuation increases or declines in its holdings. Also, issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal bonds could experience delays in collecting principal and interest and such holders may not, in all circumstances, be able to collect all principal and interest to which they are entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Shares.

In response to the recent national economic downturn, governmental cost burdens may be reallocated among Federal, state and local governments. Also, as a result of the downturn, many state and local governments have experienced significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of these state and local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, municipalities might seek protection under the bankruptcy laws, thereby affecting the repayment of their outstanding debt.

Valuation Risk. Unlike publicly traded common stock which trades on national exchanges, there is no central place or exchange for fixed-income securities trading. Fixed-income securities generally trade on an ''over-the-counter'' market which may be anywhere in the world where the buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of fixed-income securities may carry more risk than that of common stock. Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. As a result, the Fund may be subject to the risk that when a fixed-income security is sold in the market, the amount received by the Fund is less than the value of such fixed-income security carried on the Fund's books.

Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Fund's leverage would likely increase, which would tend to further reduce returns to the holders of Common Shares. Deflation risk is the risk that prices throughout the economy decline over time—the opposite of inflation. Deflation may have an adverse affect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's portfolio.

Market Discount From Net Asset Value Risk. Shares of closed-end investment companies frequently trade at a discount from their NAV. This characteristic is a risk separate and distinct from the risk that the Fund's NAV per Common Share could decrease as a result of its investment activities and may be greater for investors expecting to sell their Common Shares in a relatively short period of time following completion of this offering. The NAV per Common Share will be reduced immediately following this offering as a result of the payment of certain offering costs. Although the value of the Fund's net assets is generally considered by market participants in determining whether to purchase or sell Common Shares, whether investors will realize gains or losses upon the sale of the Common Shares will depend entirely upon whether the market price of the Common Shares at the time of sale is above or below the investor's purchase price for the Common Shares. Because the market price of the Common Shares will be determined by factors such as (i) NAV, (ii) dividend and distribution levels and their stability (which will in turn be affected by levels of dividend and interest payments by the Fund's portfolio holdings, the timing and success of the Fund's investment strategies, regulations affecting the timing and character of Fund distributions, Fund expenses and other factors), (iii) supply of and demand for the Common Shares, (iv) trading volume of the Common Shares, (v) general market, interest rate and economic conditions and (vi) other factors that may be beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at, below or above NAV or at, below or above the initial public offering price. The Fund will pay (and holders of Common Shares will bear) any costs and expenses relating to the issuance and ongoing maintenance of Preferred Shares.

Derivatives Risk. The Fund's investments in exchange-traded and over-the counter derivatives have risks, including: the imperfect correlation between the value of such instruments and the underlying assets of the Fund, which creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying assets in the Fund's portfolio; the loss of principal; high price volatility; the possible default of the counterparty to the transaction; and illiquidity of the derivative investments. Certain of the derivative instruments in which the Fund may invest may, in certain circumstances, give rise to a form of economic leverage, which may magnify the risk of owning such instruments. Furthermore, the ability to successfully use derivative instruments depends on the ability of the Sub-Advisor to anticipate pertinent market movements, which cannot be assured. Thus, the use of derivative instruments to generate income, for hedging, for currency or interest rate management or other purposes may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that it might otherwise sell. In addition, there may be situations in which the Sub-Advisor elects not to use derivatives, which may result in losses greater than if they had been used. Amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to the Fund's investments in derivatives are not otherwise available to the Fund for investment purposes.

The Fund may manage some of its derivative positions, if any, by segregating an amount of cash, cash equivalents or liquid securities on the Fund's records in an amount equal to the notional value of those positions. The Fund may also offset derivatives positions against one another or against other assets to manage the effective market exposure resulting from derivatives in its portfolio. To the extent that the Fund does not segregate liquid assets or otherwise cover its obligations under any such transactions (*e.g.,* through offsetting positions), certain types of these transactions will be treated as senior securities representing indebtedness ("borrowings") for purposes of the requirements under the 1940 Act; and therefore, the Fund may not enter into any such transactions if the Fund's borrowings would thereby exceed 33 – 1/3% of its Managed Assets. In addition, to the extent that any offsetting positions do not perform in relation to one another as expected, the Fund may perform as if it were leveraged. Income or gains from certain derivatives may result in taxable distributions by the Fund.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) and other instruments entered into directly by the Fund or held by special purpose or structured vehicles in which the Fund invests. If a counterparty becomes bankrupt or otherwise fails to perform its obligations to the Fund due to financial difficulties, the Fund may experience significant losses or delays in obtaining any recovery (including recovery of any collateral it has provided to the counterparty) in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a Derivative Transaction, the Derivative Transaction would typically be terminated at its fair market value. If the Fund is owed this fair market value in the termination of the Derivative Transaction and its claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to any underlying security or asset. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Counterparty risk with respect to certain exchange-traded and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation. See ''—Derivatives Risk'' above for more information.

Regulation Risk. In connection with an ongoing review by the SEC and its staff of the regulation of investment companies' use of derivatives, on August 31, 2011, the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of the Fund's use of derivatives, which could have an adverse impact on the Fund. The Manager and the Sub-Advisor cannot predict the effects of these regulations on the Fund's portfolio.

United States Credit Rating Downgrade Risk. The events surrounding the U.S. Federal government debt ceiling and the resulting agreement could adversely affect the Fund's ability to achieve its investment objectives. On August 5, 2011, S&P lowered its long-term sovereign credit rating on the United States to ''AA+'' from ''AAA.'' The downgrade by S&P could increase volatility in both stock and bond markets, result in higher interest rates and lower Treasury prices and increase the costs of all kinds of debt. These events and similar events in other areas of the world could have significant adverse effects on the economy generally and could result in significant adverse impacts on issuers of securities held by the Fund and the Fund itself. The Manager and the Sub-Advisor cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on the Fund's portfolio. The Manager and the Sub-Advisor may not timely anticipate or manage existing, new or additional risks, contingencies or developments.

Legal and Regulatory Risk. Legal, tax and regulatory changes could occur and may adversely affect the Fund and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the Commodity Futures Trading Commission ("CFTC"), the SEC, the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Fund. In particular, these agencies are empowered to promulgate a variety of new rules pursuant to recently enacted financial reform legislation in the United States. The Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies. The Fund, the Manager and the Sub-Advisor have historically been eligible for exemptions from certain regulations. However, there is no assurance that the Fund, the Manager and the Sub-Advisor will continue to be eligible for such exemptions. For example, the Fund has filed with the National Futures Association a notice claiming an exclusion from the definition of the term "commodity pool operator" under Commission Regulation 4.5 under the Commodity Exchange Act, as amended (the "CEA"), with respect to the Fund's operation. However, the CFTC has recently adopted amendments to CFTC Regulation 4.5, which, when effective, may subject the Manager to regulation by the CFTC, and require it to operate the Fund subject to applicable CFTC requirements, including registration, disclosure and operational requirements. Compliance with these additional requirements may increase Fund expenses. Certain of the rules that would apply to the Fund if it becomes subject to CFTC regulation have not yet been adopted, and while it is unclear what the effect of those rules would be on the Fund if they are adopted, these rules could potentially limit or restrict the ability of the Fund to pursue its investment objectives and execute its investment strategy.

Congress recently enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Because the legislation leaves much to agency rule making, its ultimate impact remains unclear. New regulations could, among other things, restrict the Fund's ability to engage in Derivatives Transactions (for example, by making certain types of Derivatives Transactions no longer available to the Fund) and/or increase the costs of such Derivatives Transactions (for example, by increasing margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts; those position limits may also apply to certain other derivatives positions the Fund may wish to take. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Fund does not intend to exceed applicable position limits, it is possible that different clients managed by the Manager, the Sub-Advisor and their affiliates may be aggregated for this purpose. Therefore it is possible that the trading decisions of the Manager and the Sub-Advisor may have to be modified and that positions held by the Fund may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of the Fund.

Federal legislation has been passed that requires the adoption of regulations that would require any creditor that makes a loan and any securitizer of a loan to retain at least 5% of the credit risk on any loan that is transferred, sold or conveyed by such creditor or securitizer. It is currently unclear how these requirements would apply to loan participations, syndicated loans, and loan assignments. If the Fund invests in loans, it could be adversely affected by the regulation. The effect of any future regulatory change on the Fund could be substantial and adverse.

Portfolio Turnover Risk. The Fund's annual portfolio turnover rate may vary greatly from year to year. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to holders of Common Shares, will be taxable as ordinary income. A high portfolio turnover may increase the Fund's current and accumulated taxable earnings and profits, resulting in a greater portion of the Fund's distributions being treated as a taxable dividend to the holders of the Common Shares. In addition, a higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. See "The Fund's Investments—Investment Practices—Portfolio Turnover" and "U.S. Federal Income Tax Matters."

State Specific and Industry Risk. Under normal market conditions, the Fund may not invest more than 25% of its Managed Assets in municipal bonds in any one industry or in any one state of origin. If the Fund invests 25% or more of its Managed Assets in any one industry or in any one state of origin, the Fund may be more susceptible to adverse economic, political or regulatory occurrences affecting a particular state or industry.

Market Disruption Risk. The terrorist attacks in the United States on September 11, 2001, had a disruptive effect on the securities markets. The ongoing U.S. military and related action in Afghanistan and events in the Middle East, as well as the continuing threat of terrorist attacks, could have significant adverse effects on the U.S. economy, the stock market and world economies and markets generally. A similar disruption of financial markets or other terrorist attacks could adversely affect Fund service providers and/ or the Fund's operations as well as interest rates, secondary trading, credit risk, inflation and other factors relating to the Common Shares. The Fund cannot predict the effects or likelihood of similar events in the future on the U.S. and world economies, the value of the Common Shares or the NAV of the Fund.

Illiquid/Restricted Securities Risk. The Fund may invest in securities that, at the time of investment, are illiquid (determined using the SEC's standard applicable to registered investment companies, *i.e.,* securities that cannot be disposed of by the Fund within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities). The Fund may also invest in restricted securities. Investments in restricted securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these securities. Illiquid and restricted securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The market price of illiquid and restricted securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Fund pays for or recovers upon the sale of such securities. Illiquid and restricted securities are also more difficult to value, and the Manager's and the Sub-Advisor's judgment may each play a greater role in the valuation process. Investment of the Fund's assets in illiquid and restricted securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid and restricted securities may be particularly acute in situations in which the Fund's operations require cash and could result in the Fund borrowing to meet its short-term needs or incurring losses on the sale of illiquid or restricted securities. In order to dispose of an unregistered security, the Fund, where it has contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered, therefore enabling the Fund to sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquiror of the securities. In either case, the Fund would bear market risks during that period.

Certain Affiliations. Unless and until the underwriting syndicate is broken in connection with the initial public offering of the Common Shares, the Fund will be precluded from effecting principal transactions with brokers who are members of the syndicate. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

Anti-Takeover Provisions. The Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. These provisions could have the effect of depriving the holders of the Common Shares of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares. See "Certain Provisions in the Declaration of Trust and By-Laws" and "Risks—Anti-Takeover Provisions."

Secondary Market for the Common Shares. The issuance of Common Shares through the Plan may have an adverse effect on the secondary market for the Common Shares. The increase in the number of outstanding Common Shares resulting from issuances pursuant to the Plan and the discount to the market price at which such Common Shares may be issued, may put downward pressure on the market price for the Common Shares. When the Common Shares are trading at a premium, the Fund may also issue Common Shares that may be sold through private transactions effected on the NYSE or through broker-dealers. The increase in the number of outstanding Common Shares resulting from these offerings may put downward pressure on the market price for Common Shares.

Other Investment Companies Risk The Fund may invest in other registered investment companies, including open- and closed-end funds and ETFs. With respect to closed-end funds and ETFs, the market value of their shares may differ from the NAV of the particular fund. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities. In addition, if the Fund invests in such investment companies or investment funds, the Fund's shareholders will bear not only their proportionate share of the expenses of the Fund, but also will indirectly bear similar expenses of the underlying investment companies or investment funds. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled ''—General Leverage Risk,'' the NAV and market value of leveraged shares will be more volatile and the yield to stockholders will tend to fluctuate more than the yield generated by unleveraged shares. Other investment companies may have investment policies that differ from those of the Fund. In addition, to the extent the Fund invests in other investment companies, the Fund will be dependent upon the investment and research abilities of persons other than the Sub-Advisor.

ETF Risk. An ETF that is based on a specific index may not be able to replicate and maintain exactly the composition and relative weighting of securities in the index. An ETF also incurs certain expenses not incurred by its applicable index. The market value of an ETF share may differ from its NAV; the share may trade at a premium or discount to its NAV, which may be due to, among other things, differences in the supply and demand in the market for the share and the supply and demand in the market for the underlying assets of the ETF. In addition, certain securities that are part of the index tracked by an ETF may, at times, be unavailable, which may impede the ETF's ability to track its index. An ETF that utilizes leverage can, at times, be relatively illiquid, which can affect whether its share price approximates NAV. As a result of using leverage, an ETF is subject to the risk of failure in the futures and options markets it uses to obtain leverage and the risk that a counterparty will default on its obligations, which can result in a loss to the Fund.

SUMMARY OF FUND EXPENSES

The purpose of the following table and example below is to help you understand all fees and expenses that you, as a holder of Common Shares, would bear directly or indirectly. The expenses shown in the table under "Other Expenses" and "Total Annual Expenses" are based on estimated amounts for the Fund's first full year of operations and assume that the Fund issues approximately 24,750,000 Common Shares. If the Fund issues fewer Common Shares, all other things being equal, these expenses would increase as a percentage of net assets attributable to Common Shares. The table also assumes the use of leverage in an amount equal to 33% of Managed Assets (after the leverage is incurred), and shows Fund expenses as a percentage of net assets attributable to Common Shares. The Fund's actual expenses may vary from the estimated expenses shown in the table.

Common shareholder transaction expenses	**Percentage of Offering Price**
Sales load paid by you	4.50%
Offering expenses borne by the Fund (as a percentage of offering price)(1)(2)	.20%
Dividend reinvestment plan fees(3)	None

Annual expenses	**Percentage of Net Assets Attributable to Common Shares (Assumes Leverage is Used)(4)**
Management Fees(5)	.90%
Leverage Costs(6)	.54%
Other Expenses(7)	.06%
Total Annual Expenses	1.50%

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(1) The Manager has agreed to pay: (i) all of the Fund's organizational expenses and (ii) the Fund's offering expenses (other than the sales load but inclusive of the $.00667 per share Common Share reimbursement of the underwriters' expenses), to the extent that offering expenses are in excess of $.04 per Common Share. Assuming the Fund issues 24,750,000 Common Shares for $20.00 per share, the Fund's offering costs are estimated to be $1,068,000. Of this amount, the Fund, and therefore holders of Common Shares will bear $990,000, or $.04 per Common Share, and the Manager will bear $78,000.

(2) For a description of the sales load, structuring fees and other compensation paid to the underwriters, see "Underwriting."

(3) You will pay brokerage charges if you direct Computershare Trust Company, N.A., as agent for the holders of the Common Shares, to sell your Common Shares held in a dividend reinvestment account. See "Dividend Reinvestment Plan."

(4) The table presented below in this footnote 4 estimates what the Fund's annual expenses would be, stated as percentages of the Fund's net assets attributable to Common Shares, but, unlike the table above, assumes that the Fund does not utilize leverage. See "Leverage Program." In accordance with these assumptions, the Fund's expenses would be estimated to be as follows:

Annual expenses	**Percentage of Net Assets Attributable to Common Shares (Assumes No Leverage)**
Management fees(5)	.60%
Other expenses(7)	.06%
Total annual expenses	.66%

(5) The Manager will receive a management fee at an annual rate of .60% of the average daily value of the net assets attributable to Common Shares assuming no leverage is used. If the anticipated leverage is used, the Management Fee would be .90% of the average daily value of the net assets attributable to Common Shares. To derive the annual management fee as a percentage of the Fund's net assets attributable to Common Shares (which are the Fund's total assets less all of the Fund's liabilities; including the liquidation preference of

Preferred Shares), the estimated Managed Assets (approximately $707,602,500) were multiplied by the annual management fee rate and then divided by the Fund's estimated net assets (approximately $471,735,000).

(6) Assumes the use of leverage in the form of Preferred Shares and proceeds from the use of tender option bond transactions representing 33% of Managed Assets at an annual interest rate expense to the Fund of 1.08%, which is based on current market conditions. The amount also includes the estimated amount of the offering costs of Preferred Shares amortized over five years. See "Leverage Program." The actual amount of interest expense borne by the Fund will vary over time in accordance with the level of the Fund's use of Preferred Shares and proceeds from the use of tender option bond transactions and variations in market interest rates. Interest expense is required to be treated as an expense of the Fund for accounting purposes.

