

PROSPECTUS

**21,000,000 Shares**  
**RMK Strategic Income Fund, Inc.**  
**Common Shares**  
**\$15.00 per share**

*The Fund.* RMK Strategic Income Fund, Inc. (the "Fund") is a newly-organized, diversified, closed-end management investment company. Morgan Asset Management, Inc. (the "Adviser") will serve as the Fund's investment adviser.

*Investment Objectives.* The Fund's primary investment objective is to seek a high level of current income. The Fund seeks capital growth as a secondary investment objective when consistent with its primary investment objective.

*Investment Strategy.* The Fund will seek to achieve its investment objectives by investing in a diversified portfolio of securities that offers attractive yield and capital appreciation potential and consists primarily of debt securities and secondarily of equity securities. The Adviser will continually analyze the markets for income-producing securities and will periodically reallocate the Fund's investments among various fixed-income and equity asset classes and between investment grade and below investment grade securities to pursue its investment objectives. As a result, a majority of the Fund's total assets may be invested in investment grade securities at some times and in below investment grade securities at other times. The Fund will invest in a wide range of debt securities, including corporate bonds, mortgage- and asset-backed securities, municipal and foreign government obligations as well as securities of companies in bankruptcy reorganization proceedings or otherwise in the process of debt restructuring. The Fund will also invest in other securities providing the potential for high income or a combination of high income and capital growth. Because the Fund's investments may be concentrated in below investment grade debt securities, the Fund may be subject to the risks of such securities. Below investment grade debt securities are commonly referred to as "junk bonds" and are considered speculative with respect to an issuer's capacity to pay interest and repay principal. They involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher-rated debt securities.

(continued on following page)

The Fund's investment strategy of potentially investing the majority of its assets in below investment grade securities and its expected use of leverage involve a high degree of risk. Stockholders can lose some or all of their investment. See "Risks" beginning on page 24 of this Prospectus.

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

	Per Share	Total	Total Assuming Full Exercise of Over-Allotment Option <sup>(3)</sup>
Public offering price.....	\$15.000	\$315,000,000	\$362,250,000
Sales load <sup>(1)</sup> .....	\$ 0.675	\$ 14,175,000	\$ 16,301,250
Estimated offering expenses <sup>(2)</sup> .....	\$ 0.050	\$ 1,050,000	\$ 1,207,500
Proceeds to the Fund.....	\$14.275	\$299,775,000	\$344,741,250

<sup>(1)</sup> The Adviser has agreed to pay certain additional compensation to Morgan Keegan & Company, Inc. See "Underwriting."

<sup>(2)</sup> The aggregate expenses of the offering paid by the Fund will be no more than \$1,050,000 (\$1,207,500 assuming full exercise of over-allotment option), which represents \$0.05 per common share issued. The Adviser has agreed to pay all organizational expenses and to pay offering costs (other than sales load) that exceed \$0.05 per common share.

<sup>(3)</sup> The underwriters have the option to purchase up to 3,150,000 additional common shares at the public offering price, less the sales load, within 45 days from the date of this Prospectus to cover over-allotments.

**Morgan Keegan & Company, Inc.**

**Advest, Inc.**  
**Ferris, Baker Watts**  
 Incorporated  
**Oppenheimer**  
**Sterne, Agee & Leach, Inc.**  
  
**C.E. Unterberg, Towbin**

**Legg Mason Wood Walker**  
 Incorporated  
**RBC Capital Markets**  
**Stifel, Nicolaus & Company**  
 Incorporated

**BB&T Capital Markets**  
**McDonald Investments Inc.**  
  
**Stephens Inc.**  
**SunTrust Robinson Humphrey**  
  
**Wedbush Morgan Securities**

The date of this Prospectus is March 18, 2004

MK-14-00000049  
 Confidential Treatment requested by  
 Morgan Keegan and related entities

(continued from cover page)

**No Prior Trading History.** Because the Fund is newly-organized, its shares have no history of public trading. Shares of closed-end management investment companies frequently trade at prices lower than their net asset value. The risk of loss due to this discount may be greater for initial investors expecting to sell their shares in a relatively short period after completion of the initial public offering. The Fund has been authorized to list its shares of common stock ("common shares") on the New York Stock Exchange under the trading or "ticker" symbol "RSF."

**Leverage.** The Fund may use leverage through bank borrowings, reverse repurchase agreements or other transactions involving indebtedness or through the issuance of preferred shares. The Fund currently intends to use leverage through borrowings in an amount equal to approximately 33 1/3% of its total assets (including the amount borrowed). The Fund may vary its use of leverage in response to changing market conditions. The Fund may significantly reduce or cease its use of leverage for a period of time if it determines that the costs of leverage either would exceed the return that it anticipates on the securities purchased with the leverage proceeds or would require investment in securities with a higher risk profile than is desirable. The Fund will not use leverage if it anticipates that a leveraged capital structure would result in a lower return to stockholders than the Fund could obtain over time without leverage. Leverage creates an opportunity for increased income and capital appreciation for stockholders, but at the same time it creates special risks. There can be no assurance that a leveraging strategy will be successful during any period in which it is used. See "Leverage" and "Risks—Leverage Risk."

The underwriters expect to deliver the common shares to purchasers on or about March 23, 2004.

You should read this Prospectus, which contains important information about the Fund that you should know before deciding whether to invest, and retain it for future reference. A Statement of Additional Information, dated March 18, 2004, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus, which means that it is part of this Prospectus for legal purposes. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 42 of this Prospectus, by calling 1-800-564-2113, or by writing to the Fund. You can review and copy documents the Fund has filed at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Call 1-202-942-8090 for information. The Securities and Exchange Commission charges a fee for copies. You can get the same information free from the Securities and Exchange Commission's website (<http://www.sec.gov>). You may also e-mail requests for these documents to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or make a request in writing to the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102.

The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. There can be no assurance that the Fund will achieve its investment objectives.

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**You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not, and the underwriters have not, authorized any person 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 to sell these securities in any jurisdiction where the offer or sale is not permitted. The Fund's business, financial condition and prospects may have changed since the date of this Prospectus.**

Until April 12, 2004 (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 dealer's obligation to deliver a Prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

## PROSPECTUS SUMMARY

*This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's shares of common stock ("common shares"). You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information, especially the information set forth under the heading "Risks" on page 24 of this Prospectus.*

- The Fund** ..... RMK Strategic Income Fund, Inc. (the "Fund") is a newly-organized, diversified, closed-end management investment company. Morgan Asset Management, Inc. (the "Adviser") will serve as the Fund's investment adviser. The Fund's principal office is located at Fifty Front Street, Memphis, Tennessee 38103, and its telephone number is 1-800-564-2113.
- The Offering** ..... The Fund is offering 21,000,000 common shares at an initial public offering price of \$15.00 per share through a group of underwriters (the "Underwriters") led by Morgan Keegan & Company, Inc. ("Morgan Keegan"). An investor must purchase at least 100 common shares (\$1,500) in order to participate in this offering. The Fund has given the Underwriters an option to purchase up to 3,150,000 additional common shares at the public offering price, less the sales load, within 45 days from the date of this Prospectus to cover over-allotments. The Adviser has agreed to pay all organizational expenses and to pay offering costs (other than sales load) that exceed \$0.05 per common share.
- The Fund anticipates that it will limit its offering to 21,000,000 common shares, not including any exercise by the Underwriters of their over-allotment option. See "Underwriting."
- Investment Objectives and Philosophy** ..... The Fund's primary investment objective is to seek a high level of current income. The Fund seeks capital growth as a secondary investment objective when consistent with its primary investment objective. The Fund will seek to achieve these investment objectives by investing in a diversified portfolio that consists primarily of investment grade and below investment grade debt securities and secondarily of dividend-paying equity securities. There can be no assurance that the Fund will achieve its investment objectives.
- The Adviser's philosophy is characterized by a strong commitment to identifying undervalued securities, and the Adviser seeks to apply this value-oriented investment philosophy across all asset categories. The Adviser will manage the Fund opportunistically in relation to individual issuers and strategically in relation to overall market trends, and will focus on those securities believed to offer the most attractive value relative to alternative investments. The Adviser will continually analyze the markets for income-producing securities and will periodically reallocate the Fund's investments among various fixed-income and equity asset classes and between investment grade and below investment grade securities to pursue its investment objectives. The Adviser believes that the opportunity to invest in a diverse set of assets will contribute to improved yield or total return and

a more stable net asset value for the Fund than would result from investment in a single sector of the debt market.

**Investment Policies**.....

The Fund will invest in debt securities that the Adviser believes offer attractive yield and capital appreciation potential. These securities include, but are not limited to, corporate bonds, mortgage- and asset-backed securities, convertible debt securities and municipal and foreign government obligations. These debt securities may be rated investment grade or below investment grade. As a result, at the Adviser's discretion, a majority of the Fund's total assets may be invested in investment grade securities at some times and in below investment grade securities at other times.

Under normal market conditions, the Fund anticipates that it will invest up to 65%, but not less than 25%, of its total assets in investment grade debt securities. Investment grade debt securities are rated higher than Ba3 by Moody's Investors Service, Inc. ("Moody's"), higher than BB+ by Standard & Poor's Ratings Group ("S&P"), comparably rated by another nationally recognized statistical rating organization ("rating agency") or not rated by any rating agency but determined to be of comparable quality by the Adviser.

The Fund anticipates that, under normal market conditions, it will invest up to 65%, but not less than 25%, of its total assets in below investment grade debt securities. Below investment grade debt securities are rated Ba3 or lower by Moody's, BB+ or lower by S&P, comparably rated by another rating agency or not rated by any rating agency but determined to be of comparable quality by the Adviser. Except with respect to 15% of its total assets, the debt securities purchased by the Fund will be rated, at the time of investment, above Ca (or a comparable rating) by at least one rating agency or, if unrated, determined by the Adviser to be of comparable quality. Below investment grade debt securities are commonly referred to as "junk bonds" and are considered speculative with respect to an issuer's capacity to pay interest and repay principal. They involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher-rated debt securities.

Under normal market conditions, the Fund anticipates that it will invest up to 30%, but not less than 5%, of its total assets in domestic and/or foreign equity securities, including common and preferred stocks, securities convertible into equity securities, and rights, warrants and options to purchase any of the foregoing.

The Fund will invest primarily in the securities of United States issuers. However, the Fund may invest up to 15% of total assets in the debt and/or equity securities of companies organized outside of the United States. All foreign securities held by the Fund will be denominated in U.S. dollars.

The Fund may invest up to 15% of its total assets in distressed securities, which include securities: issued by a company in a bankruptcy reorganization proceeding; subject to some other form of public or private debt restructuring; otherwise in default or in significant risk of being in default as to the payment of interest or repayment of principal; or trading at prices substantially below other comparably rated securities of companies in similar industries. Distressed securities are generally rated Ca or lower by Moody's or CC or lower by S&P, comparably rated by another rating agency or are unrated but considered by the Adviser to be of comparable quality.

The Fund may also invest in other securities providing the potential for high income or a combination of high income and capital growth if the Adviser expects to achieve the Fund's objectives with such investments.

In unusual market conditions, the Fund may temporarily invest more assets in short-term debt and cash or cash equivalents as a defensive tactic. To the extent the Fund uses this strategy, it may not achieve its investment objectives.

The Fund will seek to maintain an average effective portfolio maturity of 3 to 15 years.

The Fund's annual portfolio turnover rate may vary greatly from year to year. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 50% under normal circumstances. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. A higher 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 Fund's realization of net short-term capital gains that, when distributed to stockholders, will be taxable as ordinary income. See "The Fund's Investments—Portfolio Turnover" and "Tax Matters."

**Use of Leverage by the Fund . . . . .**

The Fund may use leverage through bank borrowings, reverse repurchase agreements or other transactions involving indebtedness or through the issuance of preferred shares. The Fund currently intends to use leverage through borrowings in an amount equal to approximately 33 1/3% of its total assets (including the amount borrowed). Under the Investment Company Act of 1940, as amended, and the rules and regulations thereunder (the "1940 Act"), the Fund may borrow up to 33 1/3% of its total assets (including the amount borrowed). The Fund may vary its use of leverage in response to changing market conditions. The Fund may significantly reduce or cease its use of leverage for a period of time if it determines that the costs of leverage either would exceed the return that it anticipates on the securities purchased with the leverage proceeds or would require investment in securities with a higher risk profile than is desirable. The Fund will not use leverage if it

anticipates that a leveraged capital structure would result in a lower return to stockholders than the Fund could obtain over time without leverage.

Since the Adviser's fees are based upon a percentage of the Fund's Managed Assets (as defined below), the Adviser's fees will be higher if the Fund is leveraged. Therefore, the Adviser will have a financial incentive to leverage the Fund, which may create a conflict of interest between the Adviser and the holders of the common shares. The Adviser intends to leverage the Fund only when it believes that the potential return on such additional investments is likely to exceed the costs incurred in connection with the leverage. There can be no assurance that a leveraging strategy will be utilized or that it will be successful during any period in which it is used. See "Leverage" and "Risks—Leverage Risk."

**Investment Adviser and  
Administrator .....**

The Adviser will be responsible for the investment of the Fund's portfolio in accordance with the Fund's investment objectives and policies. The Adviser will make all investment decisions for the Fund, subject to oversight by the Fund's Board of Directors (the "Board"). The Fund will pay the Adviser a monthly fee for its investment management services at an annual rate equal to 0.65% of the Fund's average daily total assets (including any assets attributable to any leverage) minus the sum of accrued liabilities other than debt entered into for purposes of leverage ("Managed Assets"). The Adviser will also be responsible for providing certain administrative services for the Fund. The Fund will pay the Adviser a monthly fee at an annual rate equal to 0.15% of the Fund's average daily Managed Assets for those services.

