

PBF Logistics LP
Form 10-Q
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2015

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36446

PBF LOGISTICS LP
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

35-2470286
(I.R.S. Employer Identification No.)

One Sylvan Way, Second Floor
Parsippany, New Jersey
(Address of principal executive offices)
(973) 455-7500
(Registrant’s telephone number, including area code)

07054
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 4, 2015, there were 18,441,082 common units and 15,886,553 subordinated units outstanding.

PBF LOGISITICS LP

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EXPLANATORY NOTE

PBF Logistics LP (“PBFX” or the “Partnership”) is a Delaware limited partnership formed in February 2013. PBF Logistics GP LLC (“PBF GP” or “our general partner”) serves as the general partner of PBFX. PBF GP is wholly-owned by PBF Energy Company LLC (“PBF LLC”). PBF Energy Inc. (“PBF Energy”) is the sole managing member of PBF LLC and as of June 30, 2015 owned 94.3% of the total economic interest in PBF LLC. In addition, PBF LLC is the sole managing member of PBF Holding Company LLC (“PBF Holding”), a Delaware limited liability company and affiliate of PBFX. On May 14, 2014, PBFX completed its initial public offering (the “Offering”). PBF LLC holds a 53.8% limited partner interest in PBFX and owns all of PBFX’s incentive distribution rights, with the remaining 46.2% limited partner interest owned by public unit holders as of June 30, 2015.

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q (this “Form 10-Q”) to “Predecessor,” and “we,” “our,” “us,” or like terms, when used in the context of periods prior to May 14, 2014, refer to PBF MLP Predecessor, our predecessor for accounting purposes, which includes assets, liabilities and results of operations of certain crude oil and refined product transportation, terminaling and storage assets, previously operated and owned by PBF Holding's subsidiaries Delaware City Refining Company LLC (“DCR”), Toledo Refining Company LLC (“TRC”) and PBF Holding's previously held subsidiary Delaware Pipeline Company (“DPC”). PBF Holding, together with its subsidiaries, owns and operates three oil refineries and related

facilities in North America. PBF Energy, through its ownership of PBF LLC, controls all of the business and affairs of PBFX and PBF Holding.

On September 30, 2014, the Partnership acquired from PBF LLC the Delaware City West Heavy Unloading Rack (the “DCR West Rack”), a heavy crude oil rail unloading facility at the Delaware City refinery with total throughput capacity of at least 40,000 barrels per day (“bpd”). In addition, on December 11, 2014, the Partnership acquired from PBF LLC a tank farm and related facilities located at PBF Energy's Toledo refinery, including a propane storage and loading facility (the “Toledo Storage Facility”). Furthermore, on May 14, 2015, the Partnership acquired from PBF LLC a 23.4 mile, 16-inch interstate petroleum products pipeline with capacity in excess of 125,000 bpd (the “Delaware City Products Pipeline”) and a 15-lane, 76,000 bpd capacity truck loading rack (the “Delaware City Truck Rack”) located at PBF Holding's Delaware City, Delaware refinery. Delaware City Products Pipeline and Delaware City Truck Rack are collectively referred to as the “Delaware City Products Pipeline and Truck Rack.” The transactions entered into after the Offering are collectively referred to as “Acquisitions from PBF.” The Acquisitions from PBF were transfers between entities under common control. Accordingly, the financial information of the Predecessor and the Partnership contained herein have been retrospectively adjusted to include the historical results of the Acquisitions from PBF for all periods presented prior to the effective date of each transaction.

References in this Form 10-Q to “PBF Logistics LP,” “PBFX,” the “Partnership” and “we,” “our,” “us,” or like terms used in the context of periods on or after May 14, 2014, refer to PBF Logistics LP and its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q (including information incorporated by reference) contains certain “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995, of expected future developments that involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions that relate to strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as “cautionary statements,” are disclosed under “Item 1A. Risk Factors,” “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014, which we refer to as our 2014 Form 10-K, and in our other filings with the U.S. Securities and Exchange Commission (“SEC”). All forward-looking information in this Form 10-Q and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

- our limited operating history as a separate public partnership;
- changes in general economic conditions;
- our ability to make, complete and integrate acquisitions from affiliates or third parties;
- our ability to have sufficient cash from operations to enable us to pay the minimum quarterly distribution;

• competitive conditions in our industry;

• actions taken by our customers and competitors;

• the supply of, and demand for, crude oil, refined products and logistics services;

• our ability to successfully implement our business plan;

• our dependence on PBF Energy for all of our revenues and, therefore, we are subject to the business risks of PBF Energy;

• all of our revenue is generated at two of PBF Energy's facilities, and any adverse development at either facility could have a material adverse effect on us;

• our ability to complete internal growth projects on time and on budget;

• the price and availability of debt and equity financing;

• operating hazards and other risks incidental to handling crude oil and petroleum products;

• natural disasters, weather-related delays, casualty losses and other matters beyond our control;

• interest rates;

• labor relations;

• changes in the availability and cost of capital;

• the effects of existing and future laws and governmental regulations, including those related to the shipment of crude oil by trains;

• changes in insurance markets impacting costs and the level and types of coverage available;

• the timing and extent of changes in commodity prices and demand for PBF Energy's refined products and the differential in the prices of different crude oils;

• the suspension, reduction or termination of PBF Energy's obligations under our commercial agreements;

• disruptions due to equipment interruption or failure at our facilities, PBF Energy's facilities or third-party facilities on which our business is dependent;

• incremental costs as a stand-alone public company;

• our general partner and its affiliates, including PBF Energy, have conflicts of interest with us and limited duties to us and our unitholders, and they may favor their own interests to the detriment of us and our other common unitholders;

• our partnership agreement restricts the remedies available to holders of our common units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty;

• holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors;

• our tax treatment depends on our status as a partnership for U.S. federal income tax purposes, as well as our not being subject to a material amount of entity level taxation by individual states;

• changes at any time (including on a retroactive basis) in the tax treatment of publicly traded partnerships or an investment in our common units;

• our unitholders will be required to pay taxes on their share of our taxable income even if they do not receive any cash distributions from us;

• the effects of future litigation; and

• other factors discussed elsewhere in this Form 10-Q.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Form 10-Q may not in fact occur. Accordingly, investors should not place undue reliance on those statements.

Our forward-looking statements speak only as of the date of this Form 10-Q. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to update or revise any forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing.

PART 1 - FINANCIAL INFORMATION

PBF LOGISTICS LP
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (unaudited, in thousands, except unit data)

	June 30, 2015	December 31, 2014*
ASSETS		
Current assets:		
Cash and cash equivalents	\$6,660	\$14,165
Accounts receivable - affiliates	20,333	11,630
Prepaid expenses and other current assets	671	397
Total current assets	27,664	26,192
Property, plant and equipment, net	145,941	146,867
Marketable securities	234,249	234,930
Other assets, net	9,912	2,152
Total assets	\$417,766	\$410,141
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable - affiliates	\$1,831	\$3,223
Accounts payable and accrued liabilities	7,176	1,498
Total current liabilities	9,007	4,721
Long-term debt	608,700	510,000
Other long-term liabilities	—	—
Total liabilities	617,707	514,721
Commitments and contingencies (Note 8)		
Equity:		
Net Investment- Predecessor	—	15,713
Common unitholders - Public (15,864,388 and 15,812,500 units issued and outstanding, as of June 30, 2015 and December 31, 2014, respectively)	332,786	336,369
Common unitholders - PBF LLC (2,572,944 and 1,284,524 units issued and outstanding, as of June 30, 2015 and December 31, 2014, respectively)	(250,314	) (167,787)
Subordinated unitholders - PBF LLC (15,886,553 units issued and outstanding)	(282,383	) (288,875)
IDR Holder - PBF LLC	(30) —)
Total equity	(199,941	) (104,580)
Total liabilities and equity	\$417,766	\$410,141

* Prior-period financial information has been retrospectively adjusted for the Delaware City Products Pipeline and Truck Rack Acquisition.

See notes to condensed consolidated financial statements.

PBF LOGISTICS LP
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (unaudited, in thousands, except unit and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014*	2015	2014*
Revenue from affiliates	\$34,868	\$10,168	\$67,713	\$12,350
Costs and expenses:				
Operating and maintenance expenses	4,768	4,817	13,202	9,665
General and administrative expenses	3,729	1,609	6,791	2,406
Depreciation and amortization	1,637	868	3,270	1,729
Total costs and expenses	10,134	7,294	23,263	13,800
Income (loss) from operations	24,734	2,874	44,450	(1,450)
Other expense:				
Interest expense, net and other financing costs	(4,624)	) (285)	) (6,418)	) (283)
Amortization of loan fees	(306)	) (73)	) (467)	) (73)
Net income (loss)	19,804	2,516	37,565	(1,806)
Less: Net income (loss) attributable to Predecessor	221	(2,901)	) 1,274	(7,223)
Limited partners' interest in net income attributable to the Partnership	\$19,583	\$5,417	\$36,291	\$5,417
Net income per limited partner unit:				
Common units - basic	\$0.58	\$0.17	\$1.09	\$0.17
Common units - diluted	0.58	0.17	1.09	0.17
Subordinated units- basic and diluted	0.58	0.17	1.09	0.17
Weighted average limited partner units outstanding:				
Common units - basic	17,776,831	15,886,553	17,442,561	15,886,553
Common units - diluted	17,801,429	15,887,957	17,455,155	15,887,957
Subordinated units- basic and diluted	15,886,553	15,886,553	15,886,553	15,886,553
Cash distributions declared per unit	\$0.37	\$0.16	\$0.72	\$0.16

* Prior-period financial information has been retrospectively adjusted for the Acquisitions from PBF.

See notes to condensed consolidated financial statements.