(7) The "Other Expenses" shown in the table above and related footnotes are based upon estimated expenses for the current fiscal year ending May 31, 2013, and assumes that the Fund issues approximately 24,750,000 Common Shares.

Example

As required by SEC regulations, the following example illustrates the expenses (including the sales load of $45.00 and estimated offering expenses of this offering of $2.00 and estimated offering costs of issuing Preferred Shares of $.50, assuming the Fund issues Preferred Shares representing approximately 1/3 of the 33% total leverage (after issuance)), that you would pay on a $1,000 investment in Common Shares, assuming (1) total net annual expenses of 1.50% of net assets attributable to Common Shares and (2) a 5% annual return*:

1 Year	3 Years	5 Years	10 Years
$62	$92	$125	$218

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* **The example should not be considered a representation of future expenses. Actual expenses may be greater or less than those shown.** The example assumes that the estimated "Other expenses" set forth in the Annual Expenses table are accurate and that all dividends and distributions are reinvested at NAV. **Actual expenses may be greater or less than those assumed.** Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

THE FUND

The Fund is a recently organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized on April 20, 2011, as a Delaware statutory trust pursuant to an agreement and declaration of trust, which was amended and restated on May 16, 2012. As a recently organized entity, the Fund has no operating history. The Fund's principal office is located at 51 Madison Avenue, New York, NY 10010, and its telephone number is (212) 576-7000. Investment in the Fund involves certain risks and special considerations, including risks associated with the Fund's use of leverage. See ''Risks.'' The Fund will have an approximate 12-year limited term unless otherwise determined by the Fund's Board of Trustees. See ''Prospectus Summary—Limited Term'' and ''Risks—Limited Term.''

USE OF PROCEEDS

The net proceeds of this offering of Common Shares will be approximately $471,735,000 ($537,337,767 if the Underwriters exercise the overallotment option in full) after payment of the estimated offering costs. The Manager has agreed to pay: (i) all of the Fund's organizational expenses and (ii) the Fund's offering expenses (other than the sales load but inclusive of the $.00667 per share Common Share reimbursement of the underwriters' expenses), to the extent that offering expenses are in excess of $.04 per Common Share. It is currently anticipated that the Fund will invest the net proceeds of the offering in accordance with the Fund's investment objectives and policies as stated below. The Fund expects it will be able to invest substantially all of the net proceeds in securities that meet the Fund's investment objectives and policies within three months after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in temporary investments, as stated below.

THE FUND'S INVESTMENTS

Investment Objectives and Policies

The Fund's primary investment objective is to seek current income exempt from regular U.S. Federal income taxes (but which may be includable in taxable income for purposes of the Federal alternative minimum tax). The Fund has a secondary objective of total return. There can be no assurance that the Fund's investment objectives will be achieved.

The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its "Managed Assets" in municipal bonds, the interest on which is, in the opinion of bond counsel to the issuers, generally excludable from gross income for regular U.S. Federal income tax purposes (except that the interest may be includable in taxable income for purposes of the Federal alternative minimum tax).

Municipal bonds are types of debt obligations, which may have a variety of issuers, including governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds include, among other instruments, general obligation bonds, revenue bonds, municipal leases, certificates of participation, private activity bonds, and moral obligation bonds, as well as short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations. Under normal market conditions, the Fund may not invest more than 25% of its Managed Assets in municipal bonds in any one industry or in any one state of origin and no more than 5% of its Managed Assets in any one issuer.

Although the Fund may invest in municipal bonds rated in any rating category or in unrated municipal bonds, the Fund's Sub-Advisor intends to invest at least 75% of the Managed Assets in investment grade quality municipal bonds as rated by at least one independent rating agency (such as bonds rated BBB- or higher by S&P or Fitch or Baa3 or higher by Moody's). It is possible that the Fund could invest up to 100% of its Managed Assets in these securities. The Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds (commonly referred to as "junk bonds"). Investing in junk bonds is speculative and presents a high degree of risk. If the independent ratings agencies assign different ratings to the same security, the Fund will use the higher rating for purposes of determining the security's credit quality. The Fund may also invest up to 20% in taxable municipal securities. The Fund can invest in bonds of any maturity; however, it will generally invest in municipal bonds that have a maturity of five years or longer at the time of purchase. The Fund may invest up to 30% of its Managed Assets in municipal bonds that pay interest that may be includable in taxable income for purposes of the Federal alternative minimum tax.

A portion of the Fund's distributions may be (i) subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes, and (ii) includable in taxable income for purposes of the Federal alternative minimum tax.

The Fund may invest in other registered investment companies, including open- and closed-end funds and ETFs, subject to the limitations of the 1940 Act. Income or gain from such investments may result in taxable distributions by the Fund.

The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility). See "Leverage Program."

The Fund may invest in securities that, at the time of investment, are illiquid (determined using the SEC standard applicable to registered investment companies, *i.e.,* securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). However, the Fund will not invest more than 15% of its Managed Assets in securities that, at the time of investment, are illiquid.

Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the purpose of creating Effective Leverage or Fund liabilities related to the liquidation preference of any Preferred Shares issued). Total assets for this purpose shall include assets attributable to the Fund's use of Effective Leverage, such as, but not limited to, the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility).

All percentage limitations described in this prospectus are measured at the time of investment and may be exceeded on a going-forward basis as a result of credit rating downgrades or market value fluctuations of the Fund's portfolio securities. To the extent the Fund invests in other registered investment companies, the Fund may count such holdings towards various guideline tests (such as the 80% policy), so long as the earnings on the underlying holdings of such investment companies are exempt from regular U.S. Federal income taxes (but which may be includable in taxable income for purposes of the Federal alternative minimum tax).

The Fund's 80% policy and certain of the investment restrictions listed in the SAI are considered fundamental and may not be changed without approval by holders of a majority of the outstanding voting securities of the Fund, as defined in the 1940 Act, which includes Common Shares and Preferred Shares, if any, voting together as a single class, and the holders of the outstanding Preferred Shares voting as a single class. The remainder of the Fund's investment policies, including its investment strategy, are considered non-fundamental and may be changed by the Board of Trustees without shareholder approval, provided that shareholders receive at least 60 days' prior written notice of any such change adopted by the Board of Trustees. As defined in the 1940 Act, when used with respect to particular shares of the Fund, a ''majority of the outstanding voting securities'' means: (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the outstanding shares are present or represented by proxy; or (ii) more than 50% of the outstanding shares, whichever is less.

Investment Philosophy and Process

The Sub-Advisor believes inefficiencies exist in the tax-exempt and tax-advantaged securities markets. In order to capitalize on these opportunities, the Sub-Advisor applies both a top-down and bottom-up research investment process. The Sub-Advisor's top-down analysis considers the economic, interest rate, inflation outlook and other economic variables to guide overall portfolio structure. In implementing its bottom-up analysis, the Sub-Advisor employs a value-oriented security selection process to invest in securities it believes to be mispriced which offer a yield advantage. In choosing investments, the Sub-Advisor analyzes the credit quality of issuers and considers the yields available on municipal bonds with different maturities. In addition, the Sub-Advisor reviews macroeconomic events, technical characteristics in the municipal bond market, tax policies, as well as analyzing individual municipal securities and sectors. The Sub-Advisor seeks to reduce volatility through its disciplined investment process and investment risk management.

The Sub-Advisor may sell a security if it no longer believes the security will contribute to meeting the investment objectives of the Fund. In considering whether to sell a security, the Sub-Advisor may evaluate, among other things, the condition of the economy and meaningful changes in the issuer's financial condition.

Portfolio Composition

The Fund's portfolio will be composed principally of the following investments. A more detailed description of the Fund's investment policies and restrictions and more detailed information about the Fund's portfolio investments are contained in the SAI.

Municipal Bonds. Set forth below is a detailed description of the municipal bonds in which the Fund invests. Information with respect to ratings assigned to tax-exempt obligations that the Fund may purchase is set forth in ''Appendix A—Ratings of Investments'' in the SAI. Obligations are included within the term ''municipal bonds'' if the interest paid thereon is excluded from gross income for U.S. Federal income tax purposes in the opinion of bond counsel to the issuer.

Municipal bonds are either general obligation or revenue bonds and typically are issued to finance public projects, such as roads or public buildings, to pay general operating expenses or to refinance outstanding debt. Municipal bonds may also be issued for private activities, such as housing, medical and educational facility construction or for privately owned industrial development and pollution control projects. General obligation bonds are backed by the full faith and credit and taxing authority of the issuer and may be repaid from any revenue source. Revenue bonds may be repaid only from the revenues of a specific facility or source. The Fund also may purchase

Municipal bonds that represent lease obligations. These carry special risks because the issuer of the bonds may not be obligated to appropriate money annually to make payments under the lease. See "Risks—Municipal Bond Market Risk."

The municipal bonds in which the Fund invests pay interest or income that, in the opinion of bond counsel to the issuer, is exempt from regular U.S. Federal income tax. The Sub-Advisor does not conduct its own analysis of the tax status of the interest paid by municipal bonds held by the Fund, but will rely on the opinion of counsel to the issuer of each such instrument. The Fund may also invest in municipal bonds issued by United States Territories (such as Puerto Rico or Guam) that are exempt from regular U.S. Federal income tax. In addition to the types of municipal bonds described in this prospectus, the Fund may invest in other securities that pay interest or income that is, or make other distributions that are, exempt from regular U.S. Federal income tax and/or state and local taxes, regardless of the technical structure of the issuer of the instrument. The Fund treats all of such tax-exempt securities as municipal bonds.

The yields on municipal bonds are dependent on a variety of factors, including prevailing interest rates and the condition of the general money market and the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issuer. The market value of municipal bonds will vary with changes in interest rate levels and as a result of changing evaluations of the ability of bond issuers to meet interest and principal payments.

General Obligation Bonds. General obligation bonds are backed by the issuer's full faith and credit and taxing authority for the payment of principal and interest. The taxing authority of any governmental entity may be limited, however, by provisions of its state constitution or laws, and an entity's creditworthiness will depend on many factors, including potential erosion of its tax base due to population declines, natural disasters, declines in the state's industrial base or inability to attract new industries, economic limits on the ability to tax without eroding the tax base, state legislative proposals or voter initiatives to limit ad valorem real property taxes and the extent to which the entity relies on Federal or state aid, access to capital markets or other factors beyond the state's or entity's control. Accordingly, the capacity of the issuer of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer's maintenance of its tax base.

Revenue Bonds. Revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue sources such as payments from the user of the facility being financed. Accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue or special obligation bond is a function of the economic viability of such facility or such revenue source.

Private Activity Bonds. Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipping, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal bonds, although the current U.S. Federal income tax laws place substantial limitations on the size of such issues.

Private activity bonds are secured primarily by revenues derived from loan repayments or lease payments due from the entity, which may or may not be guaranteed by a parent company or otherwise secured. Private activity bonds generally are not secured by a pledge of the taxing power of the issuer of such bonds. Therefore, an investor should be aware that repayment of such bonds generally depends on the revenues of a private entity and be aware of the risks that such an investment may entail. Continued ability of an entity to generate sufficient revenues for the payment of principal and interest on such bonds will be affected by many factors including the size of the entity, capital structure, demand for its products or services, competition, general economic conditions, government regulation and the entity's dependence on revenues for the operation of the particular facility being financed. The Fund expects that, due to investments in private activity bonds, a portion of the distributions it makes on the Common Shares will be includable in the Federal alternative minimum taxable income.

Moral Obligation Bonds. The Fund also may invest in "moral obligation" bonds, which are normally issued by special purpose public authorities. If an issuer of moral obligation bonds is unable to meet its obligations, the repayment of such bonds becomes a moral commitment but not a legal obligation of the state or municipality in question.

Municipal Lease Obligations and Certificates of Participation. Also included within the general category of municipal bonds are participations in lease obligations or installment purchase contract obligations of municipal authorities or entities (hereinafter collectively called "Municipal Lease Obligations"). Although a Municipal Lease Obligation does not constitute a general obligation of the municipality for which the municipality's taxing power is pledged, a Municipal Lease Obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the Municipal Lease Obligation. However, certain Municipal Lease Obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a "non-appropriation" lease, a Fund's ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and the disposition or re-leasing of the property might prove difficult. A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days' notice, of all or any part of the Fund's participation interest in the underlying leases, plus accrued interest.

Zero Coupon Bonds. The Fund may invest in zero-coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The market prices of zero coupon bonds are affected to a greater extent by changes in prevailing levels of interest rates and thereby tend to be more volatile in price than securities that pay interest periodically. In addition, the Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its common shareholders.

"Non-Investment Grade" or "Junk" Bonds. The Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds (commonly referred to as "junk bonds"). Securities rated below investment grade are judged to have speculative characteristics with respect to their interest and principal payments. Such securities may face major ongoing uncertainties or exposure to adverse business, financial or economic conditions, which could lead to inadequate capacity to meet timely interest and principal payments.

Tender Option Bonds

The Fund may leverage its assets through the use of proceeds received from tender option bond transactions. In a tender option bond transaction, a TOB Issuer is typically established by a third party sponsor forming a special purpose trust into which the Fund, or an agent on behalf of the Fund, transfers municipal bonds or other municipal securities. A TOB Issuer typically issues two classes of beneficial interests: TOB Floaters, which are sold to third party investors, and TOB Residuals, which are generally issued to the Fund. The Fund may invest in both TOB Floaters and TOB Residuals. The Fund may not invest more than 5% of its Managed Assets in any single TOB Issuer. The Fund does not currently intend to invest in TOB Residuals issued by a TOB Issuer that was not formed for the Fund, although it reserves the right to do so in the future.

The TOB Issuer receives municipal bonds or other municipal securities from the Fund through the sponsor and then issues TOB Floaters to third party investors and a TOB Residual to the Fund. The Fund is paid the cash (less transaction expenses, which are borne by the Fund and therefore the holders of the Common Shares indirectly) received by the TOB Issuer from the sale of the TOB Floaters and typically will invest the cash in additional municipal bonds or other investments permitted by its investment policies. TOB Floaters may have first priority on the cash flow from the securities held by the TOB Issuer and are enhanced with a liquidity support arrangement from a bank or an affiliate of the sponsor (the "liquidity provider"), which allows holders to tender their position at par (plus accrued interest). The Fund, in addition to receiving cash from the sale of the TOB Floaters, also receives the TOB Residual. The TOB Residual provides the Fund with the right to (1) cause the holders of the TOB Floaters to tender their notes to the TOB Issuer at par (plus accrued interest), and (2) acquire the underlying municipal bonds or other municipal securities from the TOB Issuer. In addition, all voting rights and decisions to be made with respect to any other rights relating to the underlying securities deposited in the TOB Issuer are passed through to the Fund, as the holder of the TOB Residual. Such a transaction, in effect, creates exposure for the Fund to the entire return of the securities deposited in the TOB Issuer, with a net cash investment by the Fund that is less than the value of the underlying securities deposited in the TOB Issuer. This multiplies the positive or negative impact of the underlying securities' return within the Fund (thereby creating leverage).

The TOB Issuer may be terminated without the consent of the Fund upon the occurrence of certain events, such as the bankruptcy or default of the issuer of the underlying securities deposited in the TOB Issuer, a substantial downgrade in the credit quality of the issuer of the securities deposited in the TOB Issuer, the inability of the TOB Issuer to obtain liquidity support for the TOB Floaters, a substantial decline in the market value of the underlying securities deposited in the TOB Issuer, or the inability of the sponsor to remarket any TOB Floaters tendered to it by holders of the TOB Floaters. In such an event, the TOB Floaters would be redeemed by the TOB Issuer at par (plus accrued interest) out of the proceeds from a sale of the underlying securities deposited in the TOB Issuer. If this happens, the Fund would be entitled to the assets of the TOB Issuer, if any, that remain after the TOB Floaters have been redeemed at par (plus accrued interest). If there are insufficient proceeds from the sale of these securities to redeem all of the TOB Floaters at par (plus accrued interest), the liquidity provider or holders of the TOB Floaters would bear the losses on those securities and there would be no recourse to the Fund's assets (unless the Fund held a recourse TOB Residual). A recourse TOB Residual is generally a TOB Residual issued by a TOB Issuer in which the TOB Floaters represent greater than 75% of the market value of the securities at the time they are deposited in the TOB Issuer. If the Fund were to invest in a recourse TOB Residual to leverage its portfolio, it would typically be required to enter into an agreement pursuant to which the Fund is required to pay to the liquidity provider the difference between the purchase price of any TOB Floaters put to the liquidity provider by holders of the TOB Floaters and the proceeds realized from the remarketing of those TOB Floaters or the sale of the assets in the TOB Issuer. The Fund currently does not intend to use recourse TOB Residuals to leverage the Fund's portfolio, but reserves the right to do so depending on future market conditions. See "Risks—Tender Option Bonds Risk."