Day-to-day management of the Fund's portfolio will be the responsibility of a team led by James C. Kelsoe, Jr., CFA. Mr. Kelsoe joined the Adviser in 1991 and has been in the investment business since 1986. The team manages two other open-end funds and one closed-end fund that invest primarily in fixed-income securities.

The Adviser, located at 417 North 20th Street, Suite 1500, Birmingham, Alabama 35203, is a wholly-owned subsidiary of MK Holding, Inc., which is a wholly-owned subsidiary of Regions Financial Corporation. Regions Financial Corporation, a publicly-held financial holding company, provides commercial and retail banking and other financial services in the areas of investment banking, asset management, mutual funds, trusts, securities brokerage, insurance, leasing and mortgage banking. The Adviser serves as investment adviser to the \$3.7 billion Regions Morgan Keegan Select family of funds, which consists of two money market funds, five fixed-income funds, six equity funds, one balanced fund and one closed-end fund. The Adviser also oversees \$7 billion in separately managed accounts. The Adviser or its predecessors have been managing assets for

	registered investment companies since 1986. As of December 31, 2003, the Adviser and its affiliates had more than \$17 billion in assets under management.
<b>Distributions</b> .....	<p>The Fund intends to distribute to holders of common shares (“common stockholders”) all or a portion of its net investment income monthly and net realized capital gains, if any, at least annually. The Fund expects that it will commence paying dividends within 90 days of the date of this Prospectus. At times, in order to maintain a stable level of distributions, the Fund may distribute less than all of its net investment income or distribute accumulated undistributed income, if any, in addition to current net investment income.</p> <p>Unless a stockholder elects to receive dividend and capital gain distributions in cash, the distributions will be used to purchase additional common shares of the Fund. See “Distributions—Dividend Reinvestment Plan.”</p>
<b>Listing</b> .....	Currently, there is no public market for the Fund’s common shares. However, the Fund has been authorized to list its common shares on the New York Stock Exchange (“NYSE”) under the trading or “ticker” symbol “RSF.”
<b>Custodian and Transfer Agent</b> .....	The Fund will engage State Street Bank and Trust Company, N.A. (“State Street”) to serve as the Fund’s custodian and EquiServe Trust Company, N.A. and EquiServe, Inc. (collectively, “EquiServe”) to act as the Fund’s transfer agent, registrar, dividend disbursement agent as well as agent for the Fund’s dividend reinvestment plan. See “Custodian and Transfer Agent.”
<b>Market Price of Common Shares</b> ....	Common shares of closed-end management investment companies frequently trade at prices lower than their net asset value. This characteristic is separate and distinct from the risk that the Fund’s net asset value could decrease as a result of investment activities. The Fund cannot assure stockholders that its common shares will trade at a price higher than or equal to net asset value. The Fund’s net asset value will be reduced immediately following this offering by the sales load and the amount of the organization and offering expenses paid by the Fund. Both the net asset value and the market price of the Fund’s common shares may be affected by such factors as leverage, dividends (which are in turn affected by expenses) and dividend stability, portfolio credit quality, liquidity, market supply and demand, and interest rate movements. Stockholders should not purchase common shares if they intend to sell them shortly after purchase. See “Closed-End Fund Structure.”
<b>Risks</b> .....	<i>General.</i> The Fund is a diversified, closed-end management investment company designed primarily as a long-term investment vehicle and not as a trading tool. Because the Fund may invest a significant portion of its assets in below investment grade debt securities, investment in the Fund’s common shares involves a high degree of risk. The Fund should not constitute a



complete investment program for any investor. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objectives.

*Newly Organized.* The Fund is newly organized and therefore has no operating history or history of public trading.

*Investment Risk.* An investment in the Fund is subject to investment risk, including the risk of loss of the entire principal that a stockholder invests. At any point in time the Fund's shares may be worth less than the amount originally paid for them, even after taking into account the reinvestment of dividends and other distributions. An investment in the Fund's common shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably.

*Value Investing Risk.* The Fund focuses its investments on securities that the Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in them. These securities generally are selected on the basis of an issuer's fundamentals relative to current market price. Such securities are subject to the risk of misestimating certain fundamental factors. In addition, during certain time periods, market dynamics may favor "growth" securities over "value" securities. Disciplined adherence to a "value" investment mandate during such periods can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible style mandates.

*Stock Market Risk.* Because the Fund's common shares are expected to be listed on the NYSE and the Fund may invest in stocks of U.S. and foreign companies, it is subject to stock market risk. Stock prices typically fluctuate more than the values of other types of securities such as U.S. government securities and corporate bonds. These fluctuations are typically in response to changes in the particular issuers, financial condition and factors affecting the market in general. For example, unfavorable or unanticipated poor earnings performance of the company may result in a decline in its stock's price, and a broad-based market drop may also cause a stock's price to fall.

The Fund intends to utilize leverage, which magnifies stock market risks. See "Leverage."

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

*Leverage Risk.* Leverage creates an opportunity for an increased return to common stockholders, but it is a speculative technique because it increases the Fund's exposure to capital risk. Unless the income and capital appreciation, if any, on securities acquired with borrowed funds or other leverage proceeds exceed the costs of the leverage, the use of leverage will diminish the Fund's investment performance. There is no assurance that the use of leverage will be successful during any period in which it is used.

Common stockholders will bear the costs of any borrowing. Such costs include interest payments on any borrowings and other fees in connection with borrowing (such as loan syndication fees or commitment and administrative fees in connection with a line of credit).

The Fund might also be required to maintain minimum average balances with a bank lender, which, along with the other fees mentioned above, would increase the cost of borrowing over the stated interest rate. The issuance of preferred shares would involve offering expenses and other costs, including dividend payments, which would be borne by the common stockholders. Fluctuations in interest rates on borrowings and short-term debt or in the dividend rates on any preferred shares issued could reduce cash available for dividends on common shares.

In addition, borrowings pursuant to credit agreements may result in the Fund being subject to certain covenants, such as those relating to asset coverage and portfolio composition, that may affect the Fund's ability to pay dividends and other distributions on common shares in certain instances. The Fund may also be required to pledge its assets to the lenders in connection with certain types of borrowing.

*Interest Rate and Related Risks.* Interest rate risk is the risk that debt securities will decline in value because of changes in market interest rates. Generally, when market interest rates rise, the value of debt securities decline, and vice versa. The Fund's investment in such securities means that the net asset value and market price of the common shares will tend to decline if market interest rates rise. During periods of rising interest rates, the average life of certain types of securities in which the Fund will invest may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Lower-grade securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem a lower-grade obligation if the issuer can refinance the debt at a lower cost due

to declining interest rates or an improvement in the credit standing of the issuer.

*Inflation/Deflation Risk.* Inflation risk is the risk that the value of assets or income from the Fund's investments will be worth less in the future as inflation decreases the present value of payments at future dates. 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 default more likely, which may result in a decline in the value of the Fund's portfolio.

*Below Investment Grade Securities Risk.* Below investment grade debt securities are commonly referred to as "junk bonds." Below investment grade quality securities are considered speculative with respect to an issuer's capacity to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. These securities are less liquid than investment grade securities.

*Mortgage-Backed Securities Risk.* Mortgage-backed securities may have less potential for capital appreciation than comparable fixed-income securities, due to the likelihood of increased prepayments of mortgages as interest rates decline. If the Fund buys mortgage-backed securities at a premium, mortgage foreclosures and prepayments of principal by mortgagors (which usually may be made at any time without penalty) may result in some loss of the Fund's principal investment to the extent of the premium paid. Alternatively, in a rising interest rate environment, the value of mortgage-backed securities may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of mortgage-backed securities may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, mortgage-backed securities are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third-party guarantees or other forms of credit support can reduce the credit risk.

*Asset-Backed Securities Risk.* Payment of interest and repayment of principal on asset-backed securities may be largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds or other credit enhancements. Asset-backed security values may also be affected by the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables or the entities providing the credit enhancement. In addition, these securities may be subject to prepayment risk.

*Corporate Bonds Risk.* The Fund's investments in corporate bonds are subject to a number of the risks described in this Prospectus, including management risk, interest rate risk, inflation risk, deflation risk, below investment grade securities risk, foreign securities risk and illiquid and restricted securities risks.

*Distressed Securities Risk.* Distressed securities frequently do not produce income while they are outstanding. The Fund may be required to incur certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent the Fund seeks capital appreciation through investment in distressed securities, the Fund's ability to achieve current income for its stockholders may be diminished. The Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to distressed securities held by the Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

*Equity Securities Risk.* To the extent that the Fund invests in U.S. and foreign equities, the value of such securities will be affected by changes in the stock markets, which may be the result of domestic or international political or economic news, changes in interest rates or changing investor sentiment. At times, stock markets can be volatile and stock prices can change substantially. The equity securities of smaller companies are more sensitive to these changes than those of larger companies. Equity securities risk will affect the Fund's net asset value per share, which will fluctuate as the value of the securities held by the Fund change.

*Common Stock Risk.* Although common stocks historically have generated higher average returns than fixed-income and other equity securities, common stocks also have experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. Also, the price of common stock is sensitive to general movements in the stock market. A drop in the stock market may depress the price of

common stocks held by the Fund or to which it has exposure. In the event of liquidation, common stockholders have rights to a company's assets after bondholders, other debt holders and preferred stockholders have been satisfied.

*Preferred Stock Risk.* Preferred stock has a preference over common stock in liquidation (and generally a preference as to the payment of dividends as well) but is subordinated to the liabilities of the issuer in all respects. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

*Convertible Securities Risk.* Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed-income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock.

*U.S. Government Securities Risk.* U.S. government securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government securities are generally lower than the yields available from corporate fixed-income securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's net asset value.

*Municipal Securities Risk.* The amount of public information available about the municipal securities in the Fund's portfolio may generally be less than that for corporate equity or debt securities. As a result, to the extent the Fund invests in municipal securities its investment performance may be more dependent on the analytical abilities of the Adviser. The secondary market for municipal securities, particularly below investment grade debt securities in which the Fund may invest, also tends to be less well-developed and less liquid than many

other securities markets, which may adversely affect the Fund's ability to sell these securities from its portfolio at attractive prices. Some municipal securities are supported only by the revenue of a particular project or privately operated facility, and are not supported by the taxing power of any governmental entity.

Municipal securities are also subject to a risk that terrorist attacks could cause substantial loss of life, damage the local economy and damage or destroy significant portions of the municipal infrastructure. These attacks, and measures taken to prevent them, may impose substantial costs on municipal budgets and hinder the issuer's ability to pay interest and repay principal on municipal securities.

*Foreign Securities Risk.* Foreign investments involve risks not typically associated with U.S. investments. These risks include, among others, adverse fluctuations in foreign currency values as well as adverse political, social and economic developments affecting a foreign country. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws and potential difficulties in enforcing contractual obligations. Transactions in foreign securities may be subject to less efficient settlement practices, including extended clearance and settlement periods. Owning foreign securities could cause the Fund's performance to fluctuate more than if it held only U.S. securities. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers.

*Illiquid and Restricted Securities Risks.* Illiquid 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 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 illiquid securities. Illiquid securities are also more difficult to value and the Adviser's judgment may play a greater role in the valuation process. Investment of the Fund's assets in illiquid securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid 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 securities. Restricted securities have contractual restrictions on their public resale, which may make it more difficult to value them, limit the Fund's ability to dispose of them and lower the amount the Fund could realize upon their sale.

*Derivatives Risk.* Even a small investment in derivatives can have a significant impact on the Fund's exposure to fluctuations in interest rates or currency exchange rates. If changes in a

derivative's value do not correspond to changes in the value of the Fund's other investments, the Fund may not fully benefit from or could lose money on the derivative position. In addition, some derivatives involve risk of loss if the person who issued the derivative defaults on its obligation. Certain derivatives may be less liquid and more difficult to value than others.

*Market Disruption Risk.* Some of the U.S. securities markets were closed for a four-day period as a result of the terrorist attacks on the World Trade Center and Pentagon on September 11, 2001. These terrorist attacks, the war in Iraq and its aftermath and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. Those events could also have an acute effect on individual issuers or related groups of issuers. Below investment grade debt securities tend to be more volatile than higher-rated fixed-income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of below investment grade debt securities than on higher-rated fixed-income securities. A similar disruption of financial markets or other terrorist attacks could adversely affect Fund service providers and the Fund's operations as well as interest rates, secondary trading, credit risk, inflation and other factors relating to the Fund's common shares.

*Anti-Takeover Provisions.* The Fund's Articles of Incorporation and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. These provisions may be regarded as "anti-takeover" provisions. Such provisions could limit the ability of stockholders to sell their shares at a premium over the then-current market prices by discouraging a third party from seeking to obtain control of the Fund. See "Certain Anti-Takeover Provisions in the Fund's Articles of Incorporation and By-Laws."

For more information on the risks of investing in the Fund, see "Risks."

## SUMMARY OF FUND EXPENSES

The following table assumes leverage through borrowing or other transactions involving indebtedness in an amount equal to 33⅓% of the Fund's total assets (including the amount borrowed) and shows Fund expenses as a percentage of net assets attributable to the Fund's common shares. Footnote 3 to the table also shows Fund expenses as a percentage of net assets attributable to the Fund's common shares, but assumes that the Fund does not utilize any form of leverage.