PBF LOGISTICS LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Six Months Ended June 30,	
	2015	2014*
Cash flows from operating activities:		
Net income (loss)	\$37,565	\$(1,806)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,270	1,729
Amortization of deferred financing fees	467	73
Unit-based compensation expense	1,613	195
Changes in operating assets and liabilities:		
Accounts receivable - affiliates	(8,703)	) (7,782)
Prepaid expenses and other current assets	(319)	) (405)
Accounts payable - affiliates	(1,392)	) 3,997
Accounts payable and accrued liabilities	5,507	(445)
Other assets and liabilities	(20)	) 3
Net cash provided by (used in) operations	37,988	(4,441)
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(220)	) (26,119)
Purchase of marketable securities	(1,379,386)	) (599,997)
Maturities of marketable securities	1,380,085	299,987
Net cash provided by (used in) investing activities	479	(326,129)
Cash flows from financing activities:		
Proceeds from issuance of common units, net of underwriters' discount and commissions	—	340,957
Offering costs for issuance of common units	—	(5,000)
Distribution to PBF LLC related to Offering	—	(328,664)
Distribution to PBF LLC related to Delaware City Products Pipeline and Truck Rack acquisition	(112,500)) —
Distribution to unitholders	(22,911)) —
Distribution to Parent	(1,036)) —
Contribution from Parent	—	29,749
Proceeds from issuance of senior notes	350,000	—
Proceeds from revolving credit agreement	24,500	—
Repayment of revolving credit agreement	(275,100)) —
Proceeds from term loan	—	300,000
Repayment of term loan	(700)) —
Deferred financing costs	(8,225)	) (2,293)
Net cash (used in) provided by financing activities	(45,972)	) 334,749
Net change in cash and cash equivalents	(7,505)	) 4,179
Cash and cash equivalents at beginning of year	14,165	75
Cash and cash equivalents at end of period	\$6,660	\$4,254

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Supplemental disclosure of non-cash investing and financing activities:

Contribution of net assets from PBF LLC	\$2,164	\$—
Accrued capital expenditures	—	3,477

* Prior-period financial information has been retrospectively adjusted for the Acquisitions from PBF.

See notes to condensed consolidated financial statements.

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PBF LOGISTICS LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

PBF Logistics LP (“PBFX” or the “Partnership”) is a Delaware limited partnership formed in February 2013. PBF Logistics GP LLC (“PBF GP” or “our general partner”) serves as the general partner of PBFX. PBF GP is wholly-owned by PBF Energy Company LLC (“PBF LLC”). PBF Energy Inc. (“PBF Energy”) is the sole managing member of PBF LLC and as of June 30, 2015 owned 94.3% of the total economic interest in PBF LLC. In addition, PBF LLC is the sole managing member of PBF Holding Company LLC (“PBF Holding”), a Delaware limited liability company and affiliate of PBFX. On May 14, 2014, PBFX completed its initial public offering (the “Offering”) of 15,812,500 common units (including 2,062,500 common units issued pursuant to the exercise of the underwriters' over-allotment option). PBF LLC holds a 53.8% limited partner interest in PBFX and owns all of PBFX's incentive distribution rights (“IDR”), with the remaining 46.2% limited partner interest owned by public unit holders as of June 30, 2015.

PBFX engages in the receiving, handling and transferring of crude oil and the receipt, storage and delivery of crude oil, refined products and intermediates. The Partnership does not take ownership of or receive any payments based on the value of the crude oil or products that it handles and does not engage in the trading of any commodities. PBFX's assets are integral to the operations of PBF Energy's refineries located in Toledo, Ohio, Delaware City, Delaware and Paulsboro, New Jersey. Subsequent to the Offering, PBFX generates all of its revenues from transactions with PBF Holding.

In connection with the Offering, PBF LLC contributed the assets, liabilities and results of operations of certain crude oil terminaling assets to the Partnership. The assets were owned and operated by PBF Holding's subsidiaries, Delaware City Refining Company LLC (“DCR”) and Toledo Refining Company LLC (“TRC”), and were contributed to the Partnership in connection with the Offering. PBF Holding, together with its subsidiaries, owns and operates three oil refineries and related facilities in North America. PBF Energy, through its ownership in PBF LLC, controls all of the business affairs of PBFX and PBF Holding.

PBFX's initial assets consisted of the Delaware City Rail Unloading Terminal (“DCR Rail Terminal”), which was part of PBF Holding's Delaware City, Delaware refinery, and the Toledo Truck Unloading Terminal (“Toledo Truck Terminal”), which was part of PBF Holding's Toledo, Ohio refinery, which together with the DCR Rail Terminal, we refer to as the IPO Assets. In connection with the Offering, the IPO Assets were distributed from PBF Holding to PBF LLC. The DCR Rail Terminal consists of a double loop track and ancillary pumping and unloading equipment. Construction of the DCR Rail Terminal began in July 2012 and it commenced operations in February 2013. The Toledo Truck Terminal commenced operations in December 2012 with one lease automatic custody transfer (“LACT”) unit. Two additional LACT units were made operational in May 2013. In July 2013, a fourth LACT unit was purchased that had previously been owned and operated at the Toledo Truck Terminal by a vendor in connection with a crude oil supply agreement. The IPO Assets, along with the LACT units placed into service in June 2014, operate within the totality of the Toledo refinery and adjacent to the Delaware City refinery. The IPO Assets did not generate third party or affiliate revenue prior to the Offering. However, subsequent to the Offering, both of the IPO Assets have generated affiliate revenue.

On September 30, 2014, the Partnership acquired from PBF LLC the Delaware City West Heavy Unloading Rack (the “DCR West Rack”), a heavy crude oil rail unloading facility at the Delaware City refinery with total throughput capacity of at least 40,000 barrels per day (“bpd”). In addition, on December 11, 2014, the Partnership acquired from PBF LLC a tank farm and related facilities located at PBF Energy's Toledo refinery, including a propane storage and loading facility (the “Toledo Storage Facility”). Furthermore, on May 14, 2015, the Partnership acquired from PBF LLC a 23.4 mile, 16-inch interstate petroleum products pipeline with capacity in excess of 125,000 bpd (the “Delaware City

Products Pipeline”) and a 15-lane, 76,000 bpd capacity truck loading rack (the “Delaware City Truck Rack”) located at PBF Holding’s Delaware City, Delaware refinery. The Delaware City Products Pipeline and the Delaware City Truck Rack are collectively referred to as the “Delaware City Products Pipeline and Truck Rack.” These transactions are collectively referred to as “Acquisitions from PBF.” Subsequent to the Acquisitions from PBF, the DCR Rail Terminal, Toledo Truck Terminal, DCR West Rack, Toledo Storage

PBF LOGISTICS LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

Facility and Delaware City Products Pipeline and Truck Rack are collectively referred to as the “Contributed Assets.”

The Acquisitions from PBF were a transfer of assets between entities under common control. Accordingly, the accompanying financial statements and related notes of the PBF MLP Predecessor (the “Predecessor”), our predecessor for accounting purposes, and the Partnership have been retrospectively adjusted to include the historical results of the DCR West Rack, Toledo Storage Facility and Delaware City Products Pipeline and Truck Rack for all periods presented prior to the effective date of each transaction. The financial statements of our Predecessor, the DCR West Rack, Toledo Storage Facility and Delaware City Products Pipeline and Truck Rack have been prepared from the separate records maintained by subsidiaries of PBF Energy and may not necessarily be indicative of the conditions that would have existed or the results of operations if they were operated as an unaffiliated company. Portions of certain expenses represent allocations made from corporate expenses applicable to PBF Energy as a whole. See Note 2 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q for further discussion.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, PBFX has included all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and the results of operations and cash flows of PBFX and the Predecessor, as applicable, for the periods presented. The results of operations for the three and six months ended June 30, 2015 and 2014 are not necessarily indicative of the results that may be expected for the full year.

The financial statements presented in this Form 10-Q include the condensed consolidated financial results of the Predecessor for the period presented prior to May 13, 2014, and the condensed consolidated financial results of PBFX for the period beginning after May 14, 2014, the completion date of the Offering. The Predecessor did not historically operate its respective assets for the purpose of generating revenues independent of other PBF Energy businesses prior to the Offering or for assets acquired in the Acquisitions from PBF, with the exception of the Delaware City Products Pipeline, prior to the effective dates of each transaction. All intercompany accounts and transactions have been eliminated. The balance sheet as of June 30, 2015 presents solely the consolidated financial position of PBFX.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”), which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The standard is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Partnership is currently evaluating the impact of this new standard on its condensed consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-06, “Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions” (“ASU 2015-06”), which specifies that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. The standard is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Partnership believes that its current methodology for calculating earnings per unit is in compliance with the requirements of ASU 2015-06, but will continue to evaluate whether the adoption will have any impact on its consolidated financial statements or disclosures.

PBF LOGISTICS LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

2. ACQUISITIONS

During 2014, following the Offering, PBFX completed two acquisitions from PBF LLC, pursuant to which PBFX acquired from PBF LLC the following assets:

the DCR West Rack, which consists of a heavy crude oil rail unloading facility at the Delaware City refinery with total throughput capacity of at least 40,000 bpd (the “DCR West Rack Acquisition”); and

the Toledo Storage Facility, which consists of a tank farm and related facilities, including a propane storage and loading facility, located at PBF Energy's Toledo refinery (the “Toledo Storage Acquisition”).

See the Annual Report on Form 10-K for the year ended December 31, 2014 of PBF Logistics LP for additional information regarding the 2014 acquisitions from PBF LLC and the commercial agreements executed in connection with these acquisitions.

On May 5, 2015, the Partnership entered into a contribution agreement between the Partnership and PBF LLC (the “Contribution Agreement”). Pursuant to the Contribution Agreement, PBF LLC contributed to the Partnership all of the issued and outstanding limited liability company interests of Delaware Pipeline Company LLC (“DPC”) and Delaware City Logistics Company LLC (“DCLC”), whose assets collectively consist of the Delaware City Products Pipeline and Truck Rack, for total consideration to PBF LLC of \$143,000, consisting of \$112,500 of cash and \$30,500 of Partnership common units, or 1,288,420 common units (the “Delaware City Products Pipeline and Truck Rack Acquisition”). The cash consideration was funded by the Partnership with \$88,000 in proceeds from the Partnership’s 6.875% Senior Notes due 2023, sale of approximately \$700 in marketable securities and \$23,800 in borrowings under the Partnership’s Revolving Credit Facility (as defined in Note 4). The Delaware City Products Pipeline and Truck Rack Acquisition closed on May 14, 2015. The Partnership borrowed an additional \$700 under its Revolving Credit Facility to repay \$700 of its Term Loan (as defined in Note 4) in order to release the \$700 in marketable securities that had collateralized the Term Loan.