Under accounting rules, securities of the Fund that are deposited into a TOB Issuer are treated as investments of the Fund, and are presented on the Fund's Schedule of Investments and outstanding TOB Floaters issued by a TOB Issuer are presented as liabilities in the Fund's Statement of Assets and Liabilities. Interest income from the underlying security is recorded by the Fund on an accrual basis. Interest expense incurred on the TOB Floaters and other expense related to remarketing, administration and trustee services to a TOB Issuer are reported as expenses of the Fund.

For TOB Floaters, generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying securities deposited in the TOB Issuer, the Fund as the holder of the TOB Floaters, relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the TOB Issuer provide for a liquidation of the municipal security deposited in the TOB Issuer and the application of the proceeds to pay off the TOB Floaters. The Fund may invest in both TOB Floaters and TOB Residuals issued by the same TOB Issuer.

The Fund intends to invest in TOB Residuals, the interest on which will, in the opinion of bond counsel, be exempt from regular U.S. Federal income tax. However, because there can be no assurance that the IRS will agree with such counsel's opinion in any particular case, there is a risk that the Fund will not be considered the owner of such tender option bonds and thus will not be entitled to treat such interest as exempt from such tax. Additionally, the U.S. Federal income tax treatment of certain other aspects of these investments, including the proper tax treatment of TOB Residuals and the associated fees in relation to various regulated investment company tax provisions, is, in some cases, not certain.

Other Investment Companies

The Fund may, subject to the limitations of the 1940 Act, invest in securities of other open- or closed-end investment companies (including ETFs) that invest primarily in securities of the types in which the Fund may invest directly. The Fund generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its Common Shares or any offering of Preferred Shares, or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market or when attractive investment opportunities arise in other investment companies. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company's expenses, and will remain subject to payment of that investment company's advisory and other fees and expenses with respect to assets so invested. Holders of Common Shares will therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The Sub-Advisor will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available municipal securities investments. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks to which the Fund is subject. As described in this prospectus in the section entitled ''Risks—General Leverage Risks,'' the NAV and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. Other investment companies may have investment policies that differ from those of the Fund. In addition, to the extent the Fund invests in other investment companies, the Fund will be dependent upon the investment and research abilities of persons other than the Sub-Advisor. The Fund treats its investments in such open- or closed-end investment companies as investments in municipal securities.

Temporary Investments; Invest-Up Period; Termination

During the period in which the net proceeds of this offering of Common Shares are being invested or during periods in which the Manager or Sub-Advisor determines that it is temporarily unable to follow the Fund's investment strategy or that it is impractical to do so, the Fund may deviate from its investment strategy and invest all or any portion of its assets in U.S. government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the Treasury or by U.S. government agencies or instrumentalities; non-U.S. government securities which have received the highest investment grade credit rating, certificates of deposit issued against funds deposited in a bank or a savings and loan association; commercial paper; bankers' acceptances; bank time deposits; shares of money market funds; credit linked notes; repurchase agreements with respect to any of the foregoing; or any other fixed income securities that the Manager considers consistent with this strategy. It is impossible to predict when, or for how long, the Fund will use these alternative strategies. There can be no assurance that such strategies will be successful.

Unless action is otherwise taken by the Board of Trustees in accordance with the Declaration of Trust, the Fund will commence the process of liquidation and termination beginning with the close of business on the Termination Date. As the Fund approaches its Termination Date, and during the period after the Termination Date in which the Fund is in the process of liquidating, the portfolio composition of the Fund may change as more of its municipal bonds are sold. Rather than reinvesting the proceeds of its municipal bonds, the Fund may invest the proceeds in cash or cash equivalents, which may adversely affect the performance of the Fund.

Commercial Paper. Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

Certificates of Deposit. Certificates of deposit are certificates that are issued against funds deposited in a commercial bank for a definite period of time and that earn a specified return and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Certificates of deposit purchased by the Fund may not be fully insured by the Federal Deposit Insurance Corporation.

Fixed Time Deposits. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation. There are generally no contractual restrictions on the right to transfer a beneficial interest in a fixed time deposit to a third party, although there is no market for such deposits. The Fund may also hold funds on deposit with its custodian bank in an interest-bearing account for temporary purposes.

Bankers' Acceptances. Bankers' acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are ''accepted'' by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity.

Investment Practices

Derivatives. Although it has no current intention to do so, the Fund may also invest in Derivative Transactions. Derivatives Transactions may be used to attempt to protect against possible changes in the market value of the Fund's portfolio resulting from fluctuations in the market for municipal bonds and changes in interest rates, to protect the Fund's unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes and to establish a position in the securities markets as a temporary substitute for purchasing particular securities. Any or all of the aforementioned Derivatives Transactions may be used at any time. There is no particular strategy that requires use of one technique rather than another. Use of any derivative is a function of market conditions. The ability of the Fund to use Derivatives Transactions successfully will depend on the Sub-Advisor's ability to anticipate pertinent market movements as well as sufficient correlation among the instruments, which cannot be assured. There is no assurance that these derivative strategies will be available at any time or that the Sub-Advisor will determine to use them for hedging or risk management purposes or, if used, that the strategies will be successful. The derivatives that the Fund may use are described in the SAI under ''Investment Objectives and Policies—Derivatives.'' Income or gains from such derivatives may result in taxable distributions by the Fund.

The principal risks relating to the use of Derivatives Transactions are: (a) less than perfect correlation between the prices of the instrument and the market value of the securities in the Fund's portfolio; (b) possible lack of a liquid secondary market for closing out a position in such instruments; (c) losses resulting from interest rate or other market movements not anticipated by the Sub-Advisor; and (d) the obligation to meet additional variation margin or other payment requirements, all of which could result in the Fund being in a worse position than if such techniques had not been used. Certain provisions of the Internal Revenue Code of 1986, as amended (the ''Code'') may also restrict or affect the ability of the Fund to engage in Derivative Transactions.

Portfolio Turnover. The Fund's annual portfolio turnover rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when the Fund's investment strategy so dictates. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to holders of the Common Shares, will be taxable as ordinary income. See ''U.S. Federal Income Tax Matters.''

Limited Term

Pursuant to the terms of the Declaration of Trust, the Fund will commence the process of liquidation and dissolution at the close of business on the Termination Date unless extended (as discussed below), except that during the six-month period preceding the Termination Date (or Extended Termination Date), the Board of Trustees may, without shareholder approval unless such approval is required by the 1940 Act, determine to (i) merge or consolidate the Fund with or into one or more trusts or corporations (or series or classes thereof to the extent permitted by law), partnerships, associations, or other business entities so long as the surviving or resulting entity is an open-end investment company that will succeed to or assume the Fund's registration under the 1940 Act and that is managed by the same investment adviser which serves as the investment adviser to the Fund at that time or is an affiliate of such investment adviser; or (ii) convert the Fund from a closed-end investment company into an open-end registered investment company.

Prior to the commencement of the six-month period preceding the Termination Date, a majority of the Board of Trustees may extend the Termination Date for a period of not more than two years or such shorter time as may be determined (*i.e.,* the Extended Termination Date), upon a determination that taking actions (i) or (ii) described in the immediately preceding paragraph would not, given prevailing market conditions, be in the best interests of the Fund's shareholders. The Termination Date may similarly be extended an unlimited number of times by the Board of Trustees prior to the first business day of the sixth month before the next occurring Extended Termination Date. See "Certain Provisions in the Declaration of Trust and By-Laws."

LEVERAGE PROGRAM

The Fund intends to use leverage to seek to achieve its investment objectives. The Fund may use leverage through the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility). In addition, although it has no current intention to do so, the Fund may also invest in derivative instruments that have the economic effect of leverage, such as futures, options, and swaps to seek enhanced returns or to seek to reduce the risk of loss of (hedge) certain of its holdings. The use by the Fund of the proceeds received from tender option bond transactions, issuing Preferred Shares, borrowing from banks or other financial institutions and Derivative Transactions is referred to as ''Effective Leverage.'' Based on current market conditions, it is anticipated that the Fund's overall Effective Leverage will be approximately 33% of the Managed Assets. The Fund may choose to increase or decrease, or eliminate entirely, its use of leverage over time and from time to time (*i.e.,* higher or lower than the anticipated 33%). However, in no event will the Fund's overall Effective Leverage exceed 50% of the Managed Assets. In addition, the Fund may borrow for temporary, emergency or other purposes as permitted by the 1940 Act. Subject to market conditions, the Fund anticipates using leverage primarily through the use of proceeds received from tender option bond transactions and issuing Preferred Shares.

The use of leverage is subject to numerous risks and will cause the Fund's NAV to be more volatile than if leverage was not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Fund's NAV to decline more than if the Fund had not used leverage. A reduction in the Fund's NAV may cause a reduction in the market price of its Common Shares.

There can be no assurance that the Fund's leverage strategy will be successful or that the Fund will be able to use leverage at all. Recent developments in the credit markets may adversely affect the ability of the Fund to borrow for investment purposes and may increase the costs of such borrowings, which would reduce returns to the holders of the Common Shares. There can be no assurance that once the Fund has obtained proceeds through leverage transactions, the Fund will be able, at the maturity of the leverage transaction, to ''roll over'', replace, or otherwise extend such leverage. If the Fund is unable to extend such leverage, the Fund will be compelled to liquidate portfolio holdings to retire its leverage, and may do so on terms unattractive to the Fund or at a time or subject to market conditions, which are not beneficial to the Fund's overall performance. Such reduction in leverage may also impact negatively the Fund's performance in the future.

Use of leverage creates an opportunity for increased income and return for holders of the Common Shares but, at the same time, creates risks, including the likelihood of greater volatility in the NAV and market price of, and distributions on, the Common Shares. The management fees paid by the Fund will be calculated on the basis of the Managed Assets, which includes proceeds from (and assets subject to) the Fund's Effective Leverage minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of Effective Leverage). Therefore, the management fees payable to the Manager, and, consequently sub-advisory fees payable to the Sub-Advisor from the Manager's management fees, will be higher when leverage is utilized. This will create a conflict of interest between the Manager and Sub-Advisor, on the one hand, and the holders of the Common Shares, on the other hand. To monitor this potential conflict, the Board of Trustees intends to periodically review the Fund's use of leverage, including its impact on the Fund's performance and on the fees paid to the Manager and Sub-Advisor. See ''Risks—Leverage Risk.''

The Fund reserves the flexibility to issue Preferred Shares or debt, borrow money, issue commercial paper or enter into similar transactions to add leverage to its portfolio. Subject to market conditions, the Fund anticipates using leverage primarily through the use of proceeds received from tender option bond transactions and issuing Preferred Shares. Any use of leverage by the Fund will be consistent with the provisions of the 1940 Act. The leverage would have complete priority upon distribution of assets over Common Shares. Although the timing of any leverage and the terms of the leverage (other than any short positions and Derivative Transactions) would be determined by the Board of Trustees, the Fund expects to invest the proceeds derived from any leverage offering in securities consistent with the Fund's investment objectives and policies. If Preferred Shares are issued, they may pay adjustable rate dividends based on shorter-term interest rates. The adjustment period for Preferred Shares dividends could be as short as one day or as long as a year or more. So long as the Fund's portfolio is invested in securities that provide a higher rate of return than the dividend rate or interest rate of the leverage, after taking expenses into consideration, the leverage will cause the holders of the Common Shares to receive a higher rate of return than if the Fund were not leveraged. The Fund will pay (and holders of Common Shares will bear) any costs and expenses relating to the issuance and ongoing maintenance of Preferred Shares.

The Declaration of Trust authorizes the Fund, without prior approval of the holders of the Common Shares, to borrow money. In this connection, the Fund may issue notes or other evidence of indebtedness (including borrowing from banks or other financial institutions (*i.e.,* credit facility) or commercial paper) and may secure any such borrowings by mortgaging, pledging or otherwise subjecting as security the Fund's assets. In connection with such borrowing, the Fund may be required to maintain minimum average balances with the lender or to pay a commitment or other fee to maintain a line of credit. Any such requirements will increase the cost of borrowing over the stated interest rate. Under the requirements of the 1940 Act, the Fund, immediately after any such borrowings, must have an "asset coverage" of at least 300% (33 – 1/3% of Managed Assets). With respect to such borrowing, asset coverage means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities (as defined in the 1940 Act), bears to the aggregate amount of such borrowing represented by senior securities issued by the Fund. The Fund intends to manage its short positions in securities and certain of its derivative positions by maintaining an amount of cash or liquid securities in a segregated account equal to the notional value of those positions. The Fund may also offset derivative positions against one another or against other assets to manage the effective market exposure resulting from derivatives in its portfolio. To the extent that the Fund does not segregate liquid assets or otherwise cover its obligations under such transactions, such transactions will be treated as senior securities representing indebtedness ("borrowings") for purposes of the requirement under the 1940 Act that the Fund not enter into any such transactions if the Fund's borrowings would thereby exceed 33 – 1/3% of its Managed Assets.

The rights of lenders to the Fund to receive interest on and repayment of principal of any such borrowings will be senior to those of the holders of Common Shares, and the terms of any such borrowings may contain provisions which limit certain activities of the Fund, including the payment of dividends to holders of the Common Shares in certain circumstances. Further, the 1940 Act does (in certain circumstances) grant to the lenders to the Fund certain voting rights in the event of default in the payment of interest on or repayment of principal. In the event that such provisions would impair the Fund's status as a regulated investment company under the Code, the Fund intends to repay the borrowings. Any borrowing will likely be ranked senior or equal to all other existing and future borrowings of the Fund.

Certain types of borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. Generally, covenants to which the Fund may be subject include affirmative covenants, negative covenants, financial covenants, and investment covenants. An example of an affirmative covenant would be one that requires the Fund to send its annual audited financial report to the lender. An example of a negative covenant would be one that prohibits the Fund from making any amendments to its fundamental policies. An example of a financial covenant is one that would require the Fund to maintain a 3:1 asset coverage ratio. An example of an investment covenant is one that would require the Fund to limit its investment in a particular asset class. The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for any short-term corporate debt securities or Preferred Shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Sub-Advisor from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies.

Under the 1940 Act, the Fund is not permitted to issue Preferred Shares unless immediately after such issuance the value of the Managed Assets is at least 200% of the liquidation value of the outstanding Preferred Shares (*i.e.,* the liquidation value may not exceed 50% of the Managed Assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Managed Assets is at least 200% of such liquidation value after deducting the amount of such dividend or distribution. If Preferred Shares are issued, the Fund intends, to the extent possible, to purchase or redeem Preferred Shares from time to time to the extent necessary in order to maintain coverage of any Preferred Shares of at least 200%. In addition, as a condition to obtaining ratings on the Preferred Shares, the terms of any Preferred Shares issued are expected to include more stringent asset coverage maintenance provisions, which will require the redemption of the Preferred Shares in the event of non-compliance by the Fund and may also prohibit dividends and other distributions on the Common Shares in such circumstances. In order to meet redemption requirements, the

Fund may have to liquidate portfolio securities. Such liquidations and redemptions would cause the Fund to incur related transaction costs and could result in capital losses to the Fund. Prohibitions on dividends and other distributions on the Common Shares could impair the Fund's ability to qualify as a regulated investment company under the Code. If the Fund has Preferred Shares outstanding, two of the Fund's Trustees will be elected by the holders of Preferred Shares as a class.

The remaining Trustees of the Fund will be elected by holders of Common Shares and Preferred Shares, if any, voting together as a single class. In the event the Fund failed to pay dividends on Preferred Shares for two years, holders of Preferred Shares would be entitled to elect a majority of the Trustees of the Fund.

The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

Effects of Leverage

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on Common Shares total return during the Fund's first full year of operations, assuming investment portfolio total returns (comprised of income and changes in the value of securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. Specifically, the table is intended to illustrate the amplified effect leverage may have on Common Shares total returns based on the performance of the Fund's underlying assets, *i.e.* gains or losses will be greater than they otherwise would be without the use of leverage. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by the Fund. See "Risks."

The table further reflects the issuance of leverage representing 33% of the Managed Assets, net of expenses, the Fund's currently projected annual dividend and interest on its leverage of 1.08%. The Common Shares must experience an annual return of .54% in order to cover the rate of annual dividend and interest payments on Preferred Shares and/or notes or other forms of indebtedness, if any.