### Stockholder Transaction Expense

Sales Load (as a percentage of offering price) .....	4.50%
Expenses Borne by the Fund (as a percentage of offering price) <sup>(1)</sup> ..	0.33%
Dividend Reinvestment Plan Fees <sup>(2)</sup> .....	None

**Percentage of Net Assets  
Attributable to Common Shares  
(assumes leverage is outstanding)**

### Annual Expenses<sup>(3)</sup>

Management Fee .....	0.98%
Interest Payments on Borrowed Funds <sup>(4)</sup> .....	0.95%
Other Expenses <sup>(5)</sup> .....	<u>0.31%</u>
Total Annual Expenses .....	2.24%

<sup>(1)</sup> The Fund will bear expenses in connection with the offering in an amount up to \$0.05 per common share. The Adviser has agreed to pay all organizational expenses and to pay offering costs (other than sales load) that exceed \$0.05 per common share.

<sup>(2)</sup> Stockholders will pay brokerage charges if they direct the plan agent to sell their common shares held in a dividend reinvestment account. See "Distributions—Dividend Reinvestment Plan."

<sup>(3)</sup> The table presented in this footnote estimates what the Fund's annual expenses would be, stated as percentages of the Fund's net assets attributable to common shares; however, unlike the table above, it assumes that the Fund does not utilize any form of leverage, as would be the case, for instance, prior to the Fund's expected borrowing. In accordance with these assumptions, the Fund's expenses would be estimated as follows:

**Percentage of Net Assets  
Attributable to Common Shares  
(assumes no leverage is outstanding)**

### Annual Expenses

Management Fees .....	0.65%
Interest Payments on Borrowed Funds .....	0.00%
Other Expenses .....	<u>0.25%</u>
Total Annual Expenses .....	0.90%

<sup>(4)</sup> Assumes leverage by borrowing in an amount equal to approximately 33⅓% of the Fund's total assets (including the amount borrowed) at an interest rate of 1.90%.

<sup>(5)</sup> "Other Expenses" are estimates based on the Fund's expected first year fiscal operations.

The purpose of the table above and the example below is to help investors understand the fees and expenses that they, as common stockholders, would bear directly or indirectly. As of the date of this Prospectus, the Fund has not commenced investment operations. The Other Expenses shown in the table and related footnote are based on estimated amounts for the Fund's first year of operations unless otherwise indicated and assume that the Fund issues approximately 6,666,667 common shares. If the Fund issues fewer common shares, all other things being equal, these expenses would increase. For additional information with respect to the Fund's expenses, see "Management of the Fund" and "Distributions—Dividend Reinvestment Plan."



**Example:**

As required by the Securities and Exchange Commission ("SEC" or "Commission") regulations, the following example illustrates the expenses (including the sales load of \$45.00 and estimated offering costs, of this offering of \$3.33) that stockholders would pay on a \$1,000 investment in common shares, assuming (1) total annual expenses of 2.24% of net assets attributable to common shares and (2) a 5% annual return:\*

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Total Expenses Incurred .....	\$70	\$116	\$163	\$295

\* The example assumes that the estimated Other Expenses set forth in the fee table are accurate and that all dividends and other distributions are reinvested at net asset value. **The example should not be considered a representation of future expenses. 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 newly-organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Maryland corporation on January 16, 2004. As a newly-organized entity, the Fund has no operating history. The Fund's principal office is located at Fifty Front Street, Memphis, Tennessee 38103, and its telephone number is 1-800-564-2113.

## USE OF PROCEEDS

The net proceeds of this offering will be approximately \$299,775,000 (or approximately \$344,741,250 assuming the Underwriters exercise the over-allotment option in full) after payment of offering costs, which will be no more than \$1,050,000 (\$1,207,500 assuming the Underwriters exercise the over-allotment option in full), and the deduction of the sales load. The Fund will pay its common share offering costs (other than sales load) up to \$0.05 per common share, and the Adviser has agreed to pay all of the Fund's organizational costs and to pay common share offering costs (other than sales load) that exceed \$0.05 per common share. The Fund will invest the net proceeds of the offering in accordance with its investment objectives and policies as stated below. The Fund expects that there will be an initial investment period of up to three months following the completion of this common share offering before it is fully invested in accordance with its investment objectives and policies. Pending such investment, the Fund anticipates that all or a portion of the proceeds will be invested in U.S. government securities or high grade, short-term money market instruments, including shares of money market funds. See "The Fund's Investments."

## THE FUND'S INVESTMENTS

### Investment Objectives

The Fund's primary investment objective is to seek a high level of current income. The Fund seeks capital growth as a secondary investment objective when consistent with its primary investment objective. The Fund makes no assurance that it will achieve its investment objectives.

### Investment Philosophy and Process

The Adviser's philosophy is characterized by a strong commitment to identifying undervalued securities, and the Adviser seeks to apply this value-oriented investment philosophy across all asset categories. The Adviser will manage the Fund opportunistically in relation to individual issuers and

strategically in relation to overall market trends, and will focus on those securities believed to offer the most attractive value relative to alternative investments. The Adviser will continually analyze the markets for income-producing securities and will periodically reallocate the Fund's investments among various fixed-income and equity asset classes and between investment grade and below investment grade securities to pursue its investment objectives. The Adviser believes that the opportunity to invest in a diverse set of assets will contribute to improved yield or total return and a more stable net asset value for the Fund than would result from investments concentrated in a single category of assets.

The Adviser concentrates on identifying specific sectors and securities that present the most attractive combination of current income and principal performance. This "bottom-up" approach generally focuses on "out-of-favor" and/or undervalued sectors and/or issuers. The Adviser's "bottom-up" strategy focuses on identifying special or unusual opportunities where the Adviser decides that the market perception of, or demand for, a credit structure or security has created an undervalued situation. The analytical process concentrates on credit research, instrument structure and covenant protection. Generally, when investing in securities the Adviser will seek to identify issuers and industries that it believes are likely to experience stable or improving conditions. Specific factors considered in the research process may include general industry trends, cash flow generation capacity, asset valuation, other debt maturities, capital availability, collateral value and priority of payments.

### **Investment Policies**

The Fund will seek to achieve its investment objectives by investing in a diversified portfolio of securities that offers attractive yield and capital appreciation potential and consists primarily of debt securities and secondarily of equity securities. These debt securities may be rated investment grade or below investment grade. As a result, at the Adviser's discretion, a majority of the Fund's total assets may be invested in investment grade securities at some times and in below investment grade securities at other times.

Under normal market conditions, the Fund anticipates that it will invest up to 65%, but not less than 25%, of its total assets in investment grade debt securities. Investment grade debt securities are rated higher than Ba3 by Moody's, higher than BB+ by S&P, comparably rated by another rating agency or not rated by any rating agency but determined to be of comparable quality by the Adviser.

The Fund anticipates that, under normal market conditions, it will invest up to 65%, but not less than 25%, of its total assets in below investment grade debt securities, which are securities rated Ba3 or lower by Moody's, BB+ or lower by S&P, comparably rated by another rating agency or not rated by any rating agency but determined to be of comparable quality by the Adviser. Except with respect to 15% of its total assets, the debt securities purchased by the Fund will be rated, at the time of investment, above Ca (or a comparable rating) by at least one rating agency or, if unrated, determined by the Adviser to be of comparable quality.

Under normal market conditions, the Fund anticipates that it will invest up to 30%, but not less than 5%, of its total assets in domestic and/or foreign equity securities, including common and preferred stocks, securities convertible into equity securities, and rights, warrants and options to purchase any of the foregoing.

The Fund may also invest in other securities providing the potential for high income or a combination of high income and capital growth if the Adviser expects to achieve the Fund's objectives with such investments. The Fund may invest 15% of its total assets in foreign debt and/or equity securities and up to 15% of its total assets in distressed securities.

In unusual market conditions, the Fund may temporarily invest more of its assets in short-term debt securities and cash or cash equivalents as a defensive tactic. To the extent the Fund uses this strategy, it may not achieve its investment objectives.

The Fund will seek to maintain an average effective portfolio maturity between 3 and 15 years. Effective maturity is the calculated maturity based on analytical factors that estimate the actual expected return of principal rather than the stated final maturity date of a security. For example, a mortgage-backed security may have a 30-year stated final maturity. However, given the expected periodic principal prepayments of that security, the effective maturity may be 10 years rather than the stated 30 years. The average effective maturity is the dollar-weighted average of effective maturities of the securities in the Fund's portfolio.

The types of debt and other securities in which the Fund may invest include, but are not limited to, the following:

*Below Investment Grade Securities.* The Fund may invest up to 65% of its assets in debt securities that are rated below investment grade. Below investment grade securities are rated Ba3 or lower by Moody's, BB+ or lower by S&P, comparably rated by another rating agency or not rated by any rating agency but determined by the Adviser to be of comparable quality. Except with respect to 15% of its total assets, debt securities purchased by the Fund will be rated, at the time of investment, above Ca (or a comparable rating) by at least one rating agency or, if unrated, determined by the Adviser to be of comparable quality. The ratings of a rating agency represent its opinion as to the quality of securities it undertakes to rate. Ratings are not absolute standards of quality; consequently, securities with the same maturity, duration, coupon, and rating may have different yields.

If a security satisfies the Fund's minimum rating criteria at the time of purchase and is subsequently downgraded below such rating, the Fund will not be required to dispose of such security. If a downgrade occurs, the Adviser will consider what action, including the sale of such security, is in the best interest of the Fund and its stockholders. The Fund's debt securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment in kind and auction rate features.

Since the risk of default is higher for below investment grade securities than investment grade securities, the Adviser's research and credit analysis are an especially important part of managing securities of this type. The Adviser will attempt to identify those issuers of below investment grade securities whose financial condition the Adviser believes is adequate to meet future obligations or has improved or is expected to improve in the future. The Adviser's analysis focuses on relative values based on such factors as interest or dividend coverage, asset coverage, earnings prospects and the experience and managerial strength of the issuer.

*Investment Grade Securities.* Investment grade quality securities are rated higher than Ba3 by Moody's, higher than BB+ by S&P, comparably rated by another rating agency or not rated by any rating agency but determined to be of comparable quality by the Adviser. Moody's deems securities rated in its fourth highest category (Baa) to have speculative characteristics; a change in economic factors could lead to a weakened capacity of the issuer to repay.

*Mortgage-Backed Securities.* Mortgage-backed securities represent direct or indirect participations in, or are secured by and payable from, mortgage loans secured by real property and include single- and multi-class pass-through securities and collateralized mortgage obligations. U.S. government mortgage-backed securities include mortgage-backed securities issued or guaranteed as to the payment of principal and interest (but not as to market value) by Ginnie Mae (also known as the Government National Mortgage Association), Fannie Mae (also known as the Federal National Mortgage Association), Freddie Mac (also known as the Federal Home Loan Mortgage Corporation) or other government-sponsored enterprises. Private issuers issue other mortgage-backed securities. Private issuers are generally originators of and investors in mortgage loans, including savings associations, mortgage bankers, commercial banks, investment bankers and special purpose entities. Payments of principal and interest (but not the market value) of such private mortgage-backed securities may be supported by pools of mortgage loans or other mortgage-backed securities that are guaranteed, directly or indirectly, by the U.S. government or one of its agencies or instrumentalities, or they may be issued without any government guarantee of the underlying

mortgage assets but with some form of non-government credit enhancement. Non-governmental mortgage-backed securities may offer higher yields than those issued by government entities, but may also be subject to greater price changes than governmental issues.

Some mortgage-backed securities, such as collateralized mortgage obligations, make payments of both principal and interest at a variety of intervals; others make semiannual interest payments at a predetermined rate and repay principal at maturity (like a typical bond). Stripped mortgage-backed securities are created when the interest and principal components of a mortgage-backed security are separated and sold as individual securities. In the case of a stripped mortgage-backed security, the holder of the principal-only, or "PO," security receives the principal payments made by the underlying mortgage, while the holder of the interest-only, or "IO," security receives interest payments from the same underlying mortgage.

Mortgage-backed securities are based on different types of mortgages including those on commercial real estate or residential properties. These securities often have stated maturities of up to thirty years when they are issued, depending upon the length of the mortgages underlying the securities. In practice, however, unscheduled or early payments of principal and interest on the underlying mortgages may make the securities' effective maturity shorter than this, and the prevailing interest rates may be higher or lower than the current yield of the Fund's portfolio at the time the Fund receives the payments for reinvestment.

*Asset-Backed Securities.* Asset-backed securities represent direct or indirect participations in, or are secured by and payable from, pools of assets such as, among other things, motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and personal property, and receivables from revolving credit (credit card) agreements or a combination of the foregoing. These assets are securitized through the use of trusts and special purpose corporations. Credit enhancements, such as various forms of cash collateral accounts or letters of credit, may support payments of principal and interest on asset-backed securities. Although these securities may be supported by letters of credit or other credit enhancements, payment of interest and principal ultimately depends upon individuals paying the underlying loans or accounts, which payment may be affected adversely by general downturns in the economy. Asset-backed securities are subject to the same risk of prepayment described below with respect to mortgage-backed securities. The risk that recovery on repossessed collateral might be unavailable or inadequate to support payments, however, is greater for asset-backed securities than for mortgage-backed securities.