The Delaware City Products Pipeline consists of a 23.4 mile, 16-inch interstate petroleum products pipeline with in excess of 125,000 bpd of capacity located at PBF Holding's Delaware City, Delaware refinery. The pipeline transports refined petroleum products from the Delaware City refinery to Sunoco Logistics Partners, L.P.’s (“Sunoco Logistics”) Twin Oaks pump station at Delaware County, PA, with connections to Buckeye Partners, L.P.’s Laurel pipeline and Sunoco Logistics’ northeast pipeline systems that serve Western Pennsylvania and New York. The Delaware City Truck Rack consists of a 15-lane, 76,000 bpd capacity truck loading rack utilized to distribute gasoline and distillates. Total transaction costs of approximately \$530 associated with the Delaware City Products Pipeline and Truck Rack Acquisition were expensed as incurred. In connection with such acquisition, the Partnership entered into two commercial agreements with PBF Holding and amended and restated each of the omnibus agreement and the operational services agreement with PBF Holding. See Note 11—Related Party Transactions, for a summary of the terms of these agreements.

As the Delaware City Products Pipeline and Truck Rack Acquisition was considered a transfer of businesses between entities under common control, the Delaware City Products Pipeline and Truck Rack was transferred at its historical carrying value, which was \$15,975 as of May 14, 2015. The historical financial statements have been retrospectively adjusted to reflect the results of operations, financial position, and cash flows of the Delaware City Products Pipeline and Truck Rack as if it was owned by the Partnership for all periods presented. Net income attributable to the Delaware City Products Pipeline and Truck Rack prior to the effective Date was allocated entirely to PBF GP as if only PBF GP had rights to that net loss, therefore there is no retrospective adjustment to net income per unit.

The following tables present the Partnership's statement of financial position and results of operations after giving effect to the Acquisitions from PBF. For the three and six months ended June 30, 2015 and 2014, respectively, the consolidated results of the DCR West Rack prior to the DCR West Rack Acquisition are included under “DCR

PBF LOGISTICS LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

West Rack,” the consolidated results of the Toledo Storage Facility prior to the Toledo Storage Acquisition are included under “Toledo Storage Facility,” and the consolidated results of the Delaware City Products Pipeline and Truck Rack prior to the Delaware City Products Pipeline and Truck Rack Acquisition are included under “Delaware City Products Pipeline and Truck Rack.” The previously reported consolidated results of the DCR Rail Terminal, Toledo Truck Rack, DCR West Rack, Toledo Storage Facility and Delaware City Products Pipeline and Truck Rack subsequent to each acquisition are included in “PBF Logistics LP.”

	December 31, 2014			
	PBF Logistics LP	Delaware City Products Pipeline and Truck Rack	Consolidated Results	
Assets				
Current assets:				
Cash and cash equivalents	\$ 14,165	\$—	\$ 14,165	
Accounts receivable - affiliates	11,630	—	11,630	
Prepaid expenses and other current assets	295	102	397	
Total current assets	26,090	102	26,192	
Property, plant and equipment, net	130,779	16,088	146,867	
Marketable securities	234,930	—	234,930	
Other assets, net	2,152	—	2,152	
Total assets	\$ 393,951	\$ 16,190	\$ 410,141	
Liabilities				
Current liabilities:				
Accounts payable - affiliates	\$ 3,223	\$—	\$ 3,223	
Accounts payable and accrued liabilities	1,021	477	1,498	
Total current liabilities	4,244	477	4,721	
Long-term debt	510,000	—	510,000	
Other long-term liabilities	—	—	—	
Total Liabilities	514,244	477	514,721	
Equity				
Net investment	—	15,713	15,713	
Common unitholders - Public	336,369	—	336,369	
Common unitholders - PBF LLC	(167,787) —	(167,787)
Subordinated unitholders - PBF LLC	(288,875) —	(288,875)
Total Equity	(120,293) 15,713	(104,580)
Total Liabilities and Equity	\$ 393,951	\$ 16,190	\$ 410,141	

PBF LOGISTICS LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

	Three Months Ended June 30, 2015		
	PBF Logistics LP	Delaware City Products Pipeline and Truck Rack	Consolidated Results
Revenues from affiliates	\$33,766	\$1,102	\$34,868
Costs and expenses:			
Operating and maintenance expenses	4,356	412	4,768
General and administrative expenses	3,347	382	3,729
Depreciation and amortization	1,547	90	1,637
Total costs and expenses	9,250	884	10,134
Income from operations	24,516	218	24,734
Other income (expense):			
Interest expense, net and other financing costs	(4,627	) 3	(4,624)
Amortization of loan fees	(306	) —	(306)
Net income	19,583	221	19,804
Less: Net income attributable to Predecessor	—	221	221
Limited partners' interest in net income attributable to the Partnership	\$19,583	\$—	\$19,583
	Six Months Ended June 30, 2015		
	PBF Logistics LP	Delaware City Products Pipeline and Truck Rack	Consolidated Results
Revenues from affiliates	\$64,330	\$3,383	\$67,713
Costs and expenses:			
Operating and maintenance expenses	11,837	1,365	13,202
General and administrative expenses	6,310	481	6,791
Depreciation and amortization	2,994	276	3,270
Total costs and expenses	21,141	2,122	23,263
Income from operations	43,189	1,261	44,450
Other income (expense):			
Interest expense, net and other financing costs	(6,431	) 13	(6,418)
Amortization of loan fees	(467	) —	(467)
Net income	36,291	1,274	37,565
Less: Net income attributable to Predecessor	—	1,274	1,274

Limited partners' interest in net income attributable to the Partnership	\$36,291	\$—	\$36,291
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PBF LOGISTICS LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

	Three Months Ended June 30, 2014			Delaware City Products Pipeline and Truck Rack	Consolidated Results	
	PBF Logistics LP	DCR West Rack	Toledo Storage Facility			
Revenues from affiliates	\$7,782	\$—	\$—	\$2,386	\$10,168	
Costs and expenses:						
Operating and maintenance expenses	1,697	—	2,188	932	4,817	
General and administrative expenses	1,427	36	30	116	1,609	
Depreciation and amortization	284	—	398	186	868	
Total costs and expenses	3,408	36	2,616	1,234	7,294	
Income (loss) from operations	4,374	(36	) (2,616	) 1,152	2,874
Other income (expense):						
Interest expense, net and other financing costs	(287) —	—	2	(285)
Amortization of loan fees	(73) —	—	—	(73)
Net income (loss)	4,014	(36	) (2,616	) 1,154	2,516
Less: Net income (loss) attributable to Predecessor	(1,403) (36) (2,616) 1,154	(2,901)
Limited partners' interest in net income attributable to the Partnership	\$5,417	\$—	\$—	\$—	\$5,417	

PBF LOGISTICS LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER BARREL AND UNIT DATA)

Six Months Ended June 30, 2014

PBF Logistics LP	DCR West Rack	Toledo Storage Facility	Delaware City Products Pipeline and purposes of this categorization, the market value of a Fitch Eligible Asset trading at par is equal to \$1.00): "Fitch Loan Category A" means performing corporate loans which have a market value or an approved price greater than or equal to \$0.90. "Fitch Loan Category B" means: (a) performing corporate loans which have a market value or an approved price of greater than or equal to \$0.80 but less than \$0.90; and (b) non-performing corporate loans which have a market value or an approved price greater than or equal to \$0.85. "Fitch Loan Category C" means: (a) performing corporate loans which have a market value or an approved price of greater than or equal to \$0.70 but less than \$0.80; (b) non-performing corporate loans which have a market value or an approved price of greater than or equal to \$0.75 but less than \$0.85; and (c) performing corporate loans without an approved price rated BB- or higher by Fitch Ratings. If a security is not rated by Fitch Ratings but is rated by two other NRSROs, then the lower of the ratings on the security from the two other NRSROs will be used to determine the Fitch Discount Factor (e.g., where the S&P rating is A- and the Moody's rating is Baa1, a Fitch rating of BBB+ will be used). If a security is not rated by Fitch Ratings but is rated by only one other NRSRO, then the rating on the security from the other NRSRO will be used to determine the Fitch Discount Factor (e.g., where the only rating on a security is an S&P rating of AAA-, a Fitch rating of AAA- will be used, and where the only rating on a security is a Moody's rating of Ba3, a Fitch rating of BB- will be used). "Fitch Loan Category D" means Corporate Loans not described in any of the foregoing categories. Notwithstanding any other provision contained above, for purposes of determining whether a Fitch Eligible Asset falls within a specific Fitch Loan Category, to the extent that any Fitch Eligible Asset would fall in more than one of the Fitch Loan Categories, such Fitch Eligible Asset shall be deemed to fall into the Fitch Loan Category with the lowest applicable Fitch Discount Factor. Foreign Bonds. The Fitch Discount Factor (A) for a foreign bond the principal of which (if not denominated in U.S. dollars) is subject to a currency hedging transaction will be the Fitch Discount Factor that would otherwise apply to such foreign bonds and (B) for (1) a foreign bond the principal of which (if not denominated in U.S. dollars) is not subject to a currency hedging transaction and (2) a bond issued in
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a currency other than U.S. dollars by a corporation, limited liability company or limited partnership domiciled in, or the government or any agency, instrumentality or political subdivision of, a nation other than an Approved Foreign Nation, will be 370%. Structured Notes. The Fitch Discount Factor applied to structured notes will be (a) in the case of a corporate issuer, the Fitch Discount Factor determined in accordance with paragraph (i) under Discount Factors for Corporate Debt Securities, whereby the rating on the issuer of the Structured Note will be the rating on the Structured Note for purposes of determining the Fitch Discount Factor in the table in paragraph (i); and (b) in the case of an issuer that is the U.S. Government or an agency or instrumentality thereof, the Fitch Discount Factor determined in accordance with paragraph (iii) under Discount Factors for Short-Term Instruments. Fitch Eligible Assets. Under current Fitch guidelines, the following are considered Fitch Eligible Assets: Cash (including interest and dividends due on assets rated (A) BBB or higher by Fitch Ratings or the equivalent by another NRSRO if the payment date is within five Business Days of the Valuation Date, (B) A or higher by Fitch Ratings or the equivalent by another NRSRO if the payment date is within thirty days of the Valuation Date, and (C) A+ or higher by Fitch Ratings or the equivalent by another NRSRO if the payment date is within the Fitch Exposure Period) and receivables for Fitch Eligible Assets sold if the receivable is due within five Business Days of the Valuation Date, and if the trades which generated such receivables are settled within five business days. Preferred Shares if (i) dividends on such preferred shares are cumulative, (ii) such securities provide for the periodic payment of dividends thereon in cash in U.S. dollars or euros and do not provide for conversion or exchange into, or have warrants attached entitling the holder to receive equity capital at any time over the respective lives of such securities, (iii) the issuer of such preferred shares is listed on the New York Stock Exchange, American Stock Exchange, NASDAQ, or FTSE and has a market capitalization of at least \$500 million, and (iv) the issuer of such preferred shares has a senior debt rating or preferred stock rating from Fitch of BBB- or higher or the equivalent rating by another Rating Agency. In addition, the preferred shares issue must be at least \$50 million. Common Stocks (i) (a) which are traded on the New York Stock Exchange, the American Stock Exchange, the NASDAQ, FTSE or in the over-the-counter market, (b) which, if cash dividend paying, pay cash dividends in U.S. dollars, and (c) which may be sold without restriction by the Fund; provided, however, that (1) common stock which, while a Fitch Eligible Asset owned by the Fund, ceases paying any