Assumed Portfolio Total Return (Net of Expenses)	(10)%	(5)%	0%	5%	10%
Common Shares Total Return	(15.54)%	(8.04)%	(.54)%	6.96%	14.46%

Common Shares Total Return is composed of two elements: the Common Shares dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends or interest on its leverage) and gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table above assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0% the Fund must assume that the interest it receives on its debt security investments is entirely offset by losses in the value of those investments.

If the Fund uses leverage, the amount of fees paid to the Manager for management services will be higher than if the Fund does not use leverage because the fees paid are calculated on the Managed Assets, which include assets purchased with leverage. Therefore, the Manager and the Sub-Advisor have a financial incentive to use leverage, which creates a conflict of interest between the Manager and the Sub-Advisor and the holders of Common Shares as only the holders of Common Shares would bear the fees and expenses incurred through the Fund's use of leverage.

RISKS

Risk is inherent in all investing. The following discussion summarizes the principal risks that you should consider before deciding whether to invest in the Fund. For additional information about the risks associated with investing in the Fund, see "Additional Information About the Fund's Investments and Investment Risks" in the SAI.

No Operating History. The Fund is a recently organized, diversified, closed-end management investment company with no operating history. It is designed for long-term investing and not as a vehicle for trading. Shares of closed-end investment companies frequently trade at a discount from their NAV. This risk may be greater for investors expecting to sell their shares in a relatively short period of time after completion of the public offering.

Investment Risk. An investment in the Common Shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. As with any stock, the price of the Common Shares will fluctuate with market conditions and other factors. The Fund intends to use leverage, which will magnify the Fund's investment, market and certain other risks.

Market Risk and Selection Risk. Market risk is the possibility that the market values of securities owned by the Fund will decline. There is a risk that the bond market will go down in value, including the possibility that the market will go down sharply and unpredictably. The prices of debt securities tend to fall as interest rates rise, and such declines tend to be greater among debt securities with longer maturities. Market risk is often greater among certain types of debt securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Fund to greater market risk than a fund that does not own these types of securities. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater the Fund's outstanding commitments for these securities, the greater the Fund's exposure to market price fluctuations. Selection risk is the risk that the securities that the Sub-Advisor selects will underperform the bond market, the relevant market indices, or other funds with similar investment objectives and investment strategies.

Interest Rate Risk. Generally, when market interest rates rise, prices of debt securities fall, and vice versa. Interest rate risk is the risk that the debt securities in the Fund's portfolio will decline in value because of increases in market interest rates. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund's value. In typical market interest rate environments, the prices of longer-term debt securities generally fluctuate more than the prices of shorter-term debt securities as interest rates change. These risks may be greater in the current market environment because certain interest rates are near historically low levels. As interest rates decline, issuers of municipal bonds that have the right to call those securities may prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities and potentially reducing the Fund's income. The Fund may utilize certain strategies, including taking positions in futures and options for the purpose of reducing the interest rate sensitivity of the Fund's debt securities and decreasing the Fund's exposure to interest rate risk. The Fund is not required to hedge its exposure to interest rate risk and may choose not to do so. In addition, there is no assurance that any attempts by the Fund to reduce interest rate risk will be successful.

Credit Risk. Credit risk is the risk that an issuer of a municipal bond will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal bonds carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund's NAV or dividends. Because the Fund may invest up to 25% of its Managed Assets in non-investment grade municipal bonds, the Fund may be subject to increased credit risk as compared to a fund that invests primarily in investment grade municipal bonds.

Municipal Bond Market Risk. Economic exposure to the municipal bond market involves certain risks. The Fund's economic exposure to municipal bonds includes municipal bonds in the Fund's portfolio and municipal bonds to which the Fund is exposed through the ownership of TOB Residuals. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital was severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal bonds. Certain municipal bonds may not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about the municipal bonds to which the Fund is economically exposed is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of the Sub-Advisor than would be a stock fund or taxable bond fund. The secondary market for municipal bonds, particularly non-investment grade bonds, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the ability to sell such bonds at attractive prices or at prices approximating those at which the Fund currently values them.

In addition, many state and municipal governments that issue securities are under significant economic and financial stress and may not be able to satisfy their obligations. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among Federal, state and local governments. The taxing power of any governmental entity may be limited by provisions of state constitutions or laws and an entity's credit generally will depend on many factors, including the entity's tax base, the extent to which the entity relies on Federal or state aid, and other factors which are beyond the entity's control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes or could limit the tax exemption of certain types of municipal bonds that the Fund may invest in. Issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal bonds could experience delays in collecting principal and interest and such holders may not, in all circumstances, be able to collect all principal and interest to which they are entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

General obligation bonds are obligations involving the credit of an issuer possessing taxing power and are payable from such issuer's general revenues and not from any particular source. Timely payments depend on the issuer's credit quality, ability to raise tax revenues and the ability to maintain an adequate tax base.

Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal bonds generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. Such bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Increases in interest rates payable on senior obligations may make it more difficult for issuers to meet payment obligations on subordinated bonds.

Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipments without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event that the governmental issuer is prevented from maintaining occupancy of the lease premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover ownership of the assets.

Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Fund may be dependent upon the municipal authority issuing the certificate of participation to exercise remedies with respect to the underlying securities. Certificates of participation also entail a risk of default or bankruptcy, both of the issuer of the municipal lease and also the municipal agency issuing the certificate of participation.

Municipalities and other public authorities issue private activity bonds to finance development of industrial facilities for use by a private enterprise, which is solely responsible for paying the principal and interest on the bond. Moral obligation bonds are generally issued by special purpose public authorities of a state or municipality. If the issuer is unable to meet its obligations, repayment of these bonds becomes a moral commitment, but not a legal obligation, of the state or municipality.

To be tax-exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the Fund from its investment in such bonds and distributed to shareholders may be taxable. It is possible that interest on a municipal bond may be declared taxable after the issuance of the bond, and this determination may apply retroactively to the date of the issuance of the bond, which could cause a portion of prior distributions made by the Fund to be taxable to shareholders in the year of receipt.

Non-investment Grade Municipal Bond Risk. Non-investment grade quality municipal bonds are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and are commonly referred to as "junk bonds." The value of high yield, lower quality bonds is affected by the creditworthiness of the issuers of the bonds and by general economic and specific industry conditions. Issuers of non-investment grade bonds are not as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments. Non-investment grade bonds may be particularly susceptible to economic downturns. It is likely that an economic recession could severely disrupt the market for such bonds and may have an adverse impact on the value of such bonds. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such bonds to repay principal and pay interest thereon and increase the incidence of default for such securities.

Non-investment grade municipal bonds, though typically high yielding, are characterized by high risk. These bonds are subject to a greater risk of default. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated bonds. The retail secondary market for non-investment grade bonds may be less liquid than that of investment grade bonds; adverse conditions could make it difficult at times for the Fund to sell certain bonds or could result in lower prices than those used in calculating the Fund's NAV. Because of the substantial risks associated with non-investment grade bonds, you could lose money on your investment in Common Shares, both in the short term and the long term.

The prices of bonds generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of bonds also is inversely related to the coupons of such bonds. Accordingly, non-investment grade bonds may be relatively less sensitive to interest rate changes than higher quality bonds of comparable maturity because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with non-investment grade bonds potentially can have a greater effect on the value of such bonds than may be the case with higher quality issues of comparable maturity.

The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations, which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Sub-Advisor also will independently evaluate these bonds and the ability for the issuers of such bonds to pay interest and principal. To the extent that the Fund invests in non-investment grade bonds that have not been rated by a rating agency, the Fund's ability to achieve its investment objectives will be more dependent on the Sub-Advisor's credit analysis than would be the case when the Fund invests in rated bonds.

Insurance Risk. The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will generally affect the value of those securities. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced defaults or otherwise suffered credit deterioration. Such losses have reduced the insurers' capital and may have called into question their continued ability to perform their obligations under such insurance if called upon in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided, the rating of the underlying municipal security will generally be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the NAV of the Common Shares represented by such insured obligation.

Limited Term Risk. Unless action is otherwise taken by the Board of Trustees in accordance with the Declaration of Trust, the Fund will commence the process of liquidation and dissolution at the close of business on the Termination Date. The Fund will not seek to return an initial investment in Common Shares by an investor on the Termination Date. Instead, the Fund will distribute an amount equal to the Fund's NAV at that time, which may be greater or less than an investor's initial investment The Fund's limited term may cause it to sell securities when it otherwise would not, which could cause the Fund's returns to decrease and the market price of the Common Shares to fall. Rather than reinvesting the proceeds of its matured, called or sold securities, the Fund may distribute the proceeds in one or more liquidating distributions prior to the final termination, which may cause the Fund's fixed expenses to increase when expressed as a percentage of assets under management. Alternatively, the Fund may invest the proceeds in lower yielding securities or hold the proceeds in cash or cash equivalents, which may adversely affect the performance of the Fund.

General Leverage Risk. The use of leverage creates an opportunity for increased Common Share net investment income dividends, but also creates risks for the holders of Common Shares. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs than if it were not implemented. Increases and decreases in the value of the Fund's portfolio will be magnified when the Fund uses leverage. As a result, leverage may cause greater changes in the Fund's NAV. The Fund will also have to pay interest or dividends on its leverage, which may reduce the return on the Common Shares. This interest expense may be greater than the Fund's return on the underlying investment. The Fund's leveraging strategy may not be successful.

Subject to market conditions, the Fund may issue Preferred Shares as a form of financial leverage. Any such Preferred Shares of the Fund would be senior to the Common Shares, such that holders of Preferred Shares would have priority over the distribution of the Fund's assets, including dividends and liquidating distributions. If Preferred Shares are issued and outstanding, holders of the Preferred Shares would elect two trustees of the Fund, voting separately as a class.

If the Fund borrows funds from banks or other financial institutions (*i.e.,* credit facility), the Fund may be required to prepay outstanding amounts or incur a penalty rate of interest upon the occurrence of certain events of default. The Fund would also likely have to indemnify the lenders under a credit facility against liabilities they may incur in connection therewith. In addition, the Fund expects that any credit facility would contain covenants that, among other things, likely would limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change certain of its investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. The Fund may be required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses.

Reverse repurchase agreements involve the risks that the interest income earned on the investment of the proceeds will be less than the interest expense and Fund expenses, that the market value of the securities sold by the Fund may decline below the price of the securities the Fund is obligated to repurchase and that the securities may not be returned to the Fund. There is no assurance that reverse repurchase agreements can be successfully employed.

The Fund may also use leverage through its investments in TOB Residual and Derivative Transactions. See "—Tender Option Bonds Risk" and "Derivatives Risks."

The Fund anticipates that leverage for investment purposes will pay interest or dividends based on shorter-term interest rates that would be periodically reset. So long as the Fund's portfolio provides a higher rate of return, net of expenses, than the rate paid on leverage as reset periodically, the leverage may cause the holders of Common Shares to receive a higher current rate of return than if the Fund were not leveraged. If, however, long-term and/or short-term rates rise, the rate paid on leverage could exceed the rate of return on securities held by the Fund, reducing return to the holders of Common Shares. Recent developments in the credit markets may adversely affect the ability of the Fund to borrow for investment purposes and may increase the costs of such borrowings, which would reduce returns to the holders of Common Shares.

There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for holders of Common Shares, including:

- the likelihood of greater volatility of NAV, market price and dividend rate of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in the interest or dividend rates that the Fund must pay on any leverage will reduce the return to the holders of the Common Shares;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares;
- when the Fund uses financial leverage, the management fees payable to the Manager and the Sub-Advisor will be higher than if the Fund did not use leverage; and
- leverage may increase operating costs, which may reduce total return.

The use of the proceeds received from tender option bond transactions will require the Fund to earmark or segregate liquid assets to cover its obligations (or, if the Fund invests in reverse repurchase agreements, borrows money or issues Preferred Shares, to maintain asset coverage in conformity with the requirements of the 1940 Act). While the segregated assets may be invested in liquid securities, they may not be used for other operational purposes. Consequently, the use of leverage may limit the Fund's flexibility and may require that the Fund sell other portfolio investments to pay Fund expenses, maintain assets in an amount sufficient to cover the Fund's leveraged exposure or meet other obligations at a time when it may be disadvantageous to sell such assets.

Certain types of borrowings by the Fund may result in the Fund being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the short-term corporate debt securities or Preferred Shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. If the Fund is unable to extend such leverage, the Fund will be compelled to liquidate portfolio holdings to retire its leverage, and may do so on terms unattractive to the Fund or at a time or subject to market conditions, which are not beneficial to the Fund's overall performance. Such reduction in leverage may also impact negatively the Fund's performance in the future.

The Fund may invest in the securities of other investment companies. Such securities may also be leveraged, and will therefore be subject to the leverage risks described above. This additional leverage may in certain market conditions reduce the NAV of the Common Shares and the returns to the holders of Common Shares.

Tender Option Bonds Risk. TOB Residuals are derivative municipal securities that have embedded in them the risk of economic leverage. There is no assurance that the Fund's strategy of using the proceeds received from tender option bond transactions to leverage its assets will be successful.

Distributions on TOB Residuals will bear an inverse relationship to short-term municipal bond interest rates. Distributions on the TOB Residuals paid to the Fund will be reduced or, in the extreme, eliminated as short-term municipal interest rates rise and will increase when short-term municipal interest rates fall. The amount of such reduction or increase is a function, in part, of the amount of TOB Floaters sold by the issuer of these securities relative to the amount of the TOB Residuals that it sells. The greater the amount of TOB Floaters sold relative to the TOB Residuals, the more volatile the distributions on the TOB Residuals will be. Short-term interest rates are at historic lows and may be more likely to rise in the current market environment.

The Fund's use of proceeds received from tender option bond transactions will create economic leverage. Any economic leverage achieved through the Fund's investment in TOB Residuals will create an opportunity for increased Common Share net income and returns, but will also create the possibility that Common Share long-term returns will be diminished if the cost of the TOB Floaters exceeds the return on the securities deposited in the TOB

Issuer. If the income and gains earned on municipal securities deposited in a TOB Issuer that issues TOB Residuals to the Fund are greater than the payments due on the TOB Floaters, the Fund's returns will be greater than if it had not invested in the TOB Residuals.

The Fund has no current intention of investing in recourse TOB Residuals. However, circumstances may change and it is possible that in the future the Fund may elect to invest in recourse TOB Residuals to leverage its portfolio. If the Fund uses recourse TOB Residuals, the liquidity provider may seek recourse against assets of the Fund, and the Fund may have to pay the liquidity provider the difference between the purchase price of any TOB Floaters put to the liquidity provider by third party investors and the proceeds realized by the liquidity provider from the remarketing of those TOB Floaters or the sale of the assets in the TOB Issuer, which could cause the Fund to lose money in excess of its investment in a TOB Issuer.

Although the Fund generally would unwind a tender option bond transaction rather than try to sell a TOB Residual, if it did try to sell a TOB Residual, its ability to do so would depend on the liquidity of the TOB Residual. TOB Residuals have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in the TOB Issuer. The market price of TOB Residuals are more volatile than the underlying securities due to leverage. The leverage attributable to TOB Residuals may be "called away" on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of NAV and market price of the Common Shares may be greater for a fund that relies primarily on tender option bond transactions to achieve a desired effective leverage ratio. The Fund may be required to sell its TOB Residuals at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

- If the Fund has a need for cash and the securities deposited in the TOB Issuer are not actively trading due to adverse market conditions;
- If the sponsors of TOB Issuers (as a collective group or individually) experience financial hardship and consequently seek to terminate their sponsorship of TOB Issuers; and
- If the value of an underlying security deposited in the TOB Issuer declines significantly (to a level below the notional value of the TOB Floaters issued by the TOB Issuer) and if additional collateral has not been posted by the Fund.

The Fund may invest in taxable TOB Residuals, issued by TOB Issuers formed with taxable municipal securities. The market for such taxable TOB Residuals is relatively new and undeveloped. Initially, there may be a limited number of counterparties, which may increase the credit risks, counterparty risks, liquidity risks and other risks of investing in taxable TOB Residuals. The Fund may not invest more than 20% of its Managed Assets in any single third party sponsor that establishes a TOB Issuer.

Tax Risk. It is expected that the Fund's distributions will generally be treated as tax-exempt income for purposes of the regular U.S. Federal income tax. A portion of the Fund's distributions may be (i) subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes, and (ii) includable in taxable income for purposes of the Federal alternative minimum tax. See "U.S. Federal Income Tax Matters."

The value of the Fund's investments and its NAV may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular U.S. Federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in U.S. Federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. For example, several recent proposals to reduce the Federal budget deficit have included consideration of elimination of the tax-exempt status of municipal securities.

The Fund is generally not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the U.S. Federal income tax consequences of their investments.