*Corporate Bonds.* Corporate bonds are debt obligations issued by corporations. Corporate bonds may be either secured or unsecured. Collateral used for secured debt includes, but is not limited to, real property, machinery, equipment, accounts receivable, stocks, bonds or notes. If a bond is unsecured, it is known as a debenture. Bondholders, as creditors, have a prior legal claim over common and preferred stockholders as to both income and assets of the corporation for the principal and interest due them and may have a prior claim over other creditors if liens or mortgages are involved. Interest on corporate bonds may be fixed or floating, or the bonds may be zero coupons. Interest on corporate bonds is typically paid semi-annually and is fully taxable to the bondholder. Corporate bonds contain elements of both interest-rate risk and credit risk. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates and may also be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the marketplace. Corporate bonds usually yield more than government or agency bonds due to the presence of credit risk.

*Distressed Securities.* The Fund may invest up to 15% of its total assets in distressed securities. Distressed securities are securities: issued by a company in a bankruptcy reorganization proceeding; subject to some other form of public or private debt restructuring; otherwise in default or in significant risk of being in default as to the payment of interest or repayment of principal; or trading at prices substantially below other below investment grade debt securities of companies in similar industries. These are securities generally rated in the lower rating categories (Ca or lower by Moody's or CC or lower by S&P) or are unrated investments considered by the Adviser to be of comparable quality. Under normal market

conditions, the Fund will invest in distressed securities that are producing current income. At times, distressed securities may not produce current income. Although distressed securities are particularly speculative investments, the Adviser believes they provide the opportunity for enhanced income and capital appreciation.

*Equity Securities.* Under normal market conditions, the Fund anticipates that it will invest up to 30%, but not less than 5%, of its total assets in domestic and/or foreign equity securities. The Fund may invest up to 15% of its total assets in foreign debt and/or equity securities. Equity securities in which the Fund may invest include common stocks, preferred stocks and convertible securities (each discussed below). Such securities may include common stocks of real estate investment trusts and utilities, which either are required to and/or customarily distribute a large percentage of their current earnings as dividends.

- *Common Stock.* Common stock represents an equity ownership interest in a corporation, providing voting rights and entitling the holder to a share of the company's success through dividends and/or capital appreciation. In the event of liquidation, common stockholders have rights to company's remaining assets after bondholders, other debt holders, and preferred stockholders have been paid in full. Typically, common stockholders are entitled to one vote per share to elect the company's board of directors (although the number of votes is not always directly proportional to the number of shares owned). Common stockholders also receive voting rights regarding other company matters such as mergers and certain important company policies, such as issuing securities to management. In addition to voting rights, common stockholders sometimes enjoy what are called "preemptive rights." Preemptive rights allow common stockholders to maintain their proportional ownership in the company in the event that the company issues another offering of stock. This means that common stockholders with preemptive rights have the right but not the obligation to purchase as many new shares of the stock as it would take to maintain their proportional ownership in the company.
- *Preferred Stock.* Preferred stock represents an equity ownership interest in a corporation, but generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from liquidation of the company. Some preferred stock also entitles their holders to receive additional liquidation proceeds on the same basis as holders of a company's common stock. Some preferred stock offers a fixed rate of return with no maturity date. Because those preferred stock never mature, they act like long-term bonds, can be more volatile than other types of preferred stock and may have heightened sensitivity to changes in interest rates. Other preferred stock has a variable dividend, generally determined on a quarterly or other periodic basis, either according to a formula based upon a specified premium or discount to the yield on particular U.S. Treasury securities or based on an auction process, involving bids submitted by holders and prospective purchasers of such stocks. Because preferred stock represents an equity ownership interest in a company, its value usually will react more strongly than bonds and other debt instruments to actual or perceived changes in a company's financial condition or prospects or to fluctuations in the equity markets. Preferred stockholders generally have no voting rights or their voting rights are limited to certain extraordinary transactions or events.
- *Convertible Securities.* Convertible securities include bonds, debentures, notes, preferred stocks and other securities that entitle the holder to acquire common stock or other equity securities of the same or a different issuer. Convertible securities have general characteristics similar to both debt and equity securities. A convertible security generally entitles the holder to receive interest or preferred dividends paid or accrued until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to non-convertible debt obligations. Convertible securities rank senior to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a debt obligation. A convertible security may

be subject to redemption at the option of the issuer at a predetermined price. If a convertible security held by the Fund is called for redemption, the Fund would be required to permit the issuer to redeem the security and convert it to underlying common stock, or would sell the convertible security to a third party, which may have an adverse effect on the Fund's ability to achieve its investment objectives. The price of a convertible security often reflects variations in the price of the underlying common stock in a way that non-convertible debt may not. The value of a convertible security is a function of (i) its yield in comparison to the yields of other securities of comparable maturity and quality that do not have a conversion privilege and (ii) its worth if converted into the underlying common stock.

*U.S. Government Securities.* U.S. government securities are those issued or guaranteed by the U.S. government or its agencies or instrumentalities, including U.S. Treasury securities that differ in their interest rates, maturities and times of issuance. Some obligations issued or guaranteed by U.S. government agencies and instrumentalities are supported by the full faith and credit of the U.S. Treasury; others by the right of the issuer to borrow from the Treasury; others by discretionary authority of the U.S. government to purchase certain obligations of the agency or instrumentality; and others only by the credit of the agency or instrumentality. These securities bear fixed, floating or variable rates of interest. While the U.S. government provides financial support to such U.S. government-sponsored agencies and instrumentalities, no assurance can be given that it will always do so since it is not so obligated by law.

*Municipal Obligations.* Municipal obligations generally include debt obligations issued to obtain funds for various public purposes as well as certain industrial development bonds issued by or on behalf of public authorities. Municipal obligations are classified as general obligation bonds, revenue bonds and notes. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable from the revenue derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source but not from the general taxing power. Notes are short-term instruments that are obligations of the issuing municipalities or agencies and are sold in anticipation of a bond sale, collection of taxes or receipt of other revenues. Municipal obligations bear fixed, floating or variable rates of interest. Certain municipal obligations are subject to redemption at a date earlier than their stated maturity pursuant to call options, which may be separated from the related municipal obligations and purchased and sold separately. Because interest on municipal obligations is generally not taxable for federal income tax purposes, municipal securities typically have lower coupon interest rates than comparable fully-taxable instruments. The Fund may also acquire call options on specific municipal obligations to protect it from the issuer of the related municipal obligation redeeming, or other holder of the call option from calling away, the municipal obligation before maturity.

*Foreign Securities.* While the Fund invests primarily in securities of United States issuers, the Fund may invest up to 15% of its total assets in debt and/or equity securities of corporate and governmental issuers located outside the United States, including issuers in developed and emerging markets. Foreign securities include securities issued or guaranteed by companies organized under the laws of countries other than the United States and securities issued or guaranteed by foreign governments, their agencies or instrumentalities and supra-national governmental entities, such as the World Bank. Foreign securities also include U.S. dollar-denominated debt obligations, such as "Yankee Dollar" obligations, of foreign issuers and of supra-national government entities. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign corporations, banks and governments. Foreign securities also may be traded on foreign securities exchanges or in over-the-counter capital markets.

*Illiquid and Restricted Securities.* Illiquid investments are investments that cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Investments currently considered by the Adviser to be illiquid include repurchase agreements not entitling the holder to repayment of principal and payment of interest within seven days, non-government stripped fixed-rate mortgage-backed securities, and over-the-counter options. In the absence of readily available market quotations a committee appointed by the Fund's Board will price illiquid investments at a fair

value as determined in good faith. Valuing illiquid securities typically requires greater judgment than valuing securities for which there is an active trading market. The market price of illiquid 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 illiquid securities. Investment of the Fund's assets in illiquid securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid 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 securities.

The Fund may invest in restricted securities, which are securities that may not be sold to the public without an effective registration statement under the Securities Act of 1933 Act, as amended (the "1933 Act"). The restriction on public sale may make it more difficult to value such securities, limit the Fund's ability to dispose of them and lower the amount the Fund could realize upon their sale. Before they are registered, restricted securities may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. In recognition of the increased size and liquidity of the institutional market for unregistered securities and the importance of institutional investors in the formation of capital, the Commission has adopted Rule 144A under the 1933 Act. Rule 144A is designed to facilitate efficient trading among institutional investors by permitting the sale of certain unregistered securities to qualified institutional buyers. To the extent privately placed securities held by the Fund qualify under Rule 144A and an institutional market develops for those securities, the Fund likely will be able to dispose of the securities without registering them under the 1933 Act. To the extent that institutional buyers become, for a time, uninterested in purchasing these securities, investing in Rule 144A securities could increase the level of the Fund's illiquidity.

*Derivatives.* The Fund may, but is not required to, use various derivatives described below to earn income, facilitate portfolio management and mitigate risks. Such derivatives are generally accepted under modern portfolio management practices and are regularly used by closed-end management investment companies and other institutional investors. Although the Adviser seeks to use the practices to further the Fund's investment objectives, no assurance can be given that these practices will achieve this result. The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments. It may purchase and sell financial futures contracts and options thereon. Moreover, the Fund may enter into various interest rate transactions such as swaps, caps, floors or collars and enter into various currency transactions such as currency forward contracts, currency futures contracts, currency swaps or options on currency or currency futures or credit transactions and credit default swaps. The Fund may also purchase derivative instruments that combine features of several of these instruments. The Fund generally seeks to use derivatives as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Fund's portfolio, protect the value of the Fund's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, protect against changes in currency exchange rates, manage the effective maturity or duration of the Fund's portfolio or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The Fund may use derivatives for non-hedging purposes to enhance potential gain, although no more than 5% of the Fund's net assets will be committed to initial margin and premiums for those positions.

The investment techniques that the Fund may employ include, but are not limited to, the following:

*Reverse Repurchase Agreements.* The Fund may enter into reverse repurchase agreements with respect to its portfolio investments subject to the investment restrictions set forth herein. Reverse repurchase agreements involve the sale of securities held by the Fund with an agreement by the Fund to repurchase the securities at an agreed upon price, date and interest payment. The Fund's use of reverse repurchase agreements involves many of the same risks of leverage described under "Leverage" and "Risks—Leverage Risk" since the proceeds derived from such reverse repurchase agreements may be invested in additional securities. At the time the Fund enters into a reverse repurchase agreement, it may

establish and maintain a segregated account with the custodian containing liquid instruments having a value not less than the repurchase price (including accrued interest). If the Fund establishes and maintains such a segregated account, reverse repurchase agreement will not be considered a borrowing by the Fund; however, under circumstances in which the Fund does not establish and maintain such a segregated account, such reverse repurchase agreement will be considered a borrowing for the purpose of the Fund's limitation on borrowings.

Reverse repurchase agreements involve the risk that the market values of the securities acquired in connection with the reverse repurchase agreements may decline below the prices of the securities the Fund has sold but is obligated to repurchase. Also, reverse repurchase agreements involve the risk that the market values of the securities retained in lieu of sale by the Fund in connection with the reverse repurchase agreements may decline in price. If the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. Also, the Fund would bear the risk of loss to the extent that the proceeds of the reverse repurchase agreement are less than the value of the securities subject to such agreement.

The Fund will enter into reverse repurchase agreements only with parties whose creditworthiness has been reviewed and found satisfactory by the Adviser.

*Repurchase Agreements.* In a repurchase agreement, the Fund purchases a security and simultaneously commits to sell that security back to the original seller at an agreed-upon price. The resale price reflects the purchase price plus an agreed-upon incremental amount that is unrelated to the coupon rate or maturity of the purchased security. As protection against the risk that the original seller will not fulfill its obligation, the securities are held in a separate account at a bank, marked-to-market daily, and maintained at a value at least equal to the sale price plus the accrued incremental amount. While it does not presently appear possible to eliminate all risks from these transactions (particularly the possibility that the value of the underlying security will be less than the resale price, as well as delays and costs to a fund in connection with bankruptcy proceedings), the Fund will engage in repurchase agreement transactions only with parties whose creditworthiness has been reviewed and found satisfactory by the Adviser.

*Defensive and Temporary Investments.* When changing economic conditions and other factors cause the yield difference between lower-rated and higher-rated securities to narrow, the Fund may purchase higher-rated debt instruments if the Adviser believes that the risk of loss of income and principal may be reduced substantially with only a relatively small reduction in yield. In addition, under unusual market or economic conditions or for temporary defensive purposes, the Fund may invest up to 100% of its total assets in securities issued or guaranteed by the U.S. government or its instrumentalities or agencies, short-term debt securities, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by a rating agency or other fixed-income securities deemed by the Adviser to be consistent with a defensive posture, or may hold cash. The yield on such securities may be lower than the yield on lower-rated fixed-income securities.

*Lending of Portfolio Securities.* The Fund may lend its portfolio securities to broker-dealers and banks. Any such loan must be continuously secured by collateral in cash or cash equivalents maintained on a current basis in an amount at least equal to the market value of the securities loaned by the Fund. The Fund would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned, and would also receive an additional return that may be in the form of a fixed fee or a percentage of the collateral. The Fund may pay reasonable fees to persons unaffiliated with the Fund for services in arranging these loans. The Fund would have the right to call the loan and obtain the securities loaned at any time on notice of not more than five business days. The Fund would not have the right to vote the securities during the existence of the loan but would call the loan to permit voting of the securities, if, in the Adviser's judgment, a material event requiring a stockholder vote would otherwise occur before the loan was repaid. In the event of bankruptcy or other default of the borrower, the Fund



could experience both delays in liquidating the loan collateral or recovering the loaned securities and/or incur losses, including possible decline in the value of the collateral or in the value of the securities loaned during the period while the Fund seeks to enforce its rights thereto, possible subnormal levels of income and lack of access to income during this period and expenses of enforcing its rights.