regular cash dividend will no longer be considered a Fitch Eligible Asset until 60 calendar days after the date of the announcement of such cessation, unless the issuer of the common stock has senior debt securities rated at least A- by Fitch and (2) the Fund's holdings of the common stock of any issuer in excess of 5% will not be considered a Fitch Eligible Asset; (ii) securities denominated in any currency other than the U.S. dollar and securities of issuers formed under the laws of jurisdictions other than the United States, its states and the District of Columbia for which there are dollar-denominated American Depositary Receipts ("ADRs") which are traded in the United States on exchanges or over-the-counter and are issued by banks formed under the laws of the United States, its states or the District of Columbia; provided, however, that the aggregate Market Value of the Fund's holdings of securities denominated in currencies other than the U.S. dollar and ADRs in excess of 3% of the aggregate Market Value of the Outstanding shares of common stock of such issuer or in excess of 10% of the Market Value of the Fund's Fitch Eligible Assets with respect to issuers formed under the laws of any single such non-U.S. jurisdiction other than Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea, Mexico, Spain or the United Kingdom (the "Approved Foreign Nations") shall not be a Fitch Eligible Asset. Short Term Money Market Instruments so long as (a) such securities are rated at least F1+ by Fitch Ratings or the equivalent by another NRSRO, (b) in the case of demand deposits, time deposits and overnight funds, the supporting entity is rated at least A by Fitch Ratings or the equivalent by another NRSRO, or (c) in all other cases, the supporting entity (1) is rated at least A by Fitch Ratings or the equivalent by another NRSRO and the security matures within one month, (2) is rated at least A by Fitch Ratings or the equivalent by another NRSRO and the security matures within three months or (3) is rated at least AA by Fitch Ratings or the equivalent by another NRSRO and the security matures within six months. Unrated securities will not be considered Eligible Assets. U.S. Government Securities and U.S. Treasury STRIPS. Debt Securities if such securities have been registered under the Securities Act or are restricted as to resale under federal securities laws but are eligible for resale pursuant to Rule 144A under the Securities Act as determined by the Advisor or portfolio manager acting pursuant to procedures approved by the Board of Trustees; and (C) such securities are issued by (1) a U.S. corporation, limited liability company or limited partnership, (2) a corporation, limited liability company or limited partnership domiciled in Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea,

Mexico, Spain or the United Kingdom (the "Approved Foreign Nations"), (3) the government of any Approved Foreign Nation or any of its agencies, instrumentalities or political subdivisions (the debt securities of Approved Foreign Nation issuers being referred to collectively as "foreign bonds"), (4) a corporation, limited liability company or limited partnership domiciled in Canada or (5) the Canadian government or any of its agencies, instrumentalities or political subdivisions (the debt securities of Canadian issuers being referred to collectively as "Canadian Bonds"). Foreign bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate market value of all assets constituting Fitch Eligible Assets. Similarly, Canadian bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate market value of all assets constituting Fitch Eligible Assets. Notwithstanding the limitations in the two preceding sentences, foreign bonds and Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 30% of the aggregate market value of all assets constituting Fitch Eligible Assets. In addition, bonds which are issued in connection with a reorganization under U.S. federal bankruptcy law ("Reorganization Bonds") will be considered debt securities constituting Fitch Eligible Assets if (a) they provide for periodic payment of interest in cash in U.S. dollars or euros; (b) they do not provide for conversion or exchange into equity capital at any time over their lives; (c) they have been registered under the Securities Act or are restricted as to resale under federal securities laws but are eligible for trading under Rule 144A promulgated pursuant to the Securities Act as determined by the Fund's Advisor or portfolio manager acting pursuant to procedures approved by the Board of Trustees; (d) they were issued by a U.S. corporation, limited liability company or limited partnership; and (e) at the time of purchase at least one year had elapsed since the issuer's reorganization. Reorganization Bonds may also be considered debt securities constituting Fitch Eligible Assets if they have been approved by Fitch Ratings, which approval shall not be unreasonably withheld. All debt securities satisfying the foregoing requirements and restrictions of this paragraph (iv) are herein referred to as "Debt Securities."

Asset-Backed and Mortgage-Backed Securities. Rule 144A Securities. Corporate Loans. Structured Notes. Tradable credit baskets (e.g., Traded Custody Receipts or TRACERS and Targeted Return Index Securities Trust or TRAINS). Interest rate swaps entered into according to International Swap Dealers Association ("ISDA") standards if (1) the counterparty to the swap transaction

has a short-term rating of not less than F1 by Fitch or the equivalent by another, NRSRO, or, if the swap counterparty does not have a short-term rating, the counterparty's senior unsecured long-term debt rating is AA or higher by Fitch or the equivalent by another NRSRO and (2) the original aggregate notional amount of the interest rate swap transaction or transactions is not greater than the liquidation preference of the Preferred Shares originally issued. Common Stock, Preferred Stock, and any debt security of REITs and Real Estate Companies. Unrated Debt Securities issued by an issuer which (1) has not filed for bankruptcy in the past three years; (2) is current on all interest and principal on its fixed income obligations; and (3) is current on all preferred stock dividends. Financial Contracts, as such term is defined in Section 3(c)(2)(B)(ii) of the 1940 Act, not otherwise provided for in the foregoing categories of Fitch Eligible Assets may be included in Fitch Eligible Assets, but, with respect to any financial contract, only upon receipt by the Fund of a writing from Fitch Ratings specifying any conditions on including such financial contract in Fitch Eligible Assets and assuring the Fund that including such financial contract in the manner so specified would not affect the credit rating assigned by Fitch Ratings to the Preferred Shares. Hedging. The Fund may enter into, purchase or sell, exchange-traded financial futures contracts based on any index approved by Fitch Ratings or Treasury bonds, and purchase, write or sell exchange-traded put options on such financial futures contracts, any index approved by Fitch Ratings or Treasury bonds and purchase, write or sell exchange-traded call options on such financial futures contracts, any index approved by Fitch Ratings or Treasury bonds ("Fitch Hedging Transactions"), subject to the following limitations: (i) The Fund may not engage in any Fitch Hedging Transaction based on any index approved by Fitch Ratings (other than transactions that terminate a futures contract or option held by the Fund by the Fund's taking the opposite position thereto ("closing transactions")) that would cause the Fund at the time of such transaction to own or have sold outstanding financial futures contracts based on such index exceeding in number 10% of the average number of daily traded financial futures contracts based on such index in the 30 days preceding the time of effecting such transaction as reported by The Wall Street Journal. (ii) The Fund will not engage in any Fitch Hedging Transaction based on Treasury bonds (other than closing transactions) that would cause the Fund at the time of such transaction to own or have sold: (A) outstanding financial futures contracts based on Treasury bonds with such contracts having an aggregate market

value exceeding 20% of the aggregate market value of Fitch Eligible Assets owned by the Fund and rated at least AA by Fitch Ratings (or, if not rated by Fitch Ratings, rated Aa at least by Moody's; or, if not rated by Moody's, rated at least AAA by S&P); or (B) outstanding financial futures contracts based on Treasury bonds with such contracts having an aggregate market value exceeding 40% of the aggregate market value of all Fitch Eligible Assets owned by the Fund (other than Fitch Eligible Assets already subject to a Fitch Hedging Transaction) and rated at least A or BBB by Fitch Ratings (or, if not rated by Fitch Ratings, rated at least Baa by Moody's; or, if not rated by Moody's, rated at least A or AA by S&P) (for purposes of the foregoing clauses (i) and (ii), the Fund shall be deemed to own futures contracts that underlie any outstanding options written by the Fund); (iii) The Fund may engage in closing transactions to close out any outstanding financial futures contract based on any index approved by Fitch Ratings if the amount of open interest in such index as reported by The Wall Street Journal is less than an amount to be mutually determined by Fitch Ratings and the Fund; and (iv) The Fund may not enter into an option or futures transaction unless, after giving effect thereto, the Fund would continue to have Fitch Eligible Assets with an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount.

Diversification. Fitch requires that the Fund adhere to a maximum single issuer concentration, with respect to 75% of its assets, of 5% of total assets. Fitch Diversification Limitations. Portfolio holdings as described below must be within the following diversification and issue size requirements in order to be included in Fitch's Eligible Assets:

Security	Rated At	Maximum Single	Minimum Issue Size	Least Issuer
Industry	(1),(2)	(\$ in million)	(3)	AAA 100% 100% \$100
AA-	20	75	100	A- 10 50 100
BBB-	6	25	100	BB- 4 16 50
B-	3	12	50	CCC 2 8 50

If a security is not rated by Fitch, look to the lower of Moody's or S&P rating. (1) Percentages represent a portion of the aggregate market value of corporate debt securities. (2) Industries are determined according to Bloomberg's Industry Classifications. (3) Preferred stock has a minimum issue size of \$50 million for all rating categories in the table.