The Fund will invest in municipal bonds, generally in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those bonds will be excludable from gross income for U.S. Federal income tax purposes. Subsequent to the Fund's acquisition of such a municipal bond, however, the bond may be determined to pay, or to have paid, taxable income. As a result, the treatment of distributions previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund's shareholders to increased U.S. Federal income tax liabilities.

The IRS may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

Potential Conflicts of Interest Risk—Allocation of Investment Opportunities. The Manager, the Sub-Advisor and their affiliates are involved with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Manager, the Sub-Advisor and their affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Manager, the Sub-Advisor and their affiliates intend to engage in such activities and may receive compensation from third parties for their services. The Manager, the Sub-Advisor and their affiliates have no obligation to share any investment opportunity, idea or strategy with the Fund. As a result, the Manager, the Sub-Advisor and their affiliates may compete with the Fund for appropriate investment opportunities. The results of the Fund's investment activities, therefore, may differ from those of the Fund's affiliates, or another account managed by the Fund's affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the Fund's affiliates and other accounts achieve profits on their trading for proprietary or other accounts. The Manager, the Sub-Advisor and their affiliates have adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the funds managed by the Manager, the Sub-Advisor and their affiliates in a fair and equitable manner.

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

Current Economic ConditionsCredit Crisis Liquidity and Volatility Risk. The markets for credit instruments have experienced periods of extreme illiquidity and volatility since the latter half of 2007. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of debt securities, including municipal bonds. These conditions resulted in, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Fund's municipal bonds uncertain and/or result in sudden and significant valuation increases or declines in its holdings. Also, issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal bonds could experience delays in collecting principal and interest and such holders may not, in all circumstances, be able to collect all principal and interest to which they are entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Shares.

In response to the recent national economic downturn, governmental cost burdens may be reallocated among Federal, state and local governments. Also, as a result of the downturn, many state and local governments have experienced significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of these state and local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, municipalities might seek protection under the bankruptcy laws, thereby affecting the repayment of their outstanding debt.

Valuation Risk. Unlike publicly traded common stock which trades on national exchanges, there is no central place or exchange for fixed-income securities trading. Fixed-income securities generally trade on an ''over-the-counter'' market which may be anywhere in the world where the buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of fixed-income securities may carry more risk than that of common stock. Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. As a result, the Fund may be subject to the risk that when a fixed-income security is sold in the market, the amount received by the Fund is less than the value of such fixed-income security carried on the Fund's books.

Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Fund's use of leverage would likely increase, which would tend to further reduce returns to the holders of the Common Shares. Deflation risk is the risk that prices throughout the economy decline over time—the opposite of inflation. Deflation may have an adverse affect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's portfolio.

Market Discount from Net Asset Value Risk. Shares of closed-end investment companies frequently trade at a discount from their NAV. This characteristic is a risk separate and distinct from the risk that the Fund's NAV per Common Share could decrease as a result of its investment activities and may be greater for investors expecting to sell their Common Shares in a relatively short period of time following completion of this offering. The NAV of the Common Shares will be reduced immediately following this offering as a result of the payment of certain offering costs estimated to be $.04 per Common Share. Although the value of the Fund's net assets is generally considered by market participants in determining whether to purchase or sell Common Shares, whether investors will realize gains or losses upon the sale of the Common Shares will depend entirely upon whether the market price of the Common Shares at the time of sale is above or below the investor's purchase price for the Common Shares. Because the market price of the Common Shares will be determined by factors such as NAV, dividend and distribution levels and their stability (which will in turn be affected by levels of dividend and interest payments by the Fund's portfolio holdings, the timing and success of the Fund's investment strategies, regulations affecting the timing and character of Fund distributions, Fund expenses and other factors), supply of and demand for the Common Shares, trading volume of the Common Shares, general market, interest rate and economic conditions and other factors beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at, below or above NAV or at, below or above the initial public offering price. The Fund will pay (and holders of Common Shares will bear) any costs and expenses relating to the issuance and ongoing maintenance of Preferred Shares.

Derivatives Risk. The Fund's investments in exchange-traded and over-the-counter derivatives have risks, including: the imperfect correlation between the value of such instruments and the underlying assets of the Fund, which creates the possibility that the loss on such instruments may be greater than the gain in the value of the underlying assets in the Fund's portfolio; the loss of principal; high price volatility; the possible default of the counterparty to the transaction; and illiquidity of the derivative investments. Certain of the derivative instruments in which the Fund may invest may, in certain circumstances, give rise to a form of financial leverage, which may magnify the risk of owning such instruments. Furthermore, the ability to successfully use derivative instruments depends on the ability of the Sub-Advisor to predict pertinent market movements, which cannot be assured. Thus, the use of derivative instruments to generate income, for hedging, for currency or interest rate management or other purposes may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that it might otherwise sell. In addition, there may be situations in which the Sub-Advisor elects not to use derivatives, which may result in losses greater than if they had been used. Amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to the Fund's investments in derivatives are not otherwise available to the Fund for investment purposes.

The Fund may manage some of its derivative positions, if any, by segregating an amount of cash, cash equivalents or liquid securities on the Fund's records in an amount equal to the notional value of those positions. The Fund may also offset derivatives positions against one another or against other assets to manage the effective market exposure resulting from derivatives in its portfolio. To the extent that the Fund does not segregate liquid assets or otherwise cover its obligations under any such transactions (*e.g.,* through offsetting positions), certain types of these transactions will be treated as senior securities representing indebtedness ("borrowings") for purposes of the requirements under the 1940 Act; and therefore, the Fund may not enter into any such transactions if the Fund's borrowings would thereby exceed 33-1/3% of its Managed Assets. In addition, to the extent that any offsetting positions do not perform in relation to one another as expected, the Fund may perform as if it were leveraged.

The Fund will experience counterparty risk in its use of certain over-the-counter derivatives. The risks associated with over-the-counter derivative instruments may be materially different from those associated with transactions executed on a regulated market and cleared through a central counterparty, where a risk of a counterparty default is mitigated by clearing organization guaranties and daily mark-to-market and settlement. In the over-the-counter Derivative Transactions, there will often be only one counterparty, which will increase the counterparty risk. Income or gains from certain derivatives may result in taxable distributions by the Fund.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts (whether with a clearing corporation in the case of exchange-traded instruments or with another third party in the case of over-the-counter instruments) and other instruments entered into directly by the Fund or held by special purpose or structured vehicles in which the Fund invests. If a counterparty becomes bankrupt or otherwise fails to perform its obligations to the Fund due to financial difficulties, the Fund may experience significant losses or delays in obtaining any recovery (including recovery of any collateral it has provided to the counterparty) in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In addition, in the event of the insolvency of a counterparty to a Derivative Transaction, the Derivative Transaction would typically be terminated at its fair market value. If the Fund is owed this fair market value in the termination of the Derivative Transaction and its claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to any underlying security or asset. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Counterparty risk with respect to certain exchange-traded and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation. See "—Derivatives Risk" above for more information.

Regulation Risk. In connection with an ongoing review by the SEC and its staff of the regulation of investment companies' use of derivatives, on August 31, 2011, the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of the Fund's use of derivatives, which could have an adverse impact on the Fund. The Manager and the Sub-Advisor cannot predict the effects of these regulations on the Fund's portfolio.

United States Credit Rating Downgrade Risk. The events surrounding the U.S. Federal government debt ceiling and the resulting agreement could adversely affect the Fund's ability to achieve its investment objectives. On August 5, 2011, S&P lowered its long-term sovereign credit rating on the United States to "AA+" from "AAA." The downgrade by S&P could increase volatility in both stock and bond markets, result in higher interest rates and lower Treasury prices and increase the costs of all kinds of debt. These events and similar events in other areas of the world could have significant adverse effects on the economy generally and could result in significant adverse impacts on issuers of securities held by the Fund and the Fund itself. The Manager and the Sub-Advisor cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on the Fund's portfolio. The Manager and the Sub-Advisor may not timely anticipate or manage existing, new or additional risks, contingencies or developments.

Legal and Regulatory Risk. Legal, tax and regulatory changes could occur and may adversely affect the Fund and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New or revised laws or regulations may be imposed by the CFTC, the SEC, the U.S. Federal Reserve, other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Fund. In particular, these agencies are empowered to promulgate a variety of new rules pursuant to recently enacted financial reform legislation in the United States. The Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations.

In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies. The Fund, the Manager and the Sub-Advisor have historically been eligible for exemptions from certain regulations. However, there is no assurance that the Fund, the Manager and the Sub-Advisor will continue to be eligible for such exemptions. For example, the Fund has filed with the National Futures Association a notice claiming an exclusion from the definition of the term "commodity pool operator" under Commission Regulation 4.5 under the CEA, with respect to the Fund's operation. However, the CFTC has recently adopted amendments to CFTC Regulation 4.5, which, when effective, may subject the Manager to regulation by the CFTC, and require it to operate the Fund subject to applicable CFTC requirements, including registration, disclosure and operational requirements. Compliance with these additional requirements may increase Fund expenses. Certain of the rules that would apply to the Fund if it becomes subject to CFTC regulation have not yet been adopted, and while it is unclear what the effect of those rules would be on the Fund if they are adopted, these rules could potentially limit or restrict the ability of the Fund to pursue its investment objectives and execute its investment strategy.

Congress recently enacted legislation that provides for new regulation of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Because the legislation leaves much to agency rule making, its ultimate impact remains unclear. New regulations could, among other things, restrict the Fund's ability to engage in Derivatives Transactions (for example, by making certain types of Derivatives Transactions no longer available to the Fund) and/or increase the costs of such Derivatives Transactions (for example, by increasing margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

The CFTC and certain futures exchanges have established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts; those position limits may also apply to certain other derivatives positions the Fund may wish to take. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Fund does not intend to exceed applicable position limits, it is possible that different clients managed by the Manager, the Sub-Advisor and their affiliates may be aggregated for this purpose. Therefore it is possible that the trading decisions of the Manager and the Sub-Advisor may have to be modified and that positions held by the Fund may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of the Fund.

Federal legislation has been passed that requires the adoption of regulations that would require any creditor that makes a loan and any securitizer of a loan to retain at least 5% of the credit risk on any loan that is transferred, sold or conveyed by such creditor or securitizer. It is currently unclear how these requirements would apply to loan participations, syndicated loans, and loan assignments. If the Fund invests in loans, it could be adversely affected by the regulation. The effect of any future regulatory change on the Fund could be substantial and adverse.

Portfolio Turnover Risk. The Fund's annual portfolio turnover rate may vary greatly from year to year. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to holders of the Common Shares, will be taxable as ordinary income. A high portfolio turnover may increase the Fund's current and accumulated taxable earnings and profits, resulting in a greater portion of the Fund's distributions being treated as a taxable dividend to the holders of the Common Shares. In addition, a higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. See "The Fund's Investments—Investment Practices—Portfolio Turnover" and "U.S. Federal Income Tax Matters."

State Specific and Industry Risk. Under normal market conditions, the Fund may not invest more than 25% of its Managed Assets in municipal bonds in any one industry or in any one state of origin. If the Fund invests 25% or more of its Managed Assets in any one industry or in any one state of origin, the Fund may be more susceptible to adverse economic, political or regulatory occurrences affecting a particular state or industry.

Market Disruption Risk. The terrorist attacks in the United States on September 11, 2001, had a disruptive effect on the securities markets. The ongoing U.S. military and related action in Afghanistan and events in the Middle East, as well as the continuing threat of terrorist attacks, could have significant adverse effects on the U.S. economy, the stock market and world economies and markets generally. A similar disruption of financial markets or other terrorist attacks could adversely affect Fund service providers and/or the Fund's operations as well as interest rates, secondary trading, credit risk, inflation and other factors relating to the Common Shares. The Fund cannot predict the effects or likelihood of similar events in the future on the U.S. and world economies, the value of the Common Shares or the NAV of the Fund.

Illiquid/Restricted Securities Risk. The Fund may invest in securities that, at the time of investment, are illiquid (determined using the SEC's standard applicable to registered investment companies, *i.e.,* securities that cannot be disposed of by the Fund within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities). The Fund may also invest in restricted securities. Investments in restricted securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these securities. Illiquid and restricted securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The market price of illiquid and restricted securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Fund pays for or recovers upon the sale of such securities. Illiquid and restricted securities are also more difficult to value, and the Manager's and the Sub-Advisor's judgment may each play a greater role in the valuation process. Investment of the Fund's assets in illiquid and restricted securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid and restricted securities may be particularly acute in situations in which the Fund's operations require cash and could result in the Fund borrowing to meet its short-term needs or incurring losses on the sale of illiquid or restricted securities. In order to dispose of an unregistered security, the Fund, where it has contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered, therefore enabling the Fund to sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquiror of the securities. In either case, the Fund would bear market risks during that period.

Certain Affiliations. Unless and until the underwriting syndicate is broken in connection with the initial public offering of the Common Shares, the Fund will be precluded from effecting principal transactions with brokers who are members of the syndicate. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

Anti-Takeover Provisions. The Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. These provisions could have the effect of depriving the holders of the Common Shares of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares. See "Certain Provisions in the Declaration of Trust and By-Laws."

Secondary Market for the Common Shares. The issuance of Common Shares through the Fund's dividend reinvestment plan may have an adverse effect on the secondary market for the Common Shares. The increase in the number of outstanding Common Shares resulting from issuances pursuant to the Fund's dividend reinvestment plan and the discount to the market price at which such Common Shares may be issued may put downward pressure on the market price for the Common Shares. When the Common Shares are trading at a premium, the Fund may also issue Common Shares that may be sold through private transactions effected on the NYSE or through broker-dealers. The increase in the number of outstanding Common Shares resulting from these offerings may put downward pressure on the market price for Common Shares.

Other Investment Companies Risk. The Fund may invest in securities of other investment companies, including other closed-end or open-end investment companies (including ETFs). With respect to closed-end funds and ETFs, the market value of their shares may differ from the NAV of the particular fund. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities. In addition, if the Fund invests in such investment companies or investment funds, the Fund's shareholders will bear not only their proportionate share of the expenses of the Fund, but also will indirectly bear similar expenses of the underlying investment company. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled "—General Leverage Risk," the NAV and market value of leveraged shares will be more volatile and the yield to stockholders will tend to fluctuate more than the yield generated by unleveraged shares. Other investment companies may have investment policies that differ from those of the Fund. In addition, to the extent the Fund invests in other investment companies, the Fund will be dependent upon the investment and research abilities of persons other than the Sub-Advisor.

Exchange-Traded Funds Risk. An ETF that is based on a specific index may not be able to replicate and maintain exactly the composition and relative weighting of securities in the index. An ETF also incurs certain expenses not incurred by its applicable index. The market value of an ETF share may differ from its NAV; the share may trade at a premium or discount to its NAV, which may be due to, among other things, differences in the supply and demand in the market for the share and the supply and demand in the market for the underlying assets of the ETF. In addition, certain securities that are part of the index tracked by an ETF may, at times, be unavailable, which may impede the ETF's ability to track its index. An ETF that utilizes leverage can, at times, be relatively illiquid, which can affect whether its share price approximates NAV. As a result of using leverage, an ETF is subject to the risk of failure in the futures and options markets it uses to obtain leverage and the risk that a counterparty will default on its obligations, both of which can result in a loss to the Fund.

MANAGEMENT OF THE FUND

Trustees and Officers

General oversight of the duties performed by the Manager and the Sub-Advisor is the responsibility of the Board of Trustees. There are eight Trustees of the Fund, one of whom is an "interested person" (as defined in the 1940 Act) and seven of whom are not "interested persons." The names and business addresses of the Trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under "Board Members and Officers—Management" in the SAI.

Manager

New York Life Investments will administer the Fund's business affairs and manage the investment operations of the Fund and the composition of the portfolio of the Fund, subject to the supervision of the Board of Trustees. The Manager intends to delegate its portfolio management responsibilities to MacKay Shields LLC. The Sub-Advisor will be responsible for the day-to-day management of the Fund's portfolio.

The Manager, a Delaware limited liability company, commenced operations in April 2000 and is an indirect, wholly-owned subsidiary of New York Life Insurance Company ("New York Life"). As of March 31, 2012, the Manager and its affiliates managed approximately $335.5 billion in assets.

For additional information concerning the Manager, including a description of the services provided, see the SAI under "The Manager and the Sub-Advisor—The Management Agreement."

Sub-Advisor

MacKay Shields, a registered investment adviser located at 9 West 57th Street, 33rd Floor, New York, New York 10019, was incorporated in 1969 as an independent investment advisory firm and was privately held until 1984 when it was acquired by New York Life, and is now an indirect, wholly-owned subsidiary of New York Life. As of March 31, 2012, MacKay Shields managed approximately $64.8 billion in assets, including $4.5 billion in municipal securities.