### **Portfolio Turnover**

The Fund's annual portfolio turnover rate may vary greatly from year to year. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is not expected to exceed 50% under normal circumstances. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund. A higher 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 Fund's realization of net short-term capital gains that, when distributed to stockholders, will be taxable as ordinary income. See "Tax Matters."

### **LEVERAGE**

The Fund may use leverage through bank borrowings, reverse repurchase agreements or other transactions involving indebtedness or through the issuance of preferred shares. The Fund currently intends to borrow an amount equal to approximately 33⅓% of its total assets (including the amount borrowed). The Fund may vary its use of leverage in response to changing market conditions. The Fund may significantly reduce or cease its use of leverage for a period of time if it determines that the costs of leverage either would exceed the return that it anticipates on the securities purchased with the leverage proceeds or would require investment in securities with a higher risk profile than is desirable. The Fund will not use leverage if it anticipates that a leveraged capital structure would result in a lower return to stockholders than the Fund could obtain over time without leverage. The Fund may also borrow up to an additional 5% of its total assets (not including the amount so borrowed) for temporary purposes, including the settlement and clearance of securities transactions, which otherwise might require untimely dispositions of Fund securities. The Fund may borrow from affiliates of the Adviser, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.

The Fund may borrow from banks and other financial institutions or through reverse repurchase agreements or other transactions involving indebtedness. In a reverse repurchase agreement, the Fund sells securities to a bank, securities dealer or one of their respective affiliates and agrees to repurchase such securities on demand or on a specified future date and at a specified price. Reverse repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver them when the Fund seeks to repurchase such securities. If the buyer of the securities under the reverse repurchase agreement files for bankruptcy or becomes insolvent, the buyer or a trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending that decision. See "The Fund's Investments—Investment Policies—Reverse Repurchase Agreements."

Under the 1940 Act, the Fund is not permitted to borrow or otherwise incur indebtedness constituting senior securities unless immediately thereafter the Fund has total assets (including the proceeds of the indebtedness) at least equal to 300% of the amount of the indebtedness. Stated another way, the Fund may not borrow for investment purposes more than 33⅓% of its total assets, including the amount borrowed. The Fund also must maintain this 300% "asset coverage" for as long as the indebtedness is outstanding. The 1940 Act provides that the Fund may not declare any cash dividend or other distribution on its shares, or purchase any of its shares of capital stock (through tender offers or otherwise), unless it would satisfy this 300% asset coverage after deducting the amount of the dividend, other distribution or share purchase price, as the case may be.

The 1940 Act imposes a similar 200% asset coverage requirement with respect to any preferred shares that the Fund may issue. Immediately after any such issuance, the Fund's total assets (including the

proceeds from the issuance of the preferred shares and of any indebtedness constituting senior securities) must be at least equal to 200% of the liquidation value of the outstanding preferred shares (*i.e.*, such liquidation value may not exceed 50% of the Fund's total assets, including the proceeds from the issuance of the preferred shares and of any outstanding indebtedness constituting senior securities). Following the issuance of preferred shares, the Fund would not be permitted to declare any cash dividend or other distribution on the common shares or purchase any of the common shares (through tender offers or otherwise), unless it would satisfy this 200% asset coverage after deducting the amount of the dividend, other distribution, or share purchase price, as the case may be. If the Fund were to have senior securities in the form of both indebtedness and preferred shares outstanding at the same time, it would be subject to the 300% asset coverage requirement with respect to the amount of the indebtedness and the 200% asset coverage requirement with respect to the preferred shares.

If preferred shares are outstanding, the holders of the preferred shares, voting separately as a class, would elect two of the Fund's directors. Holders of common shares and preferred shares voting together as a single class would elect the remaining directors of the Fund. In the unlikely event the Fund failed to pay dividends on preferred shares for two years or failed to make payments on senior securities, holders of preferred shares and, under certain circumstances, the holders of any senior securities that are in default, would be entitled to elect a majority of the directors of the Fund. The failure to pay dividends or make other distributions could result in the Fund's ceasing to qualify for treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended ("Code"), which could have a material adverse effect on the value of the common shares.

The issuance of preferred shares by the Fund would involve offering expenses and other costs, including dividend payments, which would be borne by the Fund's common stockholders. In addition, the terms of any borrowing, other Fund indebtedness or preferred shares issued by the Fund may impose asset coverage requirements, dividend limitations and voting right requirements on the Fund that are more stringent than those imposed under the 1940 Act. Such terms may also impose special restrictions on the Fund's portfolio composition or on its use of various investment techniques or strategies.

Although leverage creates an opportunity for increased income and capital appreciation for stockholders, at the same time it creates special risks. Leverage will increase the Fund's exposure to capital risk. Successful use of leverage depends on the Adviser's ability to predict correctly interest rates and market movements and the Fund's continued access to bank borrowings, reverse repurchase agreements or other vehicles for leverage on favorable terms. There is no assurance that the use of a leveraging strategy will be successful during any period in which it is used.

The premise underlying the use of leverage is that the costs of leveraging generally will be based on short-term rates, which normally will be lower than the return (including the potential for capital appreciation) that the Fund can earn on the longer-term portfolio investments that it makes with the proceeds obtained through the leverage. Thus, the stockholders would benefit from an incremental return. However, if the differential between the return on the Fund's investments and the cost of leverage were to narrow, the incremental benefit would be reduced and could be eliminated or even become negative. Furthermore, if long-term rates rise, the net asset value of the Fund's common shares will reflect the resulting decline in the value of a larger aggregate amount of portfolio assets than the Fund would hold if it had not leveraged. Thus, leveraging exaggerates changes in the value and in the yield on the Fund's portfolio. This, in turn, may result in greater volatility of both the net asset value and the market price of the common shares.

To the extent the income or capital appreciation derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return will be greater than if leverage had not been used. Conversely, if the income or capital appreciation from the securities purchased with such funds is not sufficient to cover the cost of leverage, the Fund's return will be less than if leverage had not been used, and therefore the amount available for distribution to stockholders as dividends and other distributions will be reduced. Nevertheless, the Adviser may determine to maintain the Fund's leveraged

position if it deems such action to be appropriate under the circumstances. As discussed under "Management of the Fund," the fees payable to the Adviser for investment management and administrative services during periods in which the Fund is using leverage will be higher than when it is not doing so because the fees are calculated as a percentage of Managed Assets, which include assets purchased with leverage.

### Effects of Leverage

Assuming borrowings in the amount of approximately 33 1/3% of the Fund's total assets (including the amount borrowed), and an annual interest rate of 1.90% payable on such leverage based on market rates as of the date of this Prospectus, the annual return that the Fund's portfolio must experience (net of expenses) in order to cover those interest payments would be 0.63%.

The following table is designed to illustrate the effect of the foregoing level of leverage on the return to a stockholder, assuming hypothetical annual returns (net of expenses) of the Fund's portfolio of -10% to 10%. As the table shows, the leverage generally increases the return to stockholders when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed Portfolio Return (net of expenses) . .	(10.00)%	(5.00)%	0.00%	5.00%	10.00%
Corresponding Common Share Return . . . . .	(15.95)%	(8.45)%	(0.95)%	6.55%	14.05%

During the time in which the Fund is utilizing leverage, the amount of the fees paid to the Adviser for investment management and administrative services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's Managed Assets. Therefore, the Adviser will have a financial incentive to leverage the Fund, which may create a conflict of interest between the Adviser and the common stockholders. Because payments on any borrowings and/or dividends on any preferred shares would be paid by the Fund at a specified rate, only the Fund's common stockholders would bear the Fund's fees and expenses.

Until the Fund incurs indebtedness or issues preferred shares, the Fund's common shares will not be leveraged, and the risks and special considerations related to leverage described in this Prospectus will not apply. Any benefits of leverage cannot be fully achieved until the proceeds resulting from the use of leverage have been invested in accordance with the Fund's investment objectives and policies. The Fund's willingness to use leverage and the extent to which it uses it at any time will depend on many factors, the most important of which are investment outlook, market conditions and interest rates. For further information about leveraging, see "Risks—Leverage Risk."

### RISKS

*General.* The Fund is a diversified, closed-end management investment company designed primarily as a long-term investment vehicle and not as a trading tool. Because the Fund invests primarily in below investment grade debt securities, an investment in the Fund's common shares involves a high degree of risk. The Fund should not constitute a complete investment program for any investor. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objectives.

*Newly Organized.* The Fund is newly organized and therefore has no operating history or history of public trading.

*Investment Risk.* An investment in the Fund is subject to investment risk, including the risk of loss of the entire principal that a stockholder invests. At any point in time the Fund's shares may be worth less than the amount originally paid for them, even after taking into account the reinvestment of dividends and other distributions. An investment in the Fund's common shares represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably.

*Value Investing Risk.* The Fund focuses its investments on securities that the Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in them. These securities generally are selected on the basis of an issuer's fundamentals relative to current market price. Such securities are subject to the risk of misestimation of certain fundamental factors. In addition, during certain time periods, market dynamics may favor "growth" securities over "value" securities. Disciplined adherence to a "value" investment mandate during such periods can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible style mandates.

*Stock Market Risk.* Because the Fund's common shares are expected to be listed on the NYSE and the Fund may invest in stocks of U.S. and foreign companies, it is subject to stock market risk. Stock prices typically fluctuate more than the values of other types of securities such as U.S. government securities and corporate bonds. These fluctuations are typically in response to changes in the particular issuer's financial condition and factors affecting the market in general. For example, unfavorable or unanticipated poor earnings performance of the company may result in a decline in its stock's price, and a broad-based market drop may also cause a stock's price to fall. The Fund intends to utilize leverage, which magnifies stock market risks. See "Leverage Risk" below.

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

*Leverage Risk.* Borrowings or other transactions involving Fund indebtedness (other than for temporary or emergency purposes) and any preferred shares issued by the Fund all would be considered "senior securities" for purposes of the 1940 Act and would constitute leverage. Leverage creates an opportunity for an increased return to stockholders, but it is a speculative technique in that it will increase the Fund's exposure to capital risk. Unless the income and capital appreciation, if any, on securities acquired with borrowed funds or other leverage proceeds exceed the cost of the leverage, the use of leverage will diminish the Fund's investment performance. Successful use of leverage depends on the Adviser's ability to predict correctly interest rates and market movements, and there is no assurance that the use of a leveraging strategy will be successful during any period in which it is used.

Capital raised through leverage will be subject to interest costs or dividend payments, which could exceed the income and appreciation on the securities purchased with the proceeds of the leverage. The Fund may also be required to pay fees in connection with borrowings (such as loan syndication fees or commitment and administrative fees in connection with a line of credit), and it might be required to maintain minimum average balances with a bank lender, either of which would increase the cost of borrowing over the stated interest rate. The issuance of preferred shares by the Fund would involve offering expenses and other costs, including dividend payments, which would be borne by the common stockholders. Fluctuations in interest rates on borrowings and short-term debt or in the dividend rates on any preferred shares issued could reduce cash available for dividends on common shares. Increased operating costs, including the financing cost associated with any leverage, may reduce the Fund's total return.

The terms of any borrowing, other indebtedness or preferred shares issued by the Fund may impose asset coverage requirements, dividend limitations and voting right requirements on the Fund that are more stringent than those imposed under the 1940 Act. Such terms may also impose special restrictions on the Fund's portfolio composition or on its use of various investment techniques or strategies. The Fund may be further limited in any of these respects by guidelines established by any rating agencies that issue ratings for debt securities or preferred shares issued by the Fund. These requirements may have an adverse effect on the Fund. For example, limitations on the Fund's ability to pay dividends or make other distributions could impair its ability to maintain its qualification for treatment as a regulated investment company for federal tax purposes. To the extent necessary, the Fund intends to repay indebtedness or to purchase or

redeem preferred shares to maintain the required asset coverage. Doing so may require the Fund to liquidate portfolio securities at a time when it would not otherwise be desirable to do so. Nevertheless, it is not anticipated that the 1940 Act requirements, the terms of any senior securities or the rating agency guidelines will impede the Adviser in managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. For additional information about leverage, see "Leverage."

*Interest Rate and Related Risks.* The value of the Fund's portfolio is subject to interest rate risk. Interest rate risk is the risk that debt securities will decline in value because of changes in market interest rates. Generally, when market interest rates rise, the value of debt securities decline, and vice versa. The Fund's investment in such securities means that the net asset value and market price of the common shares will tend to decline if market interest rates rise. During periods of rising interest rates, the average life of certain types of securities in which the Fund will invest may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Lower-grade securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem a lower-grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.

*Inflation/Deflation Risk.* The value of the Fund's portfolio is subject to both inflation and deflation risk. Inflation risk is the risk that the value of assets or income from the Fund's investments will be worth less in the future as inflation decreases the present value of payments at future dates. 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 default more likely, which may result in a decline in the value of the Fund's portfolio.

*Below Investment Grade Securities Risk.* Below investment grade securities are subject to the following risks, among others:

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a below investment grade issuer to make principal payments and interest payments than an investment grade issuer. The principal amount of below investment grade securities outstanding has proliferated in the past decade as an increasing number of issuers have used below investment grade debt securities for corporate financing. An economic downturn could adversely affect the ability of highly leveraged issuers to service their obligations or to repay their obligations upon maturity.

Similarly, downturns in profitability in specific industries could adversely affect the ability of below investment grade issuers in those industries to meet their obligations. The market values of lower quality securities tend to reflect individual developments of the issuer to a greater extent than do higher quality securities, which react primarily to fluctuations in the general level of interest rates.