Other. Where the Fund sells an asset and agrees to repurchase such asset in the future, the Discounted Value of such asset will constitute a Fitch Eligible Asset and the amount the Fund is required to pay upon repurchase of such asset will count as a liability for the purposes of the Preferred Shares Basic Maintenance Amount. Where the Fund purchases an asset and agrees to sell it to a third party in the future, cash receivable by the Fund thereby will

constitute a Fitch Eligible Asset if the long-term debt of such other party is rated at least A- by Fitch Ratings or the equivalent by another NRSRO and such agreement has a term of 30 days or less; otherwise the Discounted Value of such purchased asset will constitute a Fitch Eligible Asset. Notwithstanding the foregoing, an asset will not be considered a Fitch Eligible Asset to the extent that it has been irrevocably deposited for the payment of (i)(A) through (i)(E) under the definition of Preferred Shares Basic Maintenance Amount or to the extent it is subject to any liens, except for (A) liens which are being contested in good faith by appropriate proceedings and which Fitch Ratings has indicated to the Fund will not affect the status of such asset as a Fitch Eligible Asset, (B) liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (C) liens to secure payment for services rendered or cash advanced to the Fund by its Advisor or portfolio manager, the Fund's custodian, transfer agent or registrar or the Auction Agent and (D) liens by virtue of any repurchase agreement. General The foregoing Rating Agency Guidelines are subject to change from time to time. The Fund may, but it is not required to, adopt any such change. Nationally recognized rating agencies other than S&P and Fitch may also from time to time rate the Preferred Shares; any nationally recognized rating agency providing a rating for the Preferred Shares may, at any time, change or withdraw any such rating. U.S. FEDERAL INCOME TAX MATTERS The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a shareholder of acquiring, holding and disposing of Preferred Shares of the Fund. This discussion only addresses U.S. federal income tax consequences to U.S. shareholders who hold their shares as capital assets and does not address all of the U.S. federal income tax consequences that may be relevant to particular shareholders in light of their individual circumstances. This discussion also does not address the tax consequences to shareholders who are subject to special rules, including, without limitation, financial institutions, insurance companies, dealers in securities or foreign currencies, foreign holders, persons who hold their shares as or in a hedge against currency risk, a constructive sale, or conversion transaction, holders who are subject to the alternative minimum tax, or tax-exempt or tax-deferred plans, accounts, or entities. In addition, the discussion does not address any state, local, or foreign tax consequences, and it does not address any federal tax consequences other than U.S. federal income tax consequences. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by

the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting the Fund and its shareholders, and the discussion set forth herein does not constitute tax advice. Investors are urged to consult their own tax advisers to determine the specific tax consequences to them of investing in the Fund, including the applicable federal, state, local and foreign tax consequences to them and the effect of possible changes in tax laws. The Fund intends to elect to be treated and to qualify each year as a "regulated investment company" under Subchapter M of the Code and to comply with applicable distribution requirements so that it generally will not pay U.S. federal income tax on income and capital gains distributed to shareholders. In order to qualify as a regulated investment company under Subchapter M of the Code, which this discussion assumes, the Fund must, among other things, (i) derive at least 90% of its gross income for each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the "90% income test") and (ii) diversify its holdings so that, at the end of each quarter of its taxable year, (x) at least 50% of the value of its total assets is represented by cash, United States government securities, securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount that does not exceed 5% of the value of the Fund's total assets and that does not represent more than 10% of the issuer's outstanding voting securities and (y) not more than 25% of the value of its total assets is invested in the securities (other than United States government securities or the securities of other regulated investment companies) of any one issuer, or of two or more issuers controlled by the Fund and engaged in the same, similar or related trades or businesses. For purposes of the 90% income test, the character of income earned by certain entities in which the Fund invests that are not treated as corporations (e.g., partnerships or trusts) for U.S. federal income tax purposes will generally pass through to the Fund. Consequently, the Fund may be required to limit its equity investments in such entities that earn fee income, rental income or other nonqualifying income. If the Fund qualifies as a regulated investment company and, for each taxable year, it distributes to its shareholders an amount equal to or exceeding the sum of (i) 90% of its "investment company taxable income" as that term is defined in the Code (which

includes, among other things, dividends, taxable interest, and the excess of any net short-term capital gains over net long-term capital losses, as reduced by certain deductible expenses) without regard to the deduction for dividends paid and (ii) 90% of the excess of its gross tax-exempt interest, if any, over certain disallowed deductions, the Fund will generally be relieved of U.S. federal income tax on any income of the Fund, including long-term capital gains, distributed to shareholders. However, if the Fund retains any investment company taxable income or "net capital gain" (the excess of net long-term capital gain over net short-term capital loss), it generally will be subject to U.S. federal income tax at regular corporate rates on the amounts retained. The Fund intends to distribute at least annually all or substantially all of its investment company taxable income, net tax-exempt interest, and net capital gain. If for any taxable year the Fund did not qualify as a regulated investment company, it would be treated as a corporation subject to U.S. federal income tax. In addition, in such cases, any distributions out of current or accumulated earnings and profits (including net capital gain) would be taxed as dividend income and it may be difficult for the Fund to requalify under Subchapter M. Under the Code, the Fund will be subject to a nondeductible 4% federal excise tax on a portion of its undistributed ordinary income and capital gains if it fails to meet certain distribution requirements with respect to each calendar year. The Fund intends to make distributions in a timely manner and accordingly does not expect to be subject to the excise tax, but, as described below, there can be no assurance that the Fund's distributions will be sufficient to entirely avoid this tax. Based in part on the lack of any present intention on the part of the Fund to redeem or purchase the Preferred Shares at any time in the future, the Fund believes that under present law the Preferred Shares will constitute stock of the Fund and distributions with respect to the Preferred Shares (other than distributions in redemption of the Preferred Shares that are treated as exchanges of stock under Section 302(b) of the Code) will constitute dividends to the extent of the Fund's current or accumulated earnings and profits as calculated for U.S. federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders (other than capital gain dividends or dividends attributable to qualified dividend income of the Fund, as described below) and if a portion of the Fund's income consists of qualifying dividends paid by U.S. corporations, a portion of the dividends paid by the Fund may qualify for the corporate dividends received deduction. The Fund's belief relies in part on a published ruling of the IRS stating that certain preferred stock similar in many material

respects to the Preferred Shares represents equity (and the following discussion assumes such treatment will apply). It is possible, however, that the IRS might take a contrary position asserting, for example that the Preferred Shares constitute debt of the Fund. If this position were upheld, the discussion of the treatment of distributions above would not apply. Instead, distributions by the Fund to holders of Preferred Shares would constitute interest, whether or not such distributions exceeded the earnings and profits of the Fund, would be included in full in the income of the recipient and would be taxed as ordinary income. The Fund intends to declare a dividend from all or a portion of its net investment income monthly. The Fund expects to pay its first dividend on the Preferred Shares on , 2004. The Fund intends to distribute any net short- and long-term capital gains at least annually. The Fund intends to seek an exemptive order from the Commission that would allow it to distribute capital gains in any one taxable year as often as necessary to comply with IRS revenue rulings. Dividends from income and/or capital gains may also be paid at such other times as may be necessary for the Fund to avoid U.S. federal income or excise tax. In general, assuming there are sufficient current or accumulated earnings and profits, dividends from investment company taxable income (other than dividends attributable to qualified dividend income of the Fund as discussed below) will be taxable as ordinary income, and designated dividends from net capital gain, if any, will be taxable as long-term capital gains for U.S. federal income tax purposes without regard to the length of time the shareholder has held shares of the Fund. As noted above, a portion of the Fund's dividends may qualify for the corporate dividends received deduction. Distributions by the Fund in excess of the Fund's current and accumulated earnings and profits will be treated as a return of capital to the extent of (and in reduction of) the shareholder's tax basis in its shares, and any such amount in excess of that basis will be treated as gain from the sale of the shares as discussed below. The U.S. federal income tax status of all distributions will be reported to shareholders annually. If the Fund retains any net capital gain, the Fund may designate the retained amount as undistributed capital gains in a notice to shareholders who, if subject to U.S. federal income tax on long-term capital gains, (i) will be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their proportionate shares of such undistributed amount, (ii) will be entitled to credit their proportionate shares of the tax paid by the Fund on the undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities, and (iii) will be

entitled to increase the tax basis of their shares by the difference between their proportionate shares of such includible gains and their proportionate shares of the tax deemed paid. Any dividend declared by the Fund in October, November or December with a record date in such a month and paid during the following January will be treated for U.S. federal income tax purposes as paid by the Fund and received by shareholders on December 31 of the calendar year in which it is declared. Recently enacted legislation reduces the federal income tax rate for individuals on certain dividend income and net capital gain to a maximum of 15% for taxable years beginning on or before December 31, 2008. Capital gain dividends and a portion of ordinary income distributions (allocable to qualified dividend income received by the Fund) received by individual shareholders of the Fund may be subject to the reduced tax rate. Qualified dividend income generally includes dividends from domestic corporations and dividends from foreign corporations that meet certain specified criteria. Certain holding period and other requirements must be satisfied in order for the reduced tax rate to apply to dividends which would otherwise be qualified dividend income. The Fund will annually inform shareholders of the portion of ordinary dividends paid by the Fund which qualify for the new reduced federal income tax rate available for such dividends. If the Fund acquires any equity interest (under proposed Treasury regulations, generally including not only stock but also an option to acquire stock such as is inherent in a convertible bond) in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, certain rents and royalties, or capital gains) or that hold at least 50% of their assets in investments producing such passive income ("passive foreign investment companies"), the Fund could be subject to U.S. federal income tax and additional interest charges on "excess distributions" received from such companies or on gain from the disposition of stock in such companies, even if all income or gain actually received by the Fund is timely distributed to its shareholders. The Fund generally will not be able to pass through to its shareholders any credit or deduction for such a tax. An election may generally be available that would ameliorate these adverse tax consequences, but any such election could require the Fund to recognize taxable income or gain (subject to tax distribution requirements) without the concurrent receipt of cash. These investments could also result in the treatment of associated capital gains as ordinary income. The Fund may limit and/or manage its holdings in passive foreign investment companies to limit its tax liability or maximize its return from these investments. The Fund may invest to