There is no one individual responsible for portfolio management decisions for the Fund. Investments are made under the direction of the MacKay Municipal Managers™ team of MacKay Shields, led by John Loffredo and Robert DiMella. Additional information regarding the portfolio managers' compensation, other accounts managed by these portfolio managers and their ownership of shares of the Fund is available in the SAI.

Robert DiMella, CFA. Mr. DiMella is a Senior Managing Director and portfolio manager for MacKay Shields. He has managed the MainStay Tax Free Bond Fund since 2009, the MainStay High Yield Municipal Bond Fund since 2010 and the MainStay New York Tax Free Opportunities Fund since May 2012. He has been a municipal portfolio manager on Wall Street since 1992, with a broad range of trading and portfolio management experience in the municipal markets. Previously, Mr. DiMella was a co-founder of Mariner Municipal Managers, LLC (from 2007 to 2009) and Managing Director and Co-Head of BlackRock's Municipal Portfolio Management Group (from 2006 to 2007). Prior to BlackRock's merger with Merrill Lynch Investment Managers (MLIM), he served as a Senior Portfolio Manager and Managing Director of the Municipal Products Group. He was employed by Merrill Lynch from 1992 to 2006. Mr. DiMella earned his Master's degree at Rutgers University Business School and a BS at the University of Connecticut. He is a Chartered Financial Analyst.

John Loffredo, CFA. Mr. Loffredo is a Senior Managing Director and portfolio manager for MacKay Shields. He has managed the MainStay Tax Free Bond Fund since 2009, the MainStay High Yield Municipal Bond Fund since 2010 and the MainStay New York Tax Free Opportunities Fund since May 2012. He has been a municipal portfolio manager and/or municipal analyst on Wall Street since 1990, with a broad range of portfolio management and analytic experience in the municipal markets. Mr. Loffredo was a co-founder of Mariner Municipal Managers LLC (from 2007 to 2009) and Managing Director and Co-Head of BlackRock's Municipal Portfolio Management Group (from 2006 to 2007). Prior to BlackRock's merger with Merrill Lynch Investment Managers (MLIM), he served as Chief Investment Officer of the Municipal Products Group of MLIM. He was employed by Merrill Lynch from 1990 – 2006. Mr. Loffredo graduated with a MBA and Certificate of Public Management from Boston University and cum laude from Utah State University where he was a Harry S. Truman Scholar. He is a Chartered Financial Analyst.

Michael Petty. Mr. Petty is a Managing Director and portfolio manager for MacKay Shields. He has managed the MainStay Tax Free Bond Fund since 2010, the MainStay High Yield Municipal Bond Fund since 2011 and the MainStay New York Tax Free Opportunities Fund since May 2012. He has been a portfolio manager on Wall Street since 1992, has worked in the municipal products market since 1985, and has a broad array of trading, portfolio management, and sales experience. Prior to joining MacKay Municipal Managers, Mr. Petty was a portfolio manager with Mariner Municipal Managers during 2009. From 1997 through 2009, he was a Senior Portfolio Manager at Dreyfus Corporation, overseeing $2.1 billion in assets. Mr. Petty graduated from Hobart College with a BA in Mathematics and Economics.

Scott Sprauer. Mr. Sprauer is a Director and portfolio manager in the Municipal Bond Division. He has managed the MainStay New York Tax Free Opportunities Fund since May 2012. Prior to joining MacKay Shields in 2009, he was the Head Trader, Fixed Income at Financial Guaranty Insurance Company. Mr. Sprauer was previously with Dreyfus Corporation as a Municipal Bond Portfolio Manager/Trader and at Wealthbuilders, Inc. as a Trader/Research Assistant. He has a BSBA from Villanova University.

David Dowden. Mr. Dowden is a Managing Director and portfolio manager in the Municipal Bond Division. He has managed the MainStay New York Tax Free Opportunities Fund since May 2012. Prior to joining MacKay Shields in 2009, he was the Chief Investment Officer at Financial Guaranty Insurance Company. Mr. Dowden was previously with Alliance Capital Management as a Senior Portfolio Manager and at Merrill Lynch & Co. as a Municipal Strategist. Mr. Dowden has an AB from Brown University and an MBA from Columbia University.

Investment Management and Sub-Advisory Agreement

Pursuant to an investment management agreement between the Manager and the Fund, the Fund has agreed to pay a fee for the services and facilities provided by the Manager at the annual rate of .60% of Managed Assets.

For purposes of calculating the management fee, the Fund's "Managed Assets" means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the purpose of creating Effective Leverage or Fund liabilities related to the liquidation preference of any Preferred Shares issued). Total assets for this purpose shall include assets attributable to the Fund's use of Effective Leverage, such as, but not limited to, the use of proceeds received from tender option bond transactions, issuing Preferred Shares, or funds borrowed from banks or other financial institutions (*i.e.,* credit facility). For purposes of determining Managed Assets, the liquidation preference of the Preferred Shares is not treated as a liability.

Except for the expenses to be paid by the Manager as described in this prospectus and elsewhere in the SAI, the Fund, is responsible under the management agreement for the payment of expenses related to the Fund's operations, including: (1) the fees payable to the Manager or the expenses otherwise incurred by the Fund in connection with the management of the investment of the assets of the Fund; (2) the fees and expenses of the Board of Trustees who are not affiliated with the Manager or Sub-Advisor; (3) certain fees and expenses of the custodian and transfer agent; (4) the charges and expenses of the Fund's legal counsel and independent accountants; (5) brokers' commissions and any issue or transfer taxes chargeable to the Fund, in connection with its securities transactions; (6) the fees of any trade association of which the Fund is a member; (7) the cost of share certificates representing shares of the Fund; (8) payment of a portion of the offering costs of the Fund and the fees and expenses involved in registering and maintaining the registrations of the Fund and of its shares with the SEC and the Fund as a broker or dealer and qualifying its shares under state securities laws, including the preparation and printing of the Fund's registration statements and prospectuses for such purposes and the offering cost of any Preferred Shares issuances; (9) allocable communications expenses with respect to investor services and all expenses of shareholders' and Board of Trustees' meetings and preparing, printing and mailing prospectuses and reports to shareholders; (10) litigation and indemnification expenses and other extraordinary expenses not incurred in the ordinary course of a Fund's business; (11) all taxes and business fees payable by the Fund to federal, state or other governmental agencies; (12) costs associated with the pricing of the Fund's shares; and (13) the cost of fidelity bond and D&O insurance. In addition, the Fund reimburses the Manager for a portion of the Fund's Chief Compliance Officer's compensation.

The Sub-Advisor receives a portfolio management fee at the annual rate of .30% of Managed Assets, which is paid by the Manager out of the Manager's management fee.

The Manager has agreed to pay: (i) all of the Fund's organizational expenses and (ii) the Fund's offering expenses (other than the sales load but inclusive of the $.00667 per share Common Share reimbursement of the underwriters' expenses), to the extent that offering expenses are in excess of $.04 per Common Share.

A discussion regarding the basis of the Board's approval of the Management Agreement and Sub-Advisory Agreement will be available in the Fund's first report sent to shareholders.

See ''The Manager and The Sub-Advisor—The Management Agreement'' and ''The Manager and The Sub-Advisor—The Sub-Advisory Agreement'' in the SAI.

NET ASSET VALUE

The NAV of the Common Shares of the Fund will be computed based upon the value of the Managed Assets. NAV per Common Share will be determined daily on each day that the NYSE is open for business as of the close of the regular trading session on the NYSE (normally 4:00 p.m. Eastern Time). The Fund calculates NAV per Common Share by subtracting liabilities (including accrued expenses or dividends) from the total assets of the Fund (the value of the securities plus cash or other assets, including interest accrued but not yet received) and dividing the result by the total number of outstanding Common Shares of the Fund.

The Fund values its investments primarily by using the evaluated mean of market quotations from a nationally recognized municipal pricing service. Short-term debt investments having a remaining maturity of 60 days or less when purchased will be valued at cost adjusted for amortization of premiums and accretion of discounts. Any investments and other assets for which such current market quotations are not readily available are valued at fair value (''Fair Valued Assets'') as determined in good faith under procedures established by, and under the general supervision and responsibility of, the Fund's board of trustees. The Manager will submit its recommendations regarding the valuation and/or valuation methodologies for Fair Valued Assets to a valuation committee comprised of officers and employees of the Manager. The valuation committee may accept, modify or reject any recommendations. The pricing of all Fair Valued Assets shall be subsequently reported to the Board of Trustees or the appropriate committee thereof.

Over-the-counter options are priced on the basis of dealer quotes. Other types of derivatives for which quotes may not be available are valued at fair value.

When determining the price for a fair valued asset, the Manager or Sub-Advisor shall seek to determine the price that the Fund might reasonably expect to receive from the current sale of that asset in an arm's-length transaction. Fair value determinations shall be based upon all available factors that the Manager or Sub-Advisor deems relevant.

DISTRIBUTIONS

Commencing with the Fund's initial dividend, the Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to the holders of the Common Shares. The initial monthly dividend on the Common Shares is expected to be declared within approximately 45 days after completion of this offering and paid approximately 60 to 90 days after completion of this offering. It is expected that the Fund's distributions will generally be treated as tax-exempt income for purposes of the regular U.S. Federal income tax. A portion of the Fund's distributions may be subject to U.S. Federal income tax and such distributions will generally be subject to state and local taxes. A portion of such distributions may be includable in taxable income for purposes of the Federal alternative minimum tax. The Fund will distribute to holders of Common Shares at least annually all or substantially all of its investment company taxable income after the payment of dividends and interest, if any, owed with respect to any outstanding Preferred Shares or other forms of leverage utilized by the Fund. The Fund intends to pay any capital gains distributions at least annually. If the Fund realizes a long-term capital gain, it will be required to allocate such gain between the Common Shares and any Preferred Shares issued by the Fund in proportion to the total dividends paid to each class for the year in which the income is realized.

Various factors will affect the level of the Fund's income, including the asset mix and average maturity of the Fund's portfolio, the amount of leverage utilized by the Fund and the cost of such leverage and the Fund's use of hedging. To permit the Fund to maintain a more stable monthly distribution, the Fund may from time to time distribute less than the entire amount of income earned in a particular period. The undistributed income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of income actually earned by the Fund during that period. Undistributed income will add to the Fund's NAV (and indirectly benefits the Manager and the Sub-Advisor by increasing their fees) and, correspondingly, distributions from undistributed income will reduce the Fund's NAV. See "Leverage Program."

Cash distributions to the holders of Common Shares may be reinvested under the Fund's Dividend Reinvestment Plan (as described below) in additional whole and fractional shares if you or your representative elect to enroll in ("opt-in") the Plan. See "Dividend Reinvestment Plan."

DIVIDEND REINVESTMENT PLAN

Pursuant to the Fund's Plan, shareholders whose shares are registered in their own name may "opt-in" to the Plan and elect to reinvest all or a portion of their distributions in the Common Shares by providing the required enrollment notice to Computershare Trust Company, N.A., the Plan Administrator ("Plan Administrator"). Shareholders whose shares are held in the name of a broker or other nominee may have distributions reinvested only if such a service is provided by the broker or the nominee or if the broker or the nominee permits participation in the Plan. Shareholders whose shares are held in the name of a broker or other nominee should contact the broker or nominee for details. A shareholder may terminate participation in the Plan at any time by notifying the Plan Administrator before the record date of the next distribution through the Internet, by telephone or in writing. All distributions to shareholders who do not participate in the Plan, or have elected to terminate their participation in the Plan, will be paid by check mailed directly to the record holder by or under the direction of the Plan Administrator when the Board of Trustees declares a distribution.

When the Fund declares a dividend or other distribution (together, a "Dividend") payable in cash, non-participants in the Plan will receive cash and participants in the Plan (*i.e.,* those holders of Common Shares who "opt-in") will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Administrator for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund ("Newly Issued Common Shares") or (ii) by purchase of outstanding common shares on the open market ("Open-Market Purchases") on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price per Common Share plus estimated per share fees, which include any brokerage commissions the Plan Administrator is required to pay, is equal to or greater than the NAV per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus estimated per share fees, the Plan Administrator will invest the Dividend amount in Common Shares acquired on behalf of the participants in Open-Market Purchases. In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Shares trade on an "ex-dividend" basis or 30 days after the payment date for such Dividend, whichever is sooner (the "Last Purchase Date"), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly income Dividends. Therefore, the period during which Open-Market Purchases can be made will exist only from the payment date of each Dividend through the date before the next "ex-dividend" date which typically will be approximately ten days. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV per Common Share is less than or equal to 95% of the then current market price per Common Share; the dollar amount of the Dividend will be divided by 95% of the market price per Common Share on the payment date.

The Plan Administrator maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Plan.

There will be no charges with respect to Common Shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in Common Shares or in cash. The Plan Administrator's fees for the handling of the reinvestment of dividends and distributions will be paid by the Fund. However, each participant will pay a per share fee incurred in connection with Open-Market Purchases. The reinvestment of Dividends will not relieve participants of any Federal, state or local income tax that may be payable (or required to be withheld) on such dividends. See "U.S. Federal Income Tax Matters." Participants that request a sale of shares through the Plan Administrator are subject to a $2.50 sales fee and a $.15 per share sold fee. All per share fees include any brokerage commission the Plan Administrator is required to pay.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator, Computershare Trust Company, N.A., by telephone 1-800-426-5523, through the internet at www.computershare.com/investor or in writing to P.O. Box 43078, Providence, Rhode Island 02940-3078.

DESCRIPTION OF SHARES

Common Shares

The Declaration of Trust authorizes the issuance of an unlimited number of Common Shares. The Common Shares being offered have a par value of $.001 per share and, subject to the rights of the holders of Preferred Shares, if any, have equal rights to the payment of dividends and the distribution of assets upon liquidation. The Common Shares being offered will, when issued, be fully paid and, subject to matters discussed in ''Certain Provisions in the Declaration of Trust and By-Laws,'' nonassessable, and currently have no preemptive or conversion rights (except as may otherwise be determined by the Board of Trustees in their sole discretion) or rights to cumulative voting.

The Fund's Common Shares have been approved for listing on the NYSE, subject to notice of issuance. The trading or ''ticker'' symbol of the Common Shares is ''MMD.'' The Fund intends to hold annual meetings of shareholders so long as annual meetings are required by the 1940 Act, applicable regulations or requirements of the NYSE or other exchange on which the Common Shares are listed.

The NAV of the Common Shares will be reduced immediately following the offering by the amount of the sales load and offering expenses paid by the Fund up to and including $.04 per Common Share. The Manager has agreed to pay: (i) all of the Fund's organizational expenses and (ii) the Fund's offering expenses (other than the sales load but inclusive of the $.00667 per share Common Share reimbursement of the underwriters' expenses), to the extent that offering expenses are in excess of $.04 per Common Share. See ''Summary of Fund Expenses.''

Unlike open-end funds, closed-end funds like the Fund do not continuously offer shares and do not provide daily redemptions. Rather, if a shareholder determines to buy additional Common Shares or sell shares already held, the shareholder may conveniently do so by trading on the exchange through a broker or otherwise. Shares of closed-end investment companies may frequently trade on an exchange at prices lower than NAV. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than NAV and during other periods have traded at prices lower than NAV. Because the market value of the Common Shares may be influenced by such factors as dividend levels (which are in turn affected by expenses), dividend stability, portfolio credit quality, NAV, relative demand for and supply of such shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot assure you that Common Shares will trade at a price equal to or higher than NAV in the future. The Common Shares are designed primarily for long-term investors, and investors in the Common Shares should not view the Fund as a vehicle for trading purposes.

Preferred Shares

The Declaration of Trust provides that the Board of Trustees may authorize and issue Preferred Shares with rights as determined by the Board of Trustees, by action of the Board of Trustees without the approval of the holders of Common Shares. Holders of Common Shares have no preemptive right to purchase any Preferred Shares that might be issued.