The secondary market for below investment grade securities may not be as liquid as the secondary market for more highly rated securities, a factor that may have an adverse effect on the Fund's ability to dispose of a particular security when necessary to meet its liquidity needs. There are fewer dealers in the market for below investment grade securities than investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse change in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower-rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's net asset value.

Since investors generally perceive that there are greater risks associated with lower quality securities of the type in which the Fund may invest a portion of its assets, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. In the lower quality segments of the debt securities market, changes in perceptions of issuers' creditworthiness tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the debt securities market, resulting in greater yield and price volatility.

Factors having an adverse impact on the market value of below investment grade securities may have an adverse effect on the Fund's net asset value and the market value of its common shares. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in payment of principal or interest on its portfolio holdings. In certain circumstances, the Fund may be required to foreclose on an issuer's assets and take possession of its property or operations. In such circumstances, the Fund would incur additional costs in disposing of such assets and potential liabilities from operating any business acquired.

***Mortgage-Backed Securities Risk.*** Mortgage-backed securities may have less potential for capital appreciation than comparable fixed-income securities, due to the likelihood of increased prepayments of mortgages as interest rates decline. If the Fund buys mortgage-backed securities at a premium, mortgage foreclosures and prepayments of principal by mortgagors (which usually may be made at any time without penalty) may result in some loss of the Fund's principal investment to the extent of the premium paid. A mortgage-backed security's stated maturity may be shortened by unscheduled prepayments on the underlying mortgages, and, therefore, it is not possible to predict accurately the security's return to the Fund. Moreover, with respect to certain stripped mortgage-backed securities, if the underlying mortgage securities experience greater than anticipated prepayments of principal, the Fund may fail to fully recoup its initial investment. In a rising interest rate environment, the value of mortgage-backed securities may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of mortgage-backed securities may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, mortgage-backed securities are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third-party guarantees or other forms of credit support can reduce the credit risk.

***Asset-Backed Securities Risk.*** Payment of interest and repayment of principal on asset-backed securities may be largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds or other credit enhancements. Asset-backed security values may also be affected by the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables or the entities providing the credit enhancement. In addition, the underlying assets are subject to prepayments that shorten the securities' weighted average maturity and may lower their return.

***Corporate Bonds Risk.*** The Fund's investments in corporate bonds are subject to a number of risks described in the Prospectus, including management risk, interest rate risk, inflation risk, deflation risk, below investment grade debt securities risk, foreign securities risk and illiquid and restricted securities risks.

***Distressed Securities Risk.*** Distressed securities frequently do not produce income while they are outstanding. The Fund may be required to bear certain extraordinary expenses in order to protect and recover its investment in certain distressed securities. Therefore, to the extent the Fund seeks capital growth through investment in distressed securities, the Fund's ability to achieve current income for its stockholders may be diminished. The Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In

addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to distressed securities held by the Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

*Equity Securities Risk.* To the extent that the Fund invests in U.S. and foreign equity securities, the value of such securities will be affected by changes in the stock markets, which may be the result of domestic or international political or economic news, changes in interest rates or changing investor sentiment. At times, stock markets can be volatile and stock prices can change substantially. Equity securities risk will affect the Fund's net asset value per share, which will fluctuate as the value of the securities held by the Fund change. Not all stock prices change uniformly or at the same time and not all stock markets move in the same direction at the same time. Other factors affect a particular stock's prices, such as poor earnings reports by an issuer, loss of major customers, major litigation against an issuer or changes in governmental regulations affecting an industry. Adverse news affecting one company can sometimes depress the stock prices of all companies in the same industry. Not all factors can be predicted.

- *Common Stock Risk.* Although common stocks historically have generated higher average returns than fixed-income and other equity securities, common stocks also have experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Fund. Also, the price of common stock is sensitive to general movements in the stock market. A drop in the stock market may depress the price of common stocks held by the Fund or to which it has exposure. In the event of liquidation, common stockholders have rights to a company's assets after bondholders, other debt holders, and preferred stockholders have been satisfied.
- *Preferred Stock Risk.* Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuer in all respects. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.
- *Convertible Securities Risk.* Convertible securities generally have less potential for gain or loss than common stocks. Convertible securities generally provide yields higher than the underlying common stocks, but generally lower than comparable nonconvertible securities. Because of this higher yield, convertible securities generally sell at prices above their "conversion value," which is the current market value of the stock to be received upon conversion. The difference between this conversion value and the price of convertible securities will vary over time depending on changes in the value of the underlying common stocks and interest rates. When the underlying common stocks decline in value, convertible securities will tend not to decline to the same extent because of the interest or dividend payments and the repayment of principal at maturity for certain types of convertible securities. However, securities that are convertible other than at the option of the holder generally do not limit the potential for loss to the same extent as securities convertible at the option of the holder. When the underlying common stocks rise in value, the value of convertible securities may also be expected to increase. At the same time, however, the difference between the market value of convertible securities and their conversion value will narrow, which means that the value of convertible securities will generally not increase to the same extent as the value of the underlying common stocks. Because convertible securities may also be interest rate sensitive, their value may

increase as interest rates fall and decrease as interest rates rise. Convertible securities are also subject to credit risk, and are often lower-quality securities.

*U.S. Government Securities Risk.* U.S. government securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government securities are generally lower than the yields available from corporate fixed-income securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's net asset value. Since the magnitude of these fluctuations will generally be greater at times when the Fund's average maturity is longer, under certain market conditions the Fund may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

*Municipal Securities Risks.* The amount of public information available about the municipal securities in the Fund's portfolio may generally be 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 Adviser as a result. The secondary market for municipal securities, particularly below investment grade debt securities in which the Fund may invest, also tends to be less well-developed and less liquid than many other securities markets, which may adversely affect the Fund's ability to sell these securities from its portfolio at attractive prices. Some municipal securities are supported only by the revenue of a particular project or privately operated facility, and are not supported by the taxing power of any governmental entity.

Municipal securities are also subject to a risk that terror attacks could result in substantial loss of life, damage the local economy and damage or destroy significant portions of the municipal infrastructure. Businesses that leave an affected area in the wake of such an attack may not return, and economic activity may slow if tourists and local consumers avoid the affected city. These events could severely affect the tax base of a particular issuer of municipal securities and could damage or destroy a facility whose revenues support the payment of particular municipal securities. These attacks, and measures taken to prevent them, may also impose substantial overtime costs on municipal budgets.

*Foreign Securities Risk.* Foreign investments involve risks not typically associated with U.S. investments. These risks include, among others, adverse fluctuations in foreign currency values, adverse political, social and economic developments affecting a foreign country, restrictions on receiving the investment proceeds from a foreign country, foreign tax laws and potential difficulties in enforcing contractual obligations. Transactions in foreign securities may also be subject to less efficient settlement practices, including extended clearance and settlement periods. Owning foreign securities could cause the Fund's performance to fluctuate more than if it held only U.S. securities. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers.

*Illiquid and Restricted Securities Risks.* Illiquid 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 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 illiquid securities. Illiquid securities are also more difficult to value and the Adviser's judgment as to value will often be given greater weight than market quotations, if any exist. If market quotations are not available, illiquid securities will be valued in accordance with procedures established by the Fund's Board, including the use of outside pricing services. Investment of the Fund's capital in illiquid securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid 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 securities.

Restricted securities have contractual restrictions on their public resale, which may make it more difficult to value them, may limit the Fund's ability to dispose of them and may lower the amount the



Fund could realize upon their sale. To enable the Fund to sell its holdings of a restricted security not registered under the 1933 Act, the Fund may have to cause those securities to be registered. The expenses of registering restricted securities may be negotiated by the Fund with the issuer at the time the Fund buys the securities. When the Fund must arrange registration because the Fund wishes to sell the security, a considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that the Fund could sell it. The Fund would bear the risks of any downward price fluctuation during that period.

*Derivatives Risk.* Even a small investment in derivatives can have a significant impact on the Fund's exposure to fluctuations in interest rates or currency exchange rates. There may be an imperfect correlation between the values of such instruments and the underlying assets. If changes in a derivative's value do not correspond to changes in the value of the Fund's other investments, the Fund may not fully benefit from or could lose money on the derivative position. In addition, some derivatives involve risk of loss if the person who issued the derivative defaults on its obligation. Moreover, certain derivatives may be less liquid and more difficult to value than others. Furthermore, the ability to successfully use derivatives depends on Adviser's ability to predict pertinent market movements, which cannot be assured. Thus, the use of derivatives 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. The use of currency transactions can result in the Fund incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Fund to deliver or receive a specified currency. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to derivatives are not otherwise available to the Fund for investment purposes.

*Market Discount Risk.* Shares of closed-end management investment companies frequently trade at prices lower than their net asset value. This is commonly referred to as "trading at a discount." This characteristic of shares of closed-end management investment companies is a risk separate and distinct from the risk that the Fund's net asset value may decrease. This risk may be greater for stockholders who sell their shares within a relatively short period after completion of the public offering. Accordingly, the Fund is designed primarily for long-term investors and should not be considered a vehicle for trading purposes.

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

*Market Disruption Risk.* Some of the U.S. securities markets were closed for a four-day period as a result of the terrorist attacks on the World Trade Center and Pentagon on September 11, 2001. These terrorist attacks, the war in Iraq and its aftermath and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. Those events could also have an acute effect on individual issuers or related groups of issuers. Below investment grade debt securities tend to be more volatile than higher-rated fixed-income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of below investment grade debt securities than on higher-rated fixed-income securities. A similar disruption of financial markets or other terrorist attacks could adversely affect Fund service providers and the Fund's operations as well as interest rates, secondary trading, credit risk, inflation and other factors relating to the Fund's common shares.

*Anti-Takeover Provisions.* The Fund's Articles of Incorporation and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. These provisions may be regarded as "anti-takeover" provisions. Such provisions could limit the ability of stockholders to sell their shares at a premium over the then-current market prices by discouraging a third party from seeking to obtain control of the Fund. See "Certain Anti-Takeover Provisions in the Fund's Articles of Incorporation and By-Laws."

## MANAGEMENT OF THE FUND

### Directors and Officers

The Fund's Board provides broad supervision over the affairs of the Fund, including supervision of the duties performed by the Adviser. The officers of the Fund are responsible for the Fund's operations. The names and business addresses of the directors and officers of the Fund, together with their principal occupations and other affiliations during the past five years, are set forth in the Statement of Additional Information.

### Investment Adviser and Administrator

Pursuant to an advisory agreement dated March 18, 2004, the Adviser will provide the Fund with investment research and advice and furnish the Fund with an investment program consistent with the Fund's investment objectives and policies, subject to the supervision of the Fund's Board. The Adviser will determine which portfolio securities will be purchased or sold, arrange for the placing of orders for the purchase or sale of portfolio securities, select brokers or dealers to place those orders, maintain books and records with respect to the Fund's securities transactions and report to the Board on the Fund's investments and performance. Pursuant to a separate administration agreement dated March 18, 2004, the Adviser will provide facilities, equipment and personnel to the Fund as well as certain stockholder, stockholder-related and other services.

Day-to-day management of the Fund's portfolio will be the responsibility of a team led by James C. Kelsoe, Jr., CFA. Mr. Kelsoe joined Morgan Keegan in 1991 and has been in the investment business since 1986. He received a B.S. in Finance from the University of Alabama in 1986. He also is the portfolio manager for two open-end funds, Regions Morgan Keegan Select High Income Fund and Regions Morgan Keegan Select Intermediate Bond Fund, and one closed-end fund, RMK High Income Fund, Inc.

The Adviser, located at 417 North 20th Street, Suite 1500, Birmingham, Alabama 35203, is a wholly-owned subsidiary of MK Holding, Inc., which is a wholly-owned subsidiary of Regions Financial Corporation. Regions Financial Corporation, a publicly-held financial holding company, provides traditional commercial and retail banking services and other financial services in the areas of investment banking, asset management, mutual funds, trusts, securities brokerage, insurance, leasing and mortgage banking. The Adviser serves as investment adviser to the \$3.7 billion Regions Morgan Keegan Select family of funds, which consists of two money market funds, five fixed-income funds, six equity funds, one balanced fund and one closed-end fund. The Adviser also oversees \$7 billion in separately managed accounts. The Adviser or its predecessors have been managing assets for registered investment companies since 1986. As of December 31, 2003, the Adviser and its affiliates had more than \$17 billion in assets under management.

### Compensation and Expenses

Under the advisory agreement, the Fund will pay to the Adviser monthly, as compensation for the services rendered and expenses paid by it, a fee equal on an annual basis to 0.65% of the Fund's average daily Managed Assets. Under the administration agreement, the Fund will pay to the Adviser monthly, as compensation for the services rendered and expenses paid by it, a fee equal on an annual basis to 0.15% of

the Fund's average daily Managed Assets. Because each fee to be paid to the Adviser is determined on the basis of the Fund's Managed Assets, the Adviser's interest in determining whether to leverage the Fund may differ from the interests of the Fund.

The Fund's average daily Managed Assets are determined for the purpose of calculating the management fee or the administrative fee by taking the average of all the daily determinations of total assets during a given calendar month. The fees are payable for each calendar month as soon as practicable after the end of that month.