a significant extent in debt obligations that are in the lowest rating categories or are unrated, including debt obligations of issuers not currently paying interest or who are in default. Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as when and to what extent deductions may be taken for bad debts or worthless securities and how payments received on obligations in default should be allocated between principal and income. These and other issues will be addressed by the Fund, in the event it invests in such securities, in order to seek to ensure that it distributes sufficient income to preserve its status as a regulated investment company and does not become subject to U.S. federal income or excise tax. If at any time when the Preferred Shares are outstanding the Fund fails to meet the requirement that it maintain a discounted value of eligible portfolio securities equal to the Preferred Shares Basic Maintenance Amount or the 1940 Preferred Shares Asset Coverage, the Fund will be required to suspend distributions to holders of its common shares until such maintenance or asset coverage, as the case may be, is restored. This could prevent the Fund from distributing at least 90% of its investment company taxable income as is required under the Code and therefore might jeopardize the Fund's reduction or exemption from corporate taxation as a regulated investment company and/or might subject the Fund to the 4% excise tax. Upon any failure to meet such maintenance or asset coverage requirements, the Fund may, in its sole discretion, purchase or redeem shares of preferred stock in order to maintain or restore the requisite maintenance or asset coverage and avoid the adverse consequences to the Fund and its shareholders of failing to satisfy the distribution requirement. There can be no assurance, however, that any such action would achieve these objectives. The Fund will endeavor to avoid restrictions on its ability to distribute dividends. If the Fund invests in certain pay-in-kind securities, zero coupon bonds, certain preferred shares, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the Fund elects to include market discount in income currently), the Fund generally must accrue income on such investments for each taxable year, which generally will be prior to the receipt of the corresponding cash payments. However, the Fund must distribute, at least annually, all or substantially all of its net income, including such accrued income, to shareholders to qualify as a regulated investment company under the Code and avoid U.S. federal income and excise taxes. Therefore, the Fund may have to dispose of its portfolio securities under disadvantageous circumstances

to generate cash, or may have to leverage itself by borrowing the cash, to satisfy distribution requirements. At the time of an investor's purchase of the Fund's shares, a portion of the purchase price may be attributable to realized or unrealized appreciation in the Fund's portfolio or undistributed taxable income of the Fund.

Consequently, subsequent distributions by the Fund with respect to these shares from such appreciation or income may be taxable to such investor even if the net asset value of the investor's shares is, as a result of the distributions, reduced below the investor's cost for such shares and the distributions economically represent a return of a portion of the investment. Sales and other dispositions of the Fund's shares generally are taxable events for shareholders that are subject to tax. Shareholders should consult their own tax advisers with reference to their individual circumstances to determine whether any particular transaction in the Fund's shares (including a redemption of Preferred Shares) is properly treated as a sale for tax purposes, as the following discussion assumes, and the tax treatment of any gains or losses recognized in such transactions. In general, if Fund shares are sold, the shareholder will recognize gain or loss equal to the difference between the amount realized on the sale and the shareholder's adjusted basis in the shares. Such gain or loss generally will be treated as long-term gain or loss if the shares were held for more than one year and otherwise generally will be treated as short-term gain or loss. Any loss recognized by a shareholder upon the sale or other disposition of shares with a tax holding period of six months or less generally will be treated as a long-term capital loss to the extent of any amounts treated as distributions of long-term capital gain with respect to such shares. Losses on sales or other dispositions of shares may be disallowed under "wash sale" rules in the event of other investments in the Fund (including those made pursuant to reinvestment of dividends and/or capital gain distributions) within a period of 61 days beginning 30 days before and ending 30 days after a sale or other disposition of the original shares. The Fund's transactions in foreign currencies, foreign currency denominated debt securities and certain foreign currency options and contracts may give rise to ordinary income or loss under Section 988 of the Code to the extent the income or loss results from fluctuations in the value of the relevant foreign currency. Gain or loss, if any, resulting from a redemption of Preferred Shares generally will be taxed as gain or loss from the sale of the Preferred Shares under Section 302 of the Code rather than as a dividend, but only if the redemption distribution (a) is deemed not to be essentially equivalent to a dividend, (b) is in complete redemption of

an owner's interest in the Fund, (c) is substantially disproportionate with respect to the owner, or (d) with respect to a non-corporate owner, is in partial liquidation of the Fund. For the purposes of (a), (b), and (c) above, a shareholder's ownership of common shares will be taken into account and the Preferred Shares and common shares held by parties who are related to the redeemed shareholder may also have to be taken into account. If none of the conditions (a) through (d) above are met, the redemption proceeds may be considered a dividend distribution taxable as ordinary income as discussed above. Options written or purchased and futures contracts entered into by the Fund on certain securities, indices and foreign currencies, as well as certain forward foreign currency contracts, may cause the Fund to recognize gains or losses from marking-to-market even though such options may not have lapsed, been closed out, or exercised, or such futures or forward contracts may not have been performed or closed out. The tax rules applicable to these contracts may affect the characterization of some capital gains and losses recognized by the Fund as long-term or short-term. As noted above, certain options, futures and forward contracts relating to foreign currency may be subject to Section 988 of the Code and accordingly may produce ordinary income or loss. Additionally, the Fund may be required to recognize gain if an option, futures contract, forward contract, short sale or other transaction that is not subject to the mark-to-market rules is treated as a "constructive sale" of an "appreciated financial position" held by the Fund under Section 1259 of the Code. Any net mark-to-market gains and/or gains from constructive sales may also have to be distributed to satisfy the distribution requirements referred to above even though the Fund may receive no corresponding cash amounts, possibly requiring the disposition of portfolio securities or borrowing to obtain the necessary cash. Losses on certain options, futures or forward contracts and/or offsetting positions (portfolio securities or other positions with respect to which the Fund's risk of loss is substantially diminished by one or more options, futures or forward contracts) may also be deferred under the tax straddle rules of the Code, which may also affect the characterization of capital gains or losses from straddle positions and certain successor positions as long-term or short-term. Certain tax elections may be available that would enable the Fund to ameliorate some adverse effects of the tax rules described in this paragraph. The tax rules applicable to options, futures, forward contracts and straddles may affect the amount, timing and character of the Fund's income and gains or losses and hence of its distributions to shareholders. The Fund's distributions to its corporate shareholders would

potentially qualify in their hands for the corporate dividends received deduction, subject to certain holding period requirements and limitations on debt financings under the Code, but only to the extent the Fund earned dividend income from stock investments in U.S. domestic corporations and certain other requirements are satisfied. The Fund is permitted to acquire stocks of U.S. domestic corporations, and it is therefore possible that a portion of the Fund's distributions, from the dividends attributable to such stocks, may qualify for the dividends received deduction. Such qualifying portion, if any, may affect a corporate shareholder's liability for alternative minimum tax and/or result in basis reductions and other consequences in certain circumstances. The IRS has taken the position that if a regulated investment company has two classes of shares, it must designate distributions made to each class in any year as consisting of no more than such class's proportionate share of particular types of income, including dividends qualifying for the corporate dividends received deduction (if any) and net capital gains. A class's proportionate share of a particular type of income is determined according to the percentage of total dividends paid by the regulated investment company during the year to such class. Consequently, the Fund intends to designate distributions of particular types of income (such as net capital gains, dividends qualifying for the corporate dividends received deduction and qualified dividend income) made to common shareholders and preferred shareholders in accordance with each such class's proportionate shares of such income. Distributions in excess of the Fund's current and accumulated earnings and profits (if any), however, will not be allocated proportionately among the Preferred Shares and the common shares. Since the Fund's current and accumulated earnings will first be used to pay dividends on the Preferred Shares, distributions in excess of such earnings and profits, if any, will be made disproportionately to holders of common shares. The Fund may be subject to withholding and other taxes imposed by foreign countries, including taxes on interest, dividends and capital gains with respect to its investments in those countries, which would, if imposed, reduce the yield on or return from those investments. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes in some cases. The Fund does not expect to satisfy the requirements for passing through to its shareholders their pro rata shares of qualified foreign taxes paid by the Fund, with the general result that shareholders would not include such taxes in their gross incomes and would not be entitled to a tax deduction or credit for such taxes on their own tax returns. Federal law requires that the Fund withhold (as

"backup withholding") tax at a current rate of 28% on reportable payments, including dividends and capital gain distributions paid to certain shareholders who have not complied with IRS regulations. Corporations are generally exempt from backup withholding. In order to avoid this withholding requirement, shareholders must certify on their account applications, or on separate IRS Forms W-9, that the Social Security Number or other Taxpayer Identification Number they provide is their correct number and that they are not currently subject to backup withholding, or that they are exempt from backup withholding. The Fund may nevertheless be required to withhold if it receives notice from the IRS that the number provided is incorrect or backup withholding is applicable as a result of previous underreporting of income. Similar backup withholding rules may apply to a shareholder's broker with respect to the proceeds of sales or other dispositions of the Fund's shares by such shareholder. Backup withholding is not an additional tax. Any amounts withheld from payments made to a shareholder may be refunded or credited against such shareholder's U.S. federal income tax liability, if any, provided that the required information is provided to the IRS. Under recently promulgated Treasury regulations, if a shareholder recognizes a loss with respect to shares of \$2 million or more for an individual shareholder, or \$10 million or more for a corporate shareholder, in any single taxable year (or a greater amount over a combination of years), the shareholder must file with the IRS a disclosure statement on IRS Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement but under current guidance shareholders of regulated investment companies are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether or not the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisers to determine the applicability of these regulations in light of their individual circumstances. The description of certain federal tax provisions above relates only to U.S. federal income tax consequences for shareholders who are U.S. persons, i.e., U.S. citizens or residents or U.S. corporations, partnerships, trusts or estates, and who are subject to U.S. federal income tax. Investors other than U.S. persons may be subject to different U.S. tax treatment, including a U.S. withholding tax on amounts treated as ordinary dividends from the Fund and, unless an effective IRS Form W-8BEN or other authorized withholding certificate is on file, to backup withholding on certain other payments from the Fund. Shareholders should consult their own tax advisers on these matters and on any specific questions as to U.S.

federal, foreign, state, local and other applicable tax laws.