The Fund may elect to issue Preferred Shares as part of its leverage strategy. The Fund will pay (and holders of Common Shares will bear) any costs and expenses relating to the issuance and ongoing maintenance of Preferred Shares. The Fund currently has the ability to issue leverage, which may include Preferred Shares, representing up to 33-1/3% of the Managed Assets immediately after the leverage is issued. The Board of Trustees also reserves the right to authorize the Fund to issue Preferred Shares to the extent permitted by the 1940 Act, which currently limits the aggregate liquidation preference of all outstanding Preferred Shares plus the principal amount of any outstanding leverage consisting of debt to 50% of the value of the Managed Assets less liabilities and indebtedness of the Fund (other than leverage consisting of debt). The Fund may issue fixed or floating rate Preferred Shares for a specified term. Although the terms of any Preferred Shares, including dividend rate, liquidation preference and redemption provisions, will be determined by the Board of Trustees, subject to applicable law and the Declaration of Trust, it is likely that the Preferred Shares will be structured to carry a relatively short-term dividend rate reflecting interest rates on short-term bonds, by providing for the periodic redetermination of the dividend rate at relatively short intervals through an auction, remarketing or other procedure. The Fund also believes that it is likely that the liquidation preference, voting rights and redemption provisions of the Preferred Shares will be similar to those stated below.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the holders of Preferred Shares, if any, will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per Preferred Share plus accrued and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of the Common Shares. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of Preferred Shares will not be entitled to any further participation in any distribution of assets by the Fund.

Voting Rights. The 1940 Act requires that the holders of any Preferred Shares, voting separately as a single class, have the right to elect at least two trustees at all times. The remaining trustees will be elected by holders of Common Shares and Preferred Shares, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, the holders of any Preferred Shares have the right to elect a majority of the trustees of the Fund at any time that two years of dividends on any Preferred Shares are unpaid. The 1940 Act also requires that, in addition to any approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding Preferred Shares, voting separately as a class, would be required to: (i) adopt any plan of reorganization that would adversely affect the Preferred Shares; and (ii) take any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund's subclassification as a closed-end investment company or changes in its fundamental investment restrictions. See "Certain Provisions in the Declaration of Trust and By-Laws." As a result of these voting rights, the Fund's ability to take any such actions may be impeded to the extent that there are any Preferred Shares outstanding. The Board of Trustees presently intends that, except as otherwise indicated in this prospectus and except as otherwise required by applicable law or the Declaration of Trust, holders of Preferred Shares will have equal voting rights with holders of Common Shares (one vote per share, unless otherwise required by the 1940 Act) and will vote together with holders of Common Shares as a single class.

The affirmative vote of the holders of a majority of the outstanding Preferred Shares, voting as a separate class, will be required to amend, alter or repeal any of the preferences, rights or powers of holders of Preferred Shares so as to affect materially and adversely such preferences, rights or powers, or to increase or decrease the authorized number of Preferred Shares. The class vote of holders of Preferred Shares described above will in each case be in addition to any other vote required to authorize the action in question.

Redemption, Purchase and Sale of Preferred Shares by the Fund. The terms of any Preferred Shares issued are expected to provide that: (i) they are redeemable by the Fund in whole or in part at the original purchase price per share plus accrued dividends per share; (ii) the Fund may tender for or purchase Preferred Shares; and (iii) the Fund may subsequently resell any shares so tendered for or purchased. Any redemption or purchase of Preferred Shares by the Fund will reduce any leverage applicable to the Common Shares, while any resale of shares by the Fund will increase that leverage.

The discussion above describes the possible offering of Preferred Shares by the Fund. If the Board of Trustees determines to proceed with such an offering, the terms of the Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Declaration of Trust. The Board of Trustees, without the approval of the holders of Common Shares, may authorize an offering of Preferred Shares or may determine not to authorize such an offering, and may fix the terms of the Preferred Shares to be offered.

CERTAIN PROVISIONS IN THE DECLARATION OF TRUST AND BY-LAWS

The Declaration of Trust includes provisions that could have the effect of limiting the ability of entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees. This could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control over the Fund. Such attempts could have the effect of increasing the expenses of the Fund and disrupting the normal operation of the Fund. The Trustees are divided into three classes, designated Class I, Class II, and Class III. The term of Class I will expire on the date of the first annual meeting of shareholders; the term of Class II will expire on the date of the second annual meeting of shareholders; and the term of Class III will expire on the date of the third annual meeting of shareholders. At each annual meeting, one class of trustees will be elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the Board of Trustees. A Trustee may be removed from office for cause only, and only by the action of a majority of the remaining trustees followed by a vote of the holders of a majority of the shares then entitled to vote for the election of the respective trustee.

The Declaration of Trust grants special approval rights with respect to certain matters to members of the Board of Trustees who qualify as "Continuing Trustees," which term means trustees who either (i) have been members of the Board of Trustees for a period of at least 36 months (or since May 16, 2012, if less than 36 months) or (ii) were nominated to serve as members of the Board of Trustees by a majority of the Continuing Trustees then members of the Board of Trustees.

The Declaration of Trust requires the affirmative vote or consent of a majority of the entire Board of Trustees, at least 75% of the Continuing Trustees, and holders of at least 75% of the Fund's outstanding Common and Preferred Shares, if any, to authorize certain Fund transactions not in the ordinary course of business, including a merger, consolidation or share exchange (except during the six-month period prior to the Termination Date (including as it may be extended)); certain issuances or transfers by the Fund of the Fund's shares (except as may be pursuant to a public offering, the Fund's dividend reinvestment plan or upon exercise of any stock subscription rights); certain sales, leases, exchanges, mortgages, pledges, transfers or other dispositions of Fund assets; the dissolution, liquidation or termination of the Fund or a series or class of shares (except during the six-month period prior to the Termination Date (including as it may be extended)); the issuance of any securities of the Fund to any principal shareholder for cash, except as part of an offering in which the principal shareholder has no special right to participate as compared to other holders of the same class of shares; or any shareholder proposal regarding specific investment decisions (unless the transaction is authorized by both a majority of the trustees and 75% of the Continuing Trustees (in which case no shareholder authorization would be required by the Declaration of Trust, but may be required in certain cases under the 1940 Act)). The Declaration of Trust also requires the affirmative vote or consent of holders of a majority of the trustees and of holders of a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act) to authorize a conversion of the Fund from a closed-end to an open-end investment company, except during the six-month period prior to the Termination Date (including as may be extended). See "Risks—Anti-Takeover Provisions."

The Board of Trustees may from time to time grant other voting rights to shareholders with respect to these and other matters, certain of which are required by the 1940 Act.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. These provisions also provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objectives and policies. The provisions of the Declaration of Trust and By-Laws described above could have the effect of discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The Board of Trustees has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration of Trust and the By-Laws, both of which are on file with the SEC.

The Declaration of Trust contains an express disclaimer of shareholder personal liability for debts or obligations or any other form of personal liability in connection with the property or actions of the Fund.

For the purposes of calculating ‘‘a majority of the outstanding voting securities’’ under the Declaration of Trust, each class and series of the Fund will vote together as a single class, except to the extent required by the 1940 Act or the Declaration of Trust, with respect to any class or series of shares. If a separate class vote is required, the applicable proportion of shares of the class or series, voting as a separate class or series, also will be required.

The Board of Trustees has determined that provisions with respect to the Board of Trustees and the shareholder voting requirements described above, which voting requirements are greater than the minimum requirements under Delaware law or the 1940 Act, are in the best interest of shareholders generally. For a more complete explanation, see the full text of these provisions in the Declaration of Trust, which is on file with the SEC.

Pursuant to the terms of the Declaration of Trust, the Fund will commence the process of liquidation and dissolution at the close of business on the Termination Date, unless extended (as discussed below), except that during the six-month period preceding the Termination Date (or Extended Termination Date), the Board of Trustees may, without shareholder approval unless such approval is required by the 1940 Act, determine to (i) merge or consolidate the Fund with or into one or more trusts or corporations (or series or classes thereof to the extent permitted by law), partnerships, associations, or other business entities so long as the surviving or resulting entity is an open-end investment company that will succeed to or assume the Fund’s registration under the 1940 Act and that is managed by the same investment adviser which serves as the investment adviser to the Fund at that time or is an affiliate of such investment adviser; or (ii) convert the Fund from a closed-end investment company into an open-end registered investment company.

Prior to the commencement of the six-month period preceding the Termination Date, a majority of the Board of Trustees may extend the Termination Date for a period of not more than two years or such shorter time as may be determined (‘‘Extended Termination Date’’), upon a determination that taking actions (i) or (ii) described in the immediately preceding paragraph would not, given prevailing market conditions, be in the best interests of the Fund’s shareholders. The Termination Date may similarly be extended an unlimited number of times by the Board of Trustees prior to the first business day of the sixth month before the next occurring Extended Termination Date.

STRUCTURE OF THE FUND; COMMON SHARE REPURCHASES AND CONVERSION TO OPEN-END FUND

Closed-end Structure

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

However, shares of closed-end investment companies listed for trading on a securities exchange frequently trade at a discount from NAV, but in some cases trade at a premium. The market price may be affected by trading volume of the shares, general market and economic conditions and other factors beyond the control of the closed-end fund. The foregoing factors may result in the market price of the Common Shares being greater than, less than or equal to NAV. The Board of Trustees has reviewed the structure of the Fund in light of its investment objectives and policies and has determined that the closed-end structure is in the best interests of the shareholders. As described below, however, the Board of Trustees will review periodically the trading range and activity of the Common Shares with respect to their NAV, and the Board of Trustees may take certain actions to seek to reduce or eliminate any such discount to NAV. Such actions may include open market repurchases or tender offers for the Common Shares or the possible conversion of the Fund to an open-end fund. There can be no assurance that the Board of Trustees will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to their NAV.

Repurchase of Common Shares and Tender Offers

Shares of closed-end funds frequently trade at a discount to their NAV. Because of this possibility and the recognition that any such discount may not be in the interest of holders of Common Shares, the Board of Trustees might consider from time to time engaging in open-market repurchases, tender offers for shares, or other programs intended to reduce the discount. Notice is hereby given in accordance with Section 23(c) of the 1940 Act that the Fund may purchase at market prices from time to time its Common Shares in the open market. The Fund cannot guarantee or assure, however, that the Board of Trustees will decide to engage in any of these actions. After any consideration of potential actions to seek to reduce any significant market discount, the Board of Trustees may, subject to its fiduciary obligations and compliance with applicable state and Federal laws and the requirements of the principal stock exchange on which the Common Shares are listed, authorize the commencement of a share-repurchase program or tender offer. The size and timing of any such share repurchase program or tender offer will be determined by the Board of Trustees in light of the market discount of the Common Shares, trading volume of the Common Shares, information presented to the Board of Trustees regarding the potential impact of any such share repurchase program or tender offer, and general market and economic conditions. There can be no assurance that the Fund will in fact effect repurchases of or tender offers for any of its Common Shares. The Fund may, subject to its investment limitation with respect to borrowings, incur debt to finance such repurchases or a tender offer or for other valid purposes. Interest on any such borrowings would increase the Fund's expenses and reduce the Fund's net income.

There can be no assurance that repurchases of Common Shares or tender offers, if any, will cause the Common Shares to trade at a price equal to or in excess of their NAV. Nevertheless, the possibility that a portion of the outstanding Common Shares may be the subject of repurchases or tender offers may reduce the spread between market price and NAV that might otherwise exist. In the opinion of the Fund, sellers may be less inclined to accept a significant discount in the sale of their Common Shares if they have a reasonable expectation of being able to receive a price of NAV for a portion of their Common Shares in conjunction with an announced repurchase program or tender offer for the Common Shares.

Although the Board of Trustees believes that repurchases or tender offers may have a favorable effect on the market price of the Common Shares, the acquisition of Common Shares by the Fund will decrease the Managed Assets of the Fund and therefore will have the effect of increasing the Fund's expense ratio and decreasing the asset coverage with respect to any Preferred Shares outstanding. Because of the nature of the Fund's investment objectives, policies and portfolio, the Manager and the Sub-Advisor do not anticipate that repurchases of Common Shares or tender offers should interfere with the ability of the Fund to manage its investments in order to seek its investment objectives, and do not anticipate any material difficulty in borrowing money or disposing of portfolio securities to consummate repurchases of or tender offers for Common Shares, although no assurance can be given that this will be the case.

Conversion to Open-end Fund

The Fund may be converted to an open-end investment company at any time if approved by the holders of the majority of the Fund's shares outstanding and entitled to vote, provided that, unless otherwise required by law, any Preferred Shares that may be issued by the Fund in the future may carry the right to vote separately on such a conversion. It also is possible that a supermajority of Preferred Shares could be required to approve a conversion, or that Preferred Shares may have other rights with respect to a conversion. Any affirmative vote or consent of Common or Preferred Shares holders shall be in addition to the vote or consent of the holders of the shares otherwise required by law or any agreement between the Fund and any national securities exchange. In the event of conversion, the Common Shares would cease to be listed on the NYSE or other national securities exchange. Any Preferred Shares would need to be redeemed and all or portion of any borrowings may need to be repaid upon conversion to an open-end investment company. Shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV, less such redemption charge or contingent deferred sales charge, if any, as might be in effect at the time of a redemption. The Fund would expect to pay all such redemption requests in cash, but would intend to reserve the right to pay redemption requests in a combination of cash or securities. If such partial payment in securities were made, investors may incur brokerage costs in converting such securities to cash. If the Fund were converted to an open-end fund, it is likely that new Common Shares would be sold at NAV plus a sales load.

U.S. FEDERAL INCOME TAX MATTERS

The following is a description of certain U.S. Federal income tax consequences to a shareholder of acquiring, holding and disposing of Common Shares of the Fund. This discussion does not purport to be complete or to deal with all aspects of U.S. Federal income taxation that may be relevant to shareholders in light of their particular circumstances. Unless otherwise noted, this discussion assumes you are a U.S. shareholder and that you hold your shares as a capital asset. The discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may be changed or subject to new interpretations by the courts or the IRS retroactively or prospectively.

The Fund intends to elect to be treated and to qualify to be taxed as a regulated investment company under Subchapter M of the Code, and to satisfy conditions which will enable dividends on Common Shares which are attributable to interest on tax-exempt municipal securities to be exempt from U.S. Federal income tax in the hands of its shareholders, subject to the possible application of the Federal alternative minimum tax.

In order to qualify as a regulated investment company, the Fund must satisfy certain requirements relating to the source of its income, diversification of its assets, and distributions of its income to its shareholders. First, the Fund must derive at least 90% of its annual gross income (including tax-exempt interest) from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock or securities or foreign currencies, 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 and interests in "qualified publicly traded partnerships" (collectively, the "90% gross income test"). Second, the Fund must diversify its holdings so that, at the close of each quarter of its taxable year, (i) at least 50% of the value of its total assets is comprised of cash, cash items, U.S. government securities, securities of other regulated investment companies and other securities limited in respect of any one issuer to an amount not greater in value than 5% of the value of the Fund's total assets and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the total assets is invested in the securities (other than U.S. government securities and securities of other regulated investment companies) of (a) any one issuer, (b) any or two or more issuers controlled by the Fund and engaged in the same, similar or related trades or businesses or (c) any one or more "qualified publicly traded partnerships."

As a regulated investment company, the Fund will not be subject to U.S. Federal income tax on income and gains that it distributes each taxable year to its shareholders, provided that in such taxable year it distributes at least 90% of the sum of (i) its ''investment company taxable income'' (which includes, among other items, dividends, taxable interest, taxable original issue discount and market discount income, income from securities lending, net short-term capital gain in excess of net long-term capital loss, and any other taxable income other than ''net capital gain'' (as defined below) and is reduced by deductible expenses) determined without regard to the deduction for dividends paid, and (ii) its net tax-exempt interest (the excess of its gross tax-exempt interest income over certain disallowed deductions).

In order to avoid a 4% Federal excise tax, the Fund must distribute or be deemed to have distributed by December 31 of each calendar year the sum of 98% of its taxable ordinary income for such year, at least 98.2% of its capital gain net income (the excess of its realized capital gains over its realized capital losses, generally computed on the basis of the one-year period ending on October 31 of such year) and 100% of any taxable ordinary income and capital gain net income for the prior year that was not distributed during such year and on which the Fund paid no U.S. Federal income tax.

The Fund will pay shareholders at least 90% of its net tax-exempt interest and any investment company taxable income in order to qualify as a regulated investment company for U.S. Federal income tax purposes. In addition, the Fund intends to distribute, on an annual basis, all or substantially all of its net tax-exempt interest, taxable net income and capital gains to its shareholders so that the Fund will not be subject to U.S. Federal income or excise taxes.

Distributions by the Fund of investment company taxable income, if any, whether received in cash or additional shares, will be taxable to shareholders as ordinary income (to the extent of the current or accumulated earning and profits of the Fund) and will not qualify for the dividends received deduction in the case of corporate shareholders or as qualified dividend income in the case of non corporate shareholders. In addition, gain realized by the Fund from the disposition of a tax-exempt municipal obligation that is attributable to accrued market discount will be treated as ordinary income rather than capital gain, and thus may increase the amount of ordinary income dividends received by holders of Common Shares. Net long-term capital gains realized by the Fund and distributed to shareholders in cash or additional shares will be taxable to shareholders as long-term capital gains regardless of the length of time investors have owned shares of the Fund. Distributions by the Fund that do not constitute ordinary income dividends, capital gain distributions or exempt-interest dividends (as defined below) will be treated as a return of capital to the extent of (and in reduction of) the shareholder's tax basis in his or her shares. Any excess will be treated as gain from the sale of his or her shares, as discussed below.