The Fund will bear all expenses not specifically assumed by the Adviser incurred in the Fund's operations and the offering of its common shares. Expenses borne by the Fund will include, but not be limited to, the following: (i) organizational expenses; (ii) legal and audit expenses; (iii) borrowing expenses; (iv) interest; (v) taxes; (vi) governmental fees; (vii) fees, voluntary assessments and other expenses incurred in connection with membership in investment company organizations; (viii) the cost (including brokerage commissions or charges, if any) of securities purchased or sold by the Fund and any losses incurred in connection therewith; (ix) fees of custodians, transfer agents, registrars or other agents; (x) expenses of preparing share certificates; (xi) expenses relating to the redemption or repurchase of shares; (xii) expenses of registering and qualifying shares for sale under applicable federal law and maintaining such registrations and qualifications; (xiii) expenses of preparing, setting in print, printing and distributing prospectuses, proxy statements, reports, notices and dividends to stockholders; (xiv) cost of stationery; (xv) costs of stockholders and other meetings of the Fund; (xvi) compensation and expenses of the independent directors of the Fund; (xvii) the Fund's portion of premiums of any fidelity bond and other insurance covering the Fund and its officers and directors; and (xviii) the fees and other expenses of listing and maintaining the Fund's shares on the NYSE or any other national stock exchange.

## **DISTRIBUTIONS**

### **Dividends and Other Distributions**

The Fund intends to distribute on a monthly basis dividends of all or a portion of its net investment income to holders of common shares. It is expected that the Fund will commence paying dividends to holders of common shares within approximately 90 days of the date of this Prospectus. All net realized capital gains, if any, will be distributed to the Fund's common stockholders at least annually. Unless a stockholder elects to receive dividend and capital gain distributions in cash, the distributions will be used to purchase additional common shares of the Fund. See "Dividend Reinvestment Plan" for information concerning the manner in which distributions may be automatically reinvested in common shares. Distributions (other than a return of capital) will be taxable to stockholders whether they are reinvested in shares of the Fund or received in cash. The Fund may at times in its discretion distribute less than the entire amount of its net investment income earned in any particular period and may at times distribute such accumulated undistributed income, if any, in addition to net investment income earned in other periods in order to permit the Fund to maintain a more stable level of distributions. As a result, the dividends the Fund pays to holders of common shares for any particular period may be more or less than the amount of net investment income it earns during such period. The Fund is not required to maintain a stable level of distributions to stockholders. For federal tax purposes, the Fund is required to distribute substantially all of its net investment income for each year.

The yield on the Fund's common shares will vary from period to period depending on factors including market conditions, the timing of its investments in portfolio securities, the securities comprising the its portfolio, changes in interest rates (including changes in the relationship between short-term rates and long-term rates), the amount and timing of its use of borrowings and other leverage, the effects of leverage on the common shares (discussed above under "Leverage"), the timing of the investment of leverage proceeds in portfolio securities, the Fund's net assets and its operating expenses. Consequently,

the Fund cannot guarantee any particular yield on its common shares, and the yield for any given period is not an indication or representation of future yields on those shares.

### **Dividend Reinvestment Plan**

Pursuant to the Fund's dividend reinvestment plan (the "Plan"), all common stockholders whose shares are registered in their own names will have all dividends and any capital gain distributions (referred to collectively in this section as "dividends") reinvested automatically in additional common shares by EquiServe, as agent for the common stockholders (the "Plan Agent"), except a stockholder who elects to receive cash. An election to receive cash may be revoked or reinstated at a stockholder's option. In the case of record stockholders such as banks, brokers or other nominees (each a "nominee") that hold common shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of common shares certified from time to time by each nominee as representing the total amount registered in such nominee's name and held for the account of beneficial owners who participate in the Plan. Common stockholders whose shares are held in the name of a nominee should contact the nominee for details about the Plan. Such stockholders may not be able to transfer their shares to another nominee and continue to participate in the Plan. All dividends to stockholders who elect not to participate in the Plan (or whose nominee elects not to participate on the stockholder's behalf), will be paid in cash by wire or check mailed to the record holder by EquiServe, as the Fund's dividend disbursement agent.

The number of common shares that a stockholder (other than a stockholder, or nominee, that elects not to participate in the Plan) will receive as a result of a Fund dividend will be determined as follows:

- (1) If common shares are trading at or above their net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market) on the payment date, the Fund will issue new common shares at the greater of (i) the net asset value per common share on the payment date or (ii) 95% of the market price per common share on that date. Because common shares may be issued at less than their market price, Plan participants may get a benefit that non-participants do not.
- (2) If common shares are trading below their net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of common shares on the open market) on the payment date, the Plan Agent will receive the dividend in cash and will purchase common shares in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for the common shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per common share the Plan Agent pays may exceed the market price thereof on the payment date. If the market price per common share increases so that it equals or exceeds the net asset value per common share (minus estimated brokerage commissions), the Plan Agent will cease its purchases. Otherwise, the Plan Agent will use all dividends received in cash to purchase common shares in the open market on or shortly after the payment date, but in no event later than the ex-dividend date for the next dividend. If the Plan Agent is unable to invest the full dividend amount through open-market purchases during the purchase period, the Plan Agent will request that, with respect to the uninvested portion of such dividend amount, the Fund issue new common shares at the close of business on the earlier of the last day of the purchase period or the first day during the purchase period on which the net asset value per common share (minus estimated brokerage commissions) equals or is less than the market price per common share. Interest will not be paid on any uninvested cash payments.

A stockholder who owns common shares directly may withdraw from the Plan at any time and may also rejoin the Plan later. Stockholders should contact the Plan Agent at the address below for information on how to do so. If requested, the Plan Agent will sell the common shares and send stockholders the proceeds, minus brokerage commissions.

The Plan Agent maintains all record stockholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information stockholders may need for tax records. The Plan Agent will hold common shares for Plan participants in non-certificated form. Any proxy that stockholders receive will include all common shares held for them under the Plan.

There is no brokerage charge by the Fund for reinvestment of dividends in common shares under the Plan. However, all participants will pay a *pro rata* share of the brokerage commissions the Plan Agent incurs when it makes open market purchases.

Automatically reinvested dividends are taxed in the same manner as cash dividends. See "Tax Matters."

The Fund and the Plan Agent reserve the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Stockholders may obtain additional information about the Plan from their broker. To obtain information on how to change the dividend option from the Plan to cash distributions, or vice versa, stockholders should contact their broker or, if they own common shares directly, call the Plan Agent at 1-800-426-5523 or write to the Plan Agent at P.O. Box 43010, Providence, Rhode Island 02940-3010.

#### CLOSED-END FUND STRUCTURE

The Fund is a newly-organized, diversified, closed-end management investment company (commonly referred to as a closed-end fund). Closed-end funds differ from open-end funds (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the stockholder. This means that if a stockholder wishes to sell shares of a closed-end fund he or she must trade them on the market like any other stock at the prevailing market price at that time. In a mutual fund, if the stockholder wishes to sell shares of the fund, the mutual fund will redeem or buy back the shares at "net asset value." Also, mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the fund's investments. By comparison, closed-end funds are generally able to stay more fully invested in securities that are consistent with their investment objectives and also have greater flexibility to make certain types of investments and to use certain investment strategies, such as financial leverage and investments in illiquid securities.

Shares of closed-end funds frequently trade at a discount to their net asset value. This characteristic of shares of closed-end management investment companies is a risk separate and distinct from the risk that the Fund's net asset value may decrease. This risk may be greater for stockholders who sell their shares within a relatively short period after completion of the public offering. Accordingly, the Fund is designed primarily for long-term investors and should not be considered a vehicle for trading purposes.

Common shares of closed-end investment companies like the Fund that invest predominantly in below investment grade debt securities have during some periods traded at prices higher than their net asset value (at a "premium") and during other periods traded at prices lower than their net asset value (at a "discount"). This is in part because the market price reflects the dividend yield on the common shares. When the yield on the net asset value per share is higher than yields generally available in the market for comparable securities, the market price will tend to reflect this by trading higher than the net asset value per share to adjust the yield to a comparable market rate. To the extent the common shares do trade at a discount, the Fund's Board may from time to time engage in open market repurchases or tender offers for shares after balancing the benefit to stockholders of the increase in the net asset value per share resulting from such purchases against the decrease in the assets of the Fund and potential increase in the expense ratio of expenses to assets of the Fund and consequent reduction in yield. The Board believes that in

addition to the beneficial effects described above, any such purchases or tender offers may result in the temporary narrowing of any discount but will not have any long-term effect on the level of any discount.

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

## TAX MATTERS

The following is a brief summary of certain federal tax considerations affecting the Fund and its stockholders and does not purport to be complete or to deal with all aspects of federal income taxation that may be relevant to stockholders in light of their particular circumstances. This discussion, which is based on the federal tax law and regulations, administrative interpretations thereof and judicial decisions as of the date hereof, assumes that stockholders are U.S. persons and will hold common shares as capital assets. More detailed information regarding the tax consequences of investing in the Fund is in the Statement of Additional Information.

The Fund intends to qualify annually for treatment as a regulated investment company under the Code, which requires (among other things) that it distribute each taxable year to its stockholders at least 90% of its "investment company taxable income" (which generally includes dividends, interest income, and the excess, if any, of net short-term capital gain over long-term capital loss, all determined without regard to any deduction for dividends paid). If the Fund so qualifies, it will not be required to pay federal income tax on any income and gains it distributes to its stockholders, but such distributions generally will be taxable to stockholders when received.

Dividends paid to stockholders out of the Fund's investment company taxable income generally will be taxable to them as ordinary income (at a maximum federal income tax rate of 35%, except as noted below) to the extent of the Fund's earnings and profits. Distributions to stockholders of net capital gain (*i.e.* the excess of net long-term capital gain over net short-term capital loss), if any, will be taxable to them as long-term capital gain, regardless of how long they have held their Fund shares. The Fund intends to distribute to its stockholders, at least annually, substantially all of its investment company taxable income and net capital gain. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits will reduce each stockholder's tax basis in his or her common shares (and thus be non-taxable to that extent); and the amount of any such distribution in excess of a stockholder's tax basis will be treated as gain from a sale of the shares. The tax treatment of distributions will be the same regardless of whether they were paid to stockholders in cash or reinvested in additional common shares under the Plan. Stockholders not subject to tax on their income will not be required to pay tax on amounts distributed to them.

A distribution will be treated as paid to stockholders on December 31 of a particular calendar year if it is declared by the Fund in October, November or December of that year with a record date in such a month and is paid during January of the following year. Each year, the Fund will notify stockholders of the tax status of distributions.

A stockholder who sells common shares, or has shares repurchased by the Fund, will realize a capital gain or loss in an amount equal to the difference, if any, between the amount realized and the stockholder's adjusted tax basis in the shares sold, which gain or loss will be long-term or short-term depending on the stockholder's holding period for the shares.

The Fund will be required to withhold federal income tax (at the rate of 28% through 2010) from all taxable distributions payable to an individual or other non-corporate stockholder who:

- fails to provide the Fund with a correct taxpayer identification number;
- fails to make required certifications; or
- has been notified by the Internal Revenue Service that he or she is subject to backup withholding.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 contains provisions that reduce to 15% the maximum federal income tax rate on (1) net capital gain individuals recognize and (2) “qualified dividend income” individuals receive from certain domestic and foreign corporations (“QDI”) through 2008. Distributions of net capital gain the Fund makes will be eligible for the reduced rate, which will also apply to capital gains recognized by stockholders who sell common shares they have held for more than one year. The reduced rate, which does not apply to short-term capital gains, generally applies to long-term capital gains from sales or exchanges (and Fund distributions of such gain), recognized in taxable years beginning before January 1, 2009.

It is currently expected that a significant part of the Fund’s income will be derived from interest on debt securities; dividends attributable thereto will not constitute QDI and thus will not be eligible for the reduced rate. Prospective investors should consult their own advisers to evaluate the consequences of these changes in the tax law.

Fund distributions also may be subject to state and local taxes. Stockholders should see the Statement of Additional Information for more information regarding federal income tax considerations generally affecting the Fund and its stockholders and are urged to consult with their own tax advisers regarding the particular consequences of investing in the Fund.

#### NET ASSET VALUE

The Fund calculates net asset value for its common shares every day the NYSE is open when regular trading closes (normally 4:00 p.m. Eastern time). For purposes of determining the net asset value of a common share, the value of the securities held by the Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses and indebtedness) is divided by the total number of common shares outstanding at such time. Expenses, including the fees payable to the Adviser, are accrued daily.

The Fund generally will value its portfolio securities using closing market prices or readily available market quotations. The Fund may use a pricing service or a pricing matrix to value some of its assets. Securities for which the primary market is on an exchange (domestic or foreign) will be valued at the last sale price on such exchange on the day of valuation or, if there was no sale on such day, at the last quoted bid price. Securities traded primarily in the Nasdaq Stock Market are normally valued by the Fund at the Nasdaq Official Closing Price (“NOCP”) provided by Nasdaq each business day. The NOCP is the most recently reported price as of 4:00:02 p.m. Eastern Time, unless that price is outside the range of the “inside” bid and asked price (i.e., the bid and asked prices that dealers quote to each other when trading for their own accounts); in that case, Nasdaq will adjust the price to equal the inside bid or asked price, whichever is closer. Because of delays in reporting trades, the NOCP may not be based on the price of the last trade to occur before the market closes. Securities that are traded in the over-the-counter market will be valued at the last quoted bid price. Debt securities with remaining maturities of 60 days or less will be valued at amortized cost or original cost plus accrued interest, both of which approximate market value. Foreign securities are translated from the local currency into U.S. dollars using current exchange rates. Foreign securities markets may be open on days when the U.S. markets are closed. For this reason, the value of any foreign securities owned by the Fund could change on a day a stockholder cannot buy or sell shares of the Fund. When closing market prices or market quotations are not available or are considered by the Adviser to be unreliable, the Fund may use a security’s fair value. Fair value is the valuation of a

security determined on the basis of factors other than market value in accordance with procedures approved by the Fund's Board. The use of fair value pricing by the Fund may cause the net asset value of its shares to differ from the net asset value that would be calculated using closing market prices.