PERFORMANCE-RELATED AND OTHER INFORMATION Performance-Related Information The Fund may quote certain performance-related information and may compare certain aspects of its portfolio and structure to other similar closed-end funds as categorized by Lipper, Inc. (Lipper), Morningstar Inc. or other independent services. Comparison of the Fund to an alternative investment should be made with consideration of differences in features and expected performance. The Fund may obtain data from sources or reporting services, such as Bloomberg Financial and Lipper, that the Fund believes to be generally accurate. From time to time, the Fund and/or the Advisor may report to shareholders or to the public in advertisements concerning the Advisor's performance as an advisor to Evergreen mutual funds and clients other than the Fund, or on the comparative performance or standing of the Advisor in relation to other money managers. The Advisor may also provide to current or prospective private account clients, in connection with standardized performance information for the Fund, performance information for the Fund gross of fees and expenses for the purpose of assisting such clients in evaluating similar performance information provided by other investment managers or institutions. Comparative information may be compiled or provided by independent ratings services or by news organizations. Performance information for the Fund or for other Evergreen mutual funds or accounts managed by the Advisor may also be compared to various unmanaged indexes or to other benchmarks, some of which may not be available for direct investment. Any performance information, whether related to the Fund or the Advisor, should be considered in light of the Fund's investment objective and policies, the characteristics and quality of the Fund, and the market conditions during the time period indicated, and it should not be considered to be representative of what may be achieved in the future. The Advisor may provide its opinion with respect to general economic conditions including such matters as trends in default rates or economic cycles. Past performance is not indicative of future results. At the time common shareholders sell their shares, they may be worth more or less than their original investment. At any time in the future, yields and total return may be higher or lower than past yields and total return, and there can be no assurance that any historical results will continue. The Advisor From time to time, the Advisor or the Fund may use, in advertisements or information furnished to present or prospective shareholders, information regarding the Advisor including, without limitation, information regarding the Advisor's

investment style, countries of operation, organization, professional staff, clients (including other registered investment companies), assets under management and performance record. These materials may refer to opinions or rankings of the Advisor's overall investment management performance contained in third-party reports or publications. Advertisements for the Fund may make reference to certain other open- or closed-end investment companies managed by Evergreen. The Advisor may present an investment allocation model demonstrating the Fund's weightings in investment types, sectors or rating categories such as U.S. high yield, emerging markets or investment grade securities. The model allocations are representative of the Fund's investment strategy, the Advisor's analysis of the market for high yield securities as of the date of the model and certain factors that may alter the allocation percentages include global economic conditions, individual company fundamentals or changes in market valuations. Such models may also indicate an expected or targeted weighted average rating of the Fund's portfolio. The Fund's listing of its common shares on the American Stock Exchange is expected to provide liquidity, convenience and daily price visibility through electronic services and in newspaper stock tables. The Fund, in its advertisements, may refer to pending legislation from time to time and the possible impact of such legislation on investors, investment strategy and related matters. The Fund may be a suitable investment for a shareholder who is thinking of adding bond investments to his portfolio to balance the appreciated stocks that the shareholder is holding. Performance Calculations Average Annual Total Return Described below are the total return calculations the Fund may use from time to time in advertisements. Total return quotations for a class of shares of the Fund are calculated by finding the average annual compounded rates of return over one, five and ten year periods, or the time periods for which such class of shares has been effective, whichever is relevant, on a hypothetical \$1,000 investment that would equate the initial amount invested in the class to the ending redeemable value. To the initial investment all dividends and distributions are added, and all recurring fees charged to all shareholder accounts are deducted. The ending redeemable value assumes a complete redemption at the end of the relevant periods. The following is the formula used to calculate average annual total return: $P(1+T)^n = ERV$ P = initial payment of \$1,000. T = average annual total return. n = number of years. ERV = ending redeemable value of the initial \$1,000. Yield Described below are yield calculations the Fund may use. Yield quotations are expressed in annualized terms and may be

quoted on a compounded basis. Yields based on these calculations do not represent the Fund's yield for any future period.

30-Day Yield If the Fund invests primarily in bonds, it may quote its 30-day yield in advertisements or in reports or other communications to shareholders. It is calculated by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula: $Yield = 2[(a-b)+1]^{6-1} \frac{c}{d}$ Where: a = Dividends and interest earned during the period b = Expenses accrued for the period (net of reimbursements) c = The average daily number of shares outstanding during the period that were entitled to receive dividends d = The maximum offering price per share on the last day of the period

7-Day Current and Effective Yield If the Fund invests primarily in money market instruments, it may quote its 7-day current yield or effective yield in advertisements or in reports or other communications to shareholders. The current yield is calculated by determining the net change, excluding capital changes and income other than investment income, in the value of a hypothetical, pre-existing account having a balance of one share at the beginning of the 7-day base period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then multiplying the base period return by (365/7). The effective yield is based on a compounding of the current yield, according to the following formula: $Effective\ Yield = [(base\ period\ return) + 1]^{365/7} - 1$

Tax Equivalent Yield If the Fund invests primarily in municipal bonds, it may quote in advertisements or in reports or other communications to shareholders a tax equivalent yield, which is what an investor would generally need to earn from a fully taxable investment in order to realize, after income taxes, a benefit equal to the tax free yield provided by the Fund. Tax equivalent yield is calculated using the following formula: $Tax\ Equivalent\ Yield = Yield \frac{1 - Income\ Tax\ Rate}{1 - Income\ Tax\ Rate}$ The quotient is then added to that portion, if any, of the Fund's yield that is not tax exempt. Depending on the Fund's objective, the income tax rate used in the formula above may be federal or a combination of federal and state.

Non-Standardized Performance In addition to the performance information described above, the Fund may provide total return information for designated periods, such as for the most recent six months or most recent twelve months. This total return information is computed as described under "Total Return" above except that no annualization is made.

EXPERTS The financial statement of the Fund as of March 15, 2004

appearing in the Fund's Statement of Additional Information dated April 27, 2004 relating to the Fund's common shares, and incorporated by reference herein, was audited by KPMG LLP, independent auditors, as set forth in their report thereon appearing in such Statement of Additional Information, and was included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. KPMG LLP, located at 99 High Street, Boston, Massachusetts 02110, provides accounting and auditing services to the Fund.

ADDITIONAL INFORMATION A Registration Statement on Form N-2, including amendments thereto, relating to the shares offered hereby, has been filed by the Fund with the Commission, Washington, D.C. The prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered hereby, reference is made to the Registration Statement. Statements contained in the prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected without charge at the Commission's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission.

FINANCIAL STATEMENTS EVERGREEN UTILITIES AND HIGH INCOME FUND FINANCIAL

HIGHLIGHTS (for a common share outstanding throughout the period) Period Ended May 31, 2004 (a) (unaudited) _____ Net asset value, beginning of period \$ 19.10 (b) Income from investment operations _____ Net investment income 0.17 Net realized and unrealized gains or losses on securities and (0.35) foreign currency related transactions _____ Total from investment operations (0.18) Offering costs charged to capital (0.04) _____ Net asset value, end of period \$ 18.88 _____ Market value, end of period \$ 20.01 _____ Total return (c) Based on market value 0.05% Based on net asset value -1.15% Ratios and supplemental data Net assets, end of period (in thousands) \$ 217,174 Ratios to average net assets applicable to common shareholders Expenses (d) 0.85% (e) Interest expense 0.17% (e) Net investment

income 10.33% (e) Portfolio turnover rate 14% (a)For the period from April 30, 2004 (commencement of operations), to May 31, 2004. (b)Initial public offering price of \$20.00 per share less underwriting discount of \$0.90 per share. (c)Total return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each period reported. Dividends and distributions are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions or sales charges. (d)Ratio of expenses to average net assets excludes interest expense. (e)Annualized See Notes to Financial Statements EVERGREEN UTILITIES AND HIGH INCOME FUND STATEMENT OF ASSETS AND LIABILITIES May 31, 2004 (unaudited) Assets Identified cost of securities \$ 256,194,004 Net unrealized loss on securities (2,424,889) Market value of securities 253,769,115 Dividends and interest receivable 2,640,325 Total assets 256,409,440 Liabilities Payable for reverse repurchase agreements 39,055,895 Payable for offering costs 20,934 Advisory fee payable 112,337 Due to other related parties 9,361 Accrued expenses and other liabilities 37,407 Total liabilities 39,235,934 Net assets applicable to common shareholders \$ 217,173,506 Net assets represented by Paid-in capital \$ 219,290,000 Undistributed net investment income 1,939,167 Accumulated net realized loss on securities and foreign currency transactions (1,630,829) Net unrealized losses on securities and foreign currency related transactions (2,424,832) Net assets applicable to common shareholders \$ 217,173,506 Net asset value per share applicable to common shareholders (\$217,173,506 divided by 11,505,000 common shares issued and \$ 18.88 outstanding) See Notes to Financial Statements EVERGREEN UTILITIES AND HIGH INCOME FUND STATEMENT OF OPERATIONS Period Ended May 31, 2004 (unaudited) (a)

Investment income Dividends (net of foreign tax withholding of \$3,565) \$1,671,924 Interest 457,623

Total investment income 2,129,547

Expenses Advisory fee 112,337 Administrative services fee 9,361 Transfer agent fees 3,716 Trustees' fees and expenses 4,301 Printing and postage expenses 11,613 Custodian and accounting fees 4,493 Professional fees 12,387 Other 1,033