If the Fund engages in hedging transactions involving financial futures and options, these transactions will be subject to special tax rules, the effect of which may be to accelerate income to the Fund, defer the Fund's losses, cause adjustments in the holding periods of the Fund's securities, convert long-term capital gains into short-term capital gains and convert short-term capital losses into long-term capital losses. These rules could therefore affect the amount, timing and character of distributions to holders of Common Shares.

Prior to purchasing shares in the Fund, an investor should carefully consider the impact of any taxable dividends which are expected to be or have been declared, but not paid. Any taxable dividend declared shortly after a purchase of such shares prior to the record date will have the effect of reducing the per share NAV by the per share amount of the dividend.

Although dividends generally will be treated as distributed when paid, dividends declared in October, November or December, payable to holders of Common Shares of record on a specified date in one of those months and paid during the following January, will be treated as having been distributed by the Fund (and received by the holders of Common Shares) on December 31.

The Fund intends to qualify to pay ''exempt-interest'' dividends, as defined in the Code, to its Common Shares by satisfying the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consist of tax-exempt municipal bonds. Exempt-interest dividends are dividends paid by the Fund which are attributable to interest on municipal bonds, reduced by certain expenses, and which are so reported designated by the Fund. Exempt-interest dividends will be exempt from U.S. Federal income tax, subject to the possible application of the Federal alternative minimum tax, as discussed below. For any taxable year in which the Fund distributes exempt-interest dividends, it will be unable to claim a deduction against its taxable income for that portion of its otherwise allowable expenses that is allocable (on a *pro rata* basis) to its tax-exempt interest income. Furthermore, it will be unable to deduct any interest expense on indebtedness incurred to purchase or hold tax-exempt municipal bonds.

U.S. Federal income tax law imposes an alternative minimum tax with respect to both corporations and individuals based on certain items of tax preference. To the extent the Fund receives income treated as tax preference items for purposes of the Federal alternative minimum tax, a portion of the dividends paid by it, although otherwise exempt from U.S. Federal income tax, will be taxable to holders of Common Shares to the extent that their tax liability is determined under the Federal alternative minimum tax. Interest on certain "private activity bonds" is an item of tax preference subject to the Federal alternative minimum tax on individuals and corporations. The Fund may invest a portion of its assets in municipal bonds subject to this provision so that a portion of its exempt-interest dividends is an item of tax preference to the extent such dividends represent interest received from these private activity bonds. For corporations, Federal alternative minimum taxable income is increased by 75% of the difference between an alternative measure of income ("adjusted current earnings") and the amount otherwise determined to be the Federal alternative minimum taxable income. Interest on municipal bonds, and therefore all exempt-interest dividends received from the Fund, are included in calculating adjusted current earnings. Accordingly, investment in the Fund could cause a holder of Common Shares to be subject to, or result in an increased liability under, the Federal alternative minimum tax.

The exemption from U.S. Federal income tax for exempt-interest dividends generally does not result in exemption for such dividends under the income or other tax laws of any state or local taxing authority. In some states, however, the portion of any exempt-interest dividends that are derived from interest received by the Fund on its holdings of that state's securities and its political subdivisions and instrumentalities is exempt from the state's income tax. Shareholders of the Fund are advised to consult with their own tax advisors about state and local tax matters.

The Fund will annually supply holders of Common Shares with reports indicating the amount and nature of all income distributed to them as well as the percentage of Fund income attributable to tax preference items subject to the Federal alternative minimum tax.

The IRS' position in a published revenue ruling indicates that the Fund is required to designate distributions paid with respect to its Common Shares and any Preferred Shares as consisting of a portion of each type of income distributed by the Fund. The portion of each type of income deemed received by the holders of each class of shares will be equal to the portion of total Fund dividends received by such class. Thus, the Fund will designate dividends paid as exempt-interest dividends in a manner that allocates such dividends between the holders of the Common Shares and the holders of any Preferred Shares in proportion to the total dividends paid to each such class during or with respect to the taxable year, or otherwise as required by applicable law. Capital gain dividends and ordinary income dividends will similarly be allocated between the two classes.

Exempt-interest dividends are included in determining what portion, if any, of a person's Social Security and railroad retirement benefits will be includable in gross income subject to U.S. Federal income tax.

Although exempt-interest dividends generally may be treated by holders of Common Shares as items of interest excluded from their gross income, each holder is advised to consult his tax advisor with respect to whether exempt-interest dividends retain their exclusion if the shareholder would be treated as a "substantial user," or a "related person" of a substantial user, of the facilities financed with respect to any of the tax-exempt obligations held by the Fund.

The sale of Common Shares normally will result in capital gain or loss to the holders of Common Shares who hold their shares as capital assets. Generally, a shareholder's gain or loss will be long-term capital gain or loss if the shares have been held for more than one year even though the increase in value in such Common Shares is attributable to tax-exempt interest income. Present law taxes both long- and short-term capital gains of corporations at the rates applicable to ordinary income. For non-corporate taxpayers, however, long-term capital gains are currently taxed at a maximum rate of 15% (for taxable years through 2012, unless extended by the U.S. Congress), while short-term capital gains and other ordinary income are currently taxed at a maximum rate of 35%.

In addition, no loss will be allowed on the sale of Common Shares if the shareholder purchases other Common Shares (whether through reinvestment of distributions or otherwise) or the shareholder acquires or enters into a contract or option to acquire shares that are substantially identical to the Common Shares within a period of 61 days beginning 30 days before and ending 30 days after such sale. If disallowed, the loss will be reflected in an adjustment to the basis of the shares acquired. Further, any losses realized on the sale of Common Shares held for six months or less will be disallowed to the extent of any exempt-interest dividends received with respect to such Common Shares and, if not disallowed, such losses will be treated as long-term capital losses to the extent of any capital gain dividends received (or amounts credited as undistributed capital gains) with respect to such Common Shares.

If in any year the Fund should fail to qualify under Subchapter M for tax treatment as a regulated investment company, unless certain cure provisions apply, the Fund would incur a regular corporate U.S. Federal income tax upon its taxable income for that year, and distributions to its shareholders would be taxable to shareholders as ordinary dividend income for U.S. Federal income tax purposes to the extent of the Fund's earnings and profits.

The Fund is required to withhold tax at a rate of 28% (currently scheduled to increase to 31% after 2012) on taxable dividends and certain other payments paid to non-corporate shareholders who have not furnished to the Fund their correct taxpayer identification number (in the case of individuals, their Social Security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against the shareholder's U.S. Federal income tax liability, provided the required information is furnished to the IRS.

The foregoing is a general summary of certain provisions of the Code and regulations thereunder presently in effect as they directly govern the U.S. Federal income taxation of the Fund and its shareholders. These provisions are subject to change by legislative or administrative action, and any such change may be retroactive. Moreover, the foregoing does not address many of the factors that may be determinative of whether an investor will be liable for the Federal alternative minimum tax. Shareholders are advised to consult their own tax advisors for more detailed information concerning the Federal, foreign, state and local tax consequences of purchasing, holding and disposing of Fund shares.

The SAI summarizes further U.S. Federal income tax considerations that may apply to the Fund and its shareholders and may qualify the considerations discussed herein.

Effective January 1, 2014, the Fund will be required to withhold U.S. tax (at a 30% rate) on payments of taxable dividends and (effective January 1, 2015) redemption proceeds made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive new reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts. Shareholders may be requested to provide additional information to the Fund to enable the Fund to determine whether withholding is required.

UNDERWRITING

Subject to the terms and conditions stated in the Fund's underwriting agreement dated June 26, 2012, each underwriter named below, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. are acting as representatives, has severally agreed to purchase, and the Fund has agreed to sell to such underwriter, the number of Common Shares set forth opposite the name of such underwriter.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	10,090,000
Citigroup Global Markets Inc.	1,972,000
Morgan Stanley & Co. LLC	3,950,500
Wells Fargo Securities, LLC	4,270,000
Raymond James & Associates, Inc.	1,358,000
BB&T Capital Markets, a division of Scott & Stringfellow LLC	176,500
J.J.B. Hilliard, W.L. Lyons, LLC	89,500
Janney Montgomery Scott LLC	420,000
Ladenburg Thalmann & Co. Inc.	267,000
Maxim Group LLC	65,500
Wedbush Securities Inc.	215,000
Wunderlich Securities Inc.	139,000
Aegis Capital Corp.	2,000
Barclays Capital Inc.	1,216,500
Brean Murray, Carret & Co., LLC	2,000
Crowell, Weedon & Co.	500
D.A. Davidson & Co.	83,500
DIRECT ACCESS PARTNERS LLC	62,500
Dominick & Dominick LLC	4,000
Gilford Securities Incorporated	9,000
Wayne Hummer Investments L.L.C.	6,500
Huntleigh Securities Corporation	18,500
Newbridge Securities Corporation	50,000
Pershing LLC	94,000
Muriel Siebert & Co., Inc.	25,500
Summit Brokerage Services, Inc.	67,000
J.P. Turner & Company, L.L.C.	51,000
Westminster Financial Securities, Inc.	44,500
Total	24,750,000

The underwriting agreement provides that the obligations of the underwriters to purchase the Common Shares included in this offering are subject to approval of certain legal matters by counsel and certain other conditions. The underwriters are obligated, severally and not jointly, to purchase all the Common Shares sold under the underwriting agreement if any of the Common Shares are purchased.

In the underwriting agreement, the Fund, the Manager and the Sub-Advisor have agreed to jointly and severally indemnify the underwriters against certain liabilities, including liabilities arising under the Securities Act or to contribute to payments the underwriters may be required to make for any of these liabilities.

Commissions and Discounts

The underwriters propose to initially offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Common Shares to certain dealers at the public offering price less a concession not in excess of $.60 per Common Share. The sales load investors in the

Fund will pay of $.90 per Common Shares is equal to 4.5% of the initial offering price. After the initial public offering the concession and discount may be changed. Investors must pay for any Common Shares purchased on or before June 29, 2012.

The following table shows the public offering price, estimated offering expenses, sales load and proceeds, to the Fund. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$20.00	$495,000,000	$563,838,160
Sales load	$.90	$22,275,000	$25,372,717
Estimated offering expenses	$.04	$990,000	$1,127,676
Proceeds, after expenses, to the Fund	$19.06	$471,735,000	$537,337,767

The expenses of the offering are estimated at $.04 per Common Share and are payable by the Fund. The Fund has agreed to pay the underwriters $.00667 per Common Share for each Common Share purchased by the underwriters, as a partial reimbursement of expenses incurred by the underwriters in connection with the offering. The amount the Fund has agreed to pay for the partial reimbursement to the underwriters will not exceed .03335% of the total price to the public of the Common Shares sold in this offering. Offering expenses paid by the Fund may include reimbursement to the Manager or the Sub-Advisor or their affiliates for expenses incurred in connection with the offering. The Manager has agreed to pay all organizational expenses of the Fund and the offering expenses of the Fund (other than the sales load, but inclusive of a $.00667 per Common Share reimbursement of the underwriters' expenses) to the extent that offering expenses (other than the sales load, but inclusive of a $.00667 per Common Share reimbursement of the underwriters' expenses) exceed $.04 per Common Share.

Overallotment Option

The Fund has granted the underwriters an option to purchase up to 3,441,908 additional Common Shares at the public offering price, less the sales load, within 45 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional Common Shares proportionate to that underwriter's initial amount set forth in the table above.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the Common Shares is complete, SEC rules may limit underwriters and selling group members from bidding for and purchasing Common Shares. However, the representatives may engage in transactions that stabilize the price of the Common Shares, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the Common Shares in connection with the offering (*i.e.*, if they sell more Common Shares than are listed on the cover of this prospectus), the representatives may reduce that short position by purchasing Common Shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of the Common Shares sold in this offering for their account may be reclaimed by the syndicate if such Common Shares are repurchased by the syndicate in stabilizing or covering transactions. Purchases of the Common Shares to stabilize their price or to reduce a short position may cause the price of the Common Shares to be higher than it might be in the absence of such purchases.

Neither the Fund nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Shares. In addition, neither the Fund nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Fund has agreed not to offer or sell any additional Common Shares for a period of 180 days after the date of the underwriting agreement without the prior written consent of the underwriters, except for the sale of the Common Shares to the underwriters pursuant to the underwriting agreement.

The Common Shares will be sold so as to ensure that the NYSE distribution standards (*i.e.*, round lots, public shares and aggregate market value) will be met.

Other Relationships

Each of the Manager and the Sub-Advisor has agreed to pay from its own assets to Merrill Lynch, Pierce, Fenner & Smith Incorporated a structuring fee for advice relating to the design and organization of the Fund as well as for services related to the sale and distribution of the Common Shares in an amount equal to 1.15% of the total price to the public of the Common Shares sold in this offering. The total amount of these structuring fee payments to Merrill Lynch, Pierce, Fenner & Smith Incorporated will not exceed 1.15% of the total price to the public of the Common Shares sold in this offering.

Each of the Manager and the Sub-Advisor (and not the Fund) has agreed to pay to each of, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. from its own assets, a structuring fee for advice relating to the structure, design and organization of the Fund as well as services related to the sale and distribution of the Common Shares in the amount of $609,882, $1,175,430, $1,191,974 and $378,750, respectively. If the overallotment option is not exercised, the structuring fee paid to, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. will not exceed .1232%, .2375%, .2408% and .0765%, respectively, of the total price to the public of the Common Shares sold in this offering.

Each of the Manager and the Sub-Advisor (and not the Fund) have agreed to pay Barclays Capital Inc. from its own assets, a sales incentive fee for advice relating to the sale and distribution of the Common Shares in the amount of $271,820. If the overallotment option is not exercised, the sales incentive fee paid to Barclays Capital Inc. will not exceed .0549% of the total price to the public of the Common Shares sold in this offering.

The sum total of all compensation to the underwriters in connection with this offering of the Common Shares will not exceed in the aggregate 6.4183% of the total price to the public of the Common Shares sold in this offering.

Certain of the underwriters also have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with affiliates of the Fund, including the Manager and the Sub-Advisor.

The Fund anticipates that certain underwriters may from time to time act as brokers or dealers in connection with the execution of the Fund's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

The principal business address of Merrill Lynch, Pierce, Fenner & Smith is One Bryant Park, New York, New York 10036. The principal place of business of Citigroup Global Markets Inc. is 388 Greenwich Street, New York, New York 10013. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036. The principal place of business of Wells Fargo Securities, LLC is 375 Park Avenue, New York, New York 10152. The principal place of business of Raymond James & Associates, Inc. is 880 Carillon Parkway, St. Petersburg, Florida 33716.

CUSTODIAN, TRANSFER AGENT AND SUB-ADMINISTRATOR

The custodian of the assets of the Fund is State Street Bank and Trust Company, 1 Lincoln Street, Boston, Massachusetts, 02111. State Street will maintain custody of the securities and cash of the Fund. Custodial fees are charged to the Fund based on the market value of securities of the Fund and the number of certain cash transactions incurred by the Fund. The Fund's transfer agent is Computershare Trust Company, N.A., 250 Royall Street, Canton, Massachusetts, 02021. Pursuant to an agreement with the Manager, State Street provides sub-administration and sub-accounting services to the Fund. These services include calculating the NAV of the Fund, maintain the general ledger and sub-ledger accounts for the calculation of the Fund's NAV, and assisting the Manager in conducting various aspects of the Fund's administrative operations. For providing these services, State Street is compensated by the Manager.

LEGAL OPINIONS

Certain legal matters in connection with the Common Shares will be passed upon for the Fund by Dechert LLP, Washington, DC, and for the Underwriters by Clifford Chance US LLP, New York, NY. Clifford Chance US LLP may rely as to certain matters of Delaware law on the opinion of Dechert LLP.

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Until July 21, 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade the Common Shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

24,750,000 Shares

MainStay DefinedTerm Municipal Opportunites Fund

Common Shares
$20.00 per Share

PROSPECTUS

BofA Merrill Lynch
Citigroup
Morgan Stanley
Wells Fargo Securities
Raymond James
BB&T Capital Markets
J.J.B. Hilliard, W.L. Lyons, LLC
Janney Montgomery Scott
Ladenburg Thalmann & Co. Inc.
Maxim Group LLC
Wedbush Securities Inc.
Wunderlich Securities

June 26, 2012