## **DESCRIPTION OF SHARES**

The Fund is authorized to issue 1,000,000,000 shares of capital stock, \$.0001 par value. The Fund's Board is authorized to classify and reclassify any unissued shares of capital stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or terms and conditions of redemption of such shares by the Fund. The information contained under this heading is subject to the provisions contained in the Fund's Articles of Incorporation and By-Laws. The Fund also may issue preferred shares.

The common shares have no preemptive, conversion, exchange or redemption rights. All common shares have equal voting, dividend, distribution and liquidation rights. The common shares, when issued, will be fully paid and non-assessable. Common stockholders are entitled to one vote per share. All voting rights for the election of directors are non-cumulative, which means that the holders of more than 50% of the shares of capital stock can elect 100% of the directors then nominated for election if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any director.

Under the rules of the NYSE applicable to listed companies, the Fund normally will be required to hold an annual meeting of stockholders in each fiscal year. If the Fund is converted to an open-end fund or if for any other reason the shares are no longer listed on the NYSE (or any other national securities exchange the rules of which require annual meetings of stockholders), the Fund may decide not to hold annual meetings of stockholders.

The Fund has no present intention of offering additional shares, except as described herein and under the Plan, as it may be amended from time to time. See "Distributions—Dividend Reinvestment Plan." Other offerings of shares, if made, will require approval of the Fund's Board and will be subject to the requirement of the 1940 Act that shares may not be sold at a price below the then-current net asset value, exclusive of underwriting discounts and commissions, except, among other things, in connection with an offering to existing stockholders or with the consent of a majority of the holders of the Fund's outstanding voting securities. For a discussion of the potential characteristics of a preferred shares offering, see "Description of Preferred Shares" in the Statement of Additional Information.

Morgan Properties, LLC, an affiliate of the Adviser, will provide the initial capital for the Fund by purchasing 6,981 common shares of the Fund for \$100,003. As of the date of this Prospectus, Morgan Properties, LLC owned 100% of the outstanding common shares. Morgan Properties, LLC may be deemed to control the Fund until such time as it owns less than 25% of the outstanding shares of the Fund.

## **CERTAIN ANTI-TAKEOVER PROVISIONS IN THE FUND'S ARTICLES OF INCORPORATION AND BY-LAWS**

The Fund's Articles of Incorporation and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. These provisions may be regarded as "anti-takeover" provisions. Such provisions could limit the ability of stockholders to sell their shares at a premium over the then-current market prices by discouraging a third party from seeking to obtain control of the Fund.

The Fund's Articles of Incorporation require an affirmative vote by at least a majority of the Fund's Board and by at least 75% of the holders of the Fund's shares outstanding and entitled to vote, except as described below, to authorize: (i) the Fund's conversion from a closed-end to an open-end management investment company; (ii) a change in the nature of the business of the Fund such that it would cease to be an investment company registered under the 1940 Act; (iii) any merger or consolidation or share



exchange of the Fund with or into any other company; (iv) a sale of all or substantially all of the Fund's assets (other than in the regular course of the Fund's investment activities); (v) the dissolution or liquidation of the Fund; (vi) the sale, lease or exchange of all or substantially all of the Fund's assets having an aggregate value of \$1,000,000 or more to or with any Principal Stockholder (as defined below); (vii) with certain exceptions, the issuance of any securities of the Fund to any Principal Stockholder for cash; and (viii) the sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any Principal Stockholder having an aggregate value of \$1,000,000 or more; provided that if such action has been authorized by the affirmative vote of at least two-thirds of the Fund's directors fixed in accordance with the Fund's Articles of Incorporation or By-Laws, then the required stockholder vote will be reduced or eliminated as follows: with respect to (i) and (ii) above, the affirmative vote of the holders of "a majority of the outstanding voting securities" (as defined in the 1940 Act) of the Fund shall be required; with respect to (iii) through (vi) above, the affirmative vote of the holders of a majority of the outstanding shares of the Fund shall be required; and with respect to (vii) and (viii) above, no stockholder vote shall be required. The term "Principal Stockholder" means any person, entity or group that, directly or indirectly, owns 5% or more of the outstanding shares of the Fund, and includes any associates or affiliates of such person or entity or of any member of the group.

None of the foregoing provisions may be amended except by the vote of at least 75% of the shares of capital stock of the Fund outstanding and entitled to vote thereon. The percentage vote required under these provisions is higher than that required under Maryland law or by the 1940 Act. The Board believes that the provisions of the Articles of Incorporation relating to such a higher vote are in the best interest of the Fund and its stockholders. Even if agreed to by the Fund, certain of the transactions described above may be prohibited by the 1940 Act.

The Board is divided into three classes of approximately equal size. The terms of the directors of the different classes are staggered so that the stockholders elect approximately one third of the Board each year. The By-Laws provide that a director may be removed from office only for cause and only by vote of at least 75% of the shares entitled to be voted on the matter in an election of directors.

The Fund's By-Laws also require that advance notice be given to the Fund in the event a stockholder desires to nominate a person for election to the Board or to transact any other business at an annual meeting of stockholders. With respect to an annual meeting following the first annual meeting of stockholders, notice of any such nomination or business must be delivered to or received at the principal executive offices of the Fund not less than 120 calendar days prior to the anniversary date of the prior year's annual meeting. In the case of the first annual meeting of stockholders, the notice must be given no later than the tenth calendar day following public disclosure as specified in the By-Laws of the date of the meeting. Any notice by a stockholder must be accompanied by certain information as provided in the By-Laws.

Reference should be made to the Fund's Articles of Incorporation and By-Laws on file with the SEC for the full text of these provisions.

## UNDERWRITING

Subject to the terms and conditions of an underwriting agreement dated March 18, 2004, the Underwriters named below, acting through Morgan Keegan as lead manager and Advest, Inc., BB&T Capital Markets, a division of Scott & Stringfellow, Inc., Ferris, Baker Watts, Incorporated, Legg Mason Wood Walker, Incorporated, McDonald Investments Inc., a KeyCorp Company, Oppenheimer & Co. Inc., RBC Capital Markets Corporation, Stephens Inc., Sterne, Agee & Leach, Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Capital Markets, Inc., C.E. Unterberg, Towbin and Wedbush Morgan Securities as their representatives (the "Representatives"), have severally agreed to purchase, and the Fund has agreed to sell to such Underwriters, the number of common shares set forth opposite their respective names.

<u>Underwriter</u>	<u>Number of Common Shares</u>
Morgan Keegan & Company, Inc. ....	14,025,000
Advest, Inc. ....	525,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc. ....	525,000
Ferris, Baker Watts, Incorporated ....	525,000
Legg Mason Wood Walker, Incorporated ....	525,000
McDonald Investments Inc., a KeyCorp Company ....	525,000
Oppenheimer & Co. Inc. ....	525,000
RBC Capital Markets Corporation ....	525,000
Stephens Inc. ....	525,000
Sterne, Agee & Leach, Inc. ....	525,000
Stifel, Nicolaus & Company, Incorporated ....	525,000
SunTrust Capital Markets, Inc. ....	525,000
C.E. Unterberg, Towbin ....	525,000
Wedbush Morgan Securities ....	525,000
FMSBONDS, Inc. ....	75,000
NBC Capital Markets Group, Inc. ....	75,000
 TOTAL .....	 <u>21,000,000</u>

The underwriting agreement provides that the obligations of the Underwriters to purchase the shares included in this offering are subject to the approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to purchase all the common shares listed in the table above if any of the common shares are purchased. In the underwriting agreement, the Fund and Adviser have agreed to indemnify the Underwriters against certain liabilities or to contribute payments the Underwriters may be required to make for any of those liabilities. The Fund has been authorized to list its common shares on the NYSE under the ticker symbol "RSF." In order to meet the requirements for listing the common shares on the NYSE, the Underwriters have undertaken to sell lots of 100 or more common shares to a minimum of 2,000 beneficial owners. The minimum investment requirement is 100 common shares (\$1,500). Prior to this offering, there has been no public market for the common shares or any other securities of the Fund. Consequently, the offering price for the common shares was determined by negotiation between the Fund and the Representatives.

The Underwriters propose initially to 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 \$0.45 per common share. The sales load the Fund will pay of \$0.675 per common share is equal to 4.50% of the initial offering price. The Underwriters may allow, and the dealers may reallow, a discount not in excess of \$0.10 per common share on sales to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Adviser has also agreed to pay from its own assets a fee to Morgan Keegan payable quarterly at the annual rate of 0.10% of the Fund's average daily Managed Assets. The amount of fee payments to Morgan Keegan will be limited such that the total amount of such fee payments, together with the sales load of \$0.675 per common share plus any expense reimbursements, will not exceed 9% of the aggregate initial public offering price of the common shares sold in this offering. This compensation will only be payable during the continuance of the advisory agreement between the Adviser and the Fund.

The Fund has granted the Underwriters an option to purchase up to 3,150,000 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 over-allotments. If the Underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that Underwriter's initial amount reflected in the table below.

The following table shows the public offering price, sales load and proceeds before expenses to the Fund. The information assumes either no exercise or full exercise by the Underwriters of their over-allotment option.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price .....	\$15.000	\$315,000,000	\$362,250,000
Sales load .....	\$ 0.675	\$ 14,175,000	\$ 16,301,250
Proceeds, before expenses, to the Fund .....	\$14.325	\$300,825,000	\$345,948,750

The expenses of the offering payable by the Fund will be no more than \$1,050,000 (\$1,207,500 assuming full exercise of over-allotment option), which represents \$0.05 per common share. The Adviser has agreed to pay all the Fund's organizational expenses and to pay offering expenses (other than the sales load) that exceed \$0.05 per common share.

The Fund anticipates that it will limit its offering to 21,000,000 common shares, not including any exercise by the Underwriters of their over-allotment option.

Until the distribution of the common shares is complete, SEC rules may limit the Underwriters and selling group members from bidding for and purchasing the Fund's common shares. However, the Representatives may engage in transactions that stabilize the price of common shares, such as bids or purchases to peg, fix or maintain that price.

If the Underwriters create a short position in the Fund's 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 over-allotment option described above. Purchases of common shares to stabilize its price or to reduce a short position may cause the price of the Fund's 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 transaction described above may have on the price of 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 common shares to the Underwriters pursuant to the underwriting agreement.

The Fund anticipates that the Underwriters may from time to time act as brokers or dealers in executing the Fund's portfolio transactions after they have ceased to be Underwriters.

The addresses of the Representatives are: Morgan Keegan, Fifty North Front Street, Morgan Keegan Tower, Memphis, Tennessee 38103; Advest, Inc., 90 State House Square, Hartford, Connecticut 06103; BB&T Capital Markets (a division of Scott & Stringfellow, Inc.), 909 E. Main Street, Richmond, Virginia 23219; Ferris, Baker Watts, Incorporated, 1700 Pennsylvania Ave., N.W., Washington, D.C. 20006; Legg Mason Wood Walker, Incorporated, 100 Light Street, Baltimore, Maryland 21202; McDonald Investments, Inc., a KeyCorp Company, McDonald Investment Center, 800 Superior Avenue, Cleveland, OH 44114-2603; Oppenheimer & Co. Inc., 125 Broad Street, New York, NY 10004; RBC Capital Markets Corporation, 60 South Sixth Street, Minneapolis, MN 55402-4422; Stephens Inc., 111 Center Street, Little Rock, Arkansas 72201; Sterne, Agee & Leach, Inc., 950 East Paces Ferry Road, Atlanta, Georgia 30326; Stifel, Nicolaus & Company, Incorporated, 501 North Broadway, St. Louis, Missouri 63102; SunTrust Capital Markets, Inc., 3333 Peachtree Road N.E., Atlanta, Georgia 30326; C.E. Unterberg, Towbin, 350 Madison Avenue, New York, New York 10017; and Wedbush Morgan Securities, 1000 Wilshire Boulevard, Los Angeles, California 90017.

#### **CUSTODIAN AND TRANSFER AGENT**

State Street will serve as the custodian of the Fund's assets. EquiServe will act as the Fund's transfer agent, registrar and dividend disbursement agent, as well as the Plan Agent for the Fund's Plan.

#### **LEGAL MATTERS**

Certain legal matters in connection with the common shares offered hereby will be passed on for the Fund by Kirkpatrick & Lockhart LLP, Washington, D.C., and for the Underwriters by Bass, Berry & Sims PLC, Memphis, Tennessee.

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**21,000,000 Shares**  
**RMK Strategic Income Fund, Inc.**  
**Common Shares**

**PROSPECTUS**

**Morgan Keegan & Company, Inc.**

**Advest, Inc.**

**BB&T Capital Markets**

**Ferris, Baker Watts**  
**Incorporated**

**Legg Mason Wood Walker**  
**Incorporated**

**McDonald Investments Inc.**

**Oppenheimer**

**RBC Capital Markets**

**Stephens Inc.**

**Sterne, Agee & Leach, Inc.**

**Stifel, Nicolaus & Company**  
**Incorporated**

**SunTrust Robinson Humphrey**

**C.E. Unterberg, Towbin**

**Wedbush Morgan Securities**

March 18, 2004

**MK-14-00000094**  
*Confidential Treatment requested by  
Morgan Keegan and related entities*