Operating expenses before interest expense 159,241 Interest expense 31,139

 Total expenses 190,380

Net investment income 1,939,167

Net realized and unrealized gains or losses on securities and foreign currency related transactions Net realized losses on: Securities (1,600,964) Foreign currency related transactions (29,865)

Net realized losses on securities and foreign currency related transactions (1,630,829) Net change in unrealized gains or losses on securities and foreign currency related transactions (2,424,832)

Net realized and unrealized gains or losses on securities and foreign currency related transactions (4,055,661)
 ----- Net decrease in net assets applicable to common \$ (2,116,494) shareholders resulting from operations

(a) For the period from April 30, 2004 (commencement of operations), to May 31, 2004. See Notes to Financial Statements EVERGREEN UTILITIES AND HIGH INCOME FUND STATEMENT OF CHANGES IN NET ASSETS Period Ended May 31, 2004 (unaudited) (a) Operations Net investment income \$ 1,939,167 Net realized losses on securities and foreign currency related transactions (1,630,829) Net change in unrealized gains or losses on securities and foreign currency related transactions (2,424,832) Net decrease in net assets applicable to common shareholders resulting from operations (2,116,494) Capital share transactions Net proceeds from the issuance of common shares 219,650,000 Common share offering expenses charged to paid-in capital (460,000) Net increase in net assets resulting from capital share transactions 219,190,000 Total increase in net assets applicable to common shareholders 217,073,506 Net assets applicable to common shareholders Beginning of period 100,000 End of period \$ 217,173,506 Undistributed net investment income 1,939,167 (a) For the period from April 30, 2004 (commencement of operations), to May 31, 2004. See Notes to Financial Statements FINANCIAL STATEMENTS EVERGREEN UTILITIES AND HIGH INCOME FUND Schedule of Investments May 31, 2004 (unaudited) Principal Amount Value

----- CORPORATE BONDS 34.6%
 CONSUMER DISCRETIONARY 9.4% Auto Components
 0.5% HLI Operating, Inc., 10.50%, 06/15/2010 \$
 1,000,000\$ 1,120,000
 =====

===== ----- Distributors
 0.5% Roundys, Inc., Ser. B, 8.875%, 06/15/2012
 1,000,000 1,070,000

===== ----- Hotels,
 Restaurants & Leisure 2.4% Friendly Ice Cream Corp.,
 8.375%, 06/15/2012 144A 1,000,000 995,000

===== ----- John Q Hammons Hotels LP, Ser.
 B, 8.875%, 05/15/2012 1,000,000 1,085,000

===== ----- MTR Gaming Group, Inc.,
 9.75%, 04/01/2010 1,000,000 1,075,000

===== ----- Seneca Gaming Corp., 7.25%,
 05/01/2012 144A 1,000,000 995,000

===== ----- Town Sports International, Inc.,
 9.625%, 04/15/2011 1,000,000 1,000,000

===== ----- 5,150,000 -----
 Household Durables 1.0% Standard Pacific Corp., 7.75%,
 03/15/2013 1,000,000 1,000,000

===== ----- WCI Communities, Inc.,
 9.125%, 05/01/2012 1,000,000 1,070,000

===== ----- 2,070,000 ----- Media
 2.4% Dex Media West LLC, 8.50%, 08/15/2010 144A
 1,000,000 1,095,000

===== ----- Emmis Communications Corp.,
 6.875%, 05/15/2012 144A 1,000,000 985,000

===== ----- Houghton Mifflin Co., 8.25%,
 02/01/2011 1,000,000 1,020,000

===== ----- Mediacom LLC, 9.50%,
 01/15/2013 1,000,000 970,000

===== ----- R.H. Donnelley Finance Corp., 10.875%,
 12/15/2012 1,000,000 1,175,000

===== ----- 5,245,000 -----
 Specialty Retail 2.1% Central Garden & Pet Co., 9.125%,
 02/01/2013 1,000,000 1,087,500

===== ----- CSK Auto, Inc., 7.00%,
 01/15/2014 144A 1,000,000 970,000

===== ----- Group 1 Automotive, Inc., 8.25%,

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08/15/2013 1,000,000 1,045,000
=====

===== PETCO Animal Supplies, Inc.,
10.75%, 11/01/2011 395,000 448,325
=====

===== United Auto Group, Inc., 9.625%,
03/15/2012 1,000,000 1,075,000
=====

===== 4,625,825 -----
Textiles, Apparel & Luxury Goods 0.5% Oxford
Industries, Inc., 8.875%, 06/01/2011 144A 1,000,000
1,065,000
=====

===== CONSUMER
STAPLES 0.4% Food Products 0.4% Dole Food Co., Inc.,
7.25%, 06/15/2010 1,000,000 950,000
=====

===== ENERGY 4.3%
Energy Equipment & Services 1.0% Dresser, Inc., 9.375%,
04/15/2011 1,000,000 1,070,000
=====

===== SESI LLC, 8.875%, 05/15/2011
1,000,000 1,080,000
=====

===== 2,150,000 ----- Oil & Gas 3.3%
Chesapeake Energy Corp., 6.875%, 01/15/2016 1,000,000
980,000
=====

===== Exco Resources, Inc., 7.25%,
01/15/2011 144A 1,000,000 1,000,000
=====

===== Ferrellgas Escrow LLC, 6.75%,
05/01/2014 144A 1,000,000 962,500
=====

===== Forest Oil Corp., 7.75%,
05/01/2014 1,000,000 1,020,000
=====

===== Plains Exploration & Production
Co., 8.75%, 07/01/2012 1,000,000 1,085,000
=====

===== Premcor Refining Group, Inc.,
6.75%, 05/01/2014 1,000,000 972,500
=====

===== Stone Energy Corp., 8.25%,
12/15/2011 1,000,000 1,050,000
=====

===== 7,070,000 -----
FINANCIALS 3.4% Insurance 1.0% Couche Tard LP,
7.50%, 12/15/2013 1,000,000 1,010,000
=====

===== Crum & Forster Holding Corp.,

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10.375%, 06/15/2013 1,000,000 1,087,500

===== 2,097,500 ----- Real

Estate 2.4% CB Richard Ellis Services, Inc., 9.75%,
05/15/2010 REIT 2,000,000 2,170,000

===== HMH Properties, Ser. J,
7.125%, 11/01/2013 REIT 1,000,000 977,500

===== LNR Property Corp., 7.625%,
07/15/2013 REIT 1,000,000 987,500

===== Thornburg Mortgage, Inc., 8.00%,
05/15/2013 REIT 1,000,000 987,500

===== 5,122,500 -----
HEALTH CARE 1.8% Health Care Equipment & Supplies
0.4% NeighborCare, Inc., 6.875%, 11/15/2013 144A
1,000,000 1,010,000

===== Health Care
Providers & Services 0.9% Omega Healthcare Investors,
Inc., 7.00%, 04/01/2014 144A 1,000,000 965,000

===== Triad Hospitals, Inc., 7.00%,
11/15/2013 1,000,000 965,000

===== 1,930,000 -----
Pharmaceuticals 0.5% Alpharma, Inc., 8.625%,
05/01/2011 144A 1,000,000 1,047,500

===== INDUSTRIALS 7.5%
Aerospace & Defense 0.9% Da Lite Screen Co., Inc.,
9.50%, 05/15/2011 1,000,000 1,041,250

===== DRS Technologies, Inc.,
6.875%, 11/01/2013 1,000,000 970,000

===== 2,011,250 -----
Commercial Services & Supplies 4.0% Allied Waste North
America, Inc., 6.50%, 11/15/2010 144A 1,000,000
975,000

===== Geo Group, Inc., 8.25%,
07/15/2013 1,000,000 980,000

===== Iron Mountain, Inc., 6.625%,
01/01/2016 1,000,000 915,000

===== Mail Well I Corp., 7.875%,
12/01/2013 144A 1,000,000 925,000

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=====
===== Maniwoc Co., Inc., 7.125%,
11/01/2013 1,000,000 1,005,000
=====
===== NationsRent, Inc., 9.50%,
10/15/2010 144A 1,000,000 1,065,000
=====
===== Newpark Resource, Inc.,
8.625%, 12/15/2007 1,000,000 1,015,000
=====
===== Service Corp. International,
6.75%, 04/01/2016 144A 1,000,000 920,000
=====
===== United Rentals North America,
Inc., 6.50%, 02/15/2012 144A 1,000,000 945,000
=====
===== 8,745,000 -----
Machinery 1.4% Case New Holland, Inc., 9.25%,
08/01/2011 144A 1,000,000 1,055,000
=====
===== Cummins, Inc., 9.50%,
12/01/2010 1,000,000 1,140,000
=====
===== Terex Corp., 7.375%,
01/15/2014 144A 1,000,000 980,000
=====
===== 3,175,000 -----
Transportation Infrastructure 1.2% Aviall, Inc., 7.625%,
07/01/2011 1,520,000 1,580,800
=====
===== Offshore Logistics, Inc.,
6.125%, 06/15/2013 1,000,000 935,000
=====
===== 2,515,800 -----
INFORMATION TECHNOLOGY 0.5% IT Services 0.5%
Unisys Corp., 6.875%, 03/15/2010 1,000,000 1,030,000
=====
===== MATERIALS 5.4% Chemicals
3.5% Equistar Chemicals LP, 10.625%, 05/01/2011
1,000,000 1,102,500
=====
===== Ethyl Corp., 8.875%,
05/01/2010 1,000,000 1,060,000
=====
===== Huntsman Advanced Materials LLC:
===== 11.00%,
07/15/2010 144A 1,000,000 1,117,500
=====
===== 11.625%, 10/15/2010 1,000,000 1,082,500
=====
=====
Lyondell Chemical Co., 9.50%, 12/15/2008 1,000,000

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1,035,000

=====

===== Nalco Co., 7.75%, 11/15/2011
144A 1,000,000 1,050,000

=====

===== Noveon, Inc., Ser. B, 11.00%,
02/28/2011 1,000,000 1,192,500

=====

===== 7,640,000 -----
Containers & Packaging 0.9% Crown Cork & Seal Co.,
Inc., 7.375%, 12/15/2026 1,000,000 850,000

=====

===== Stone Container Corp., 9.75%,
02/01/2011 1,000,000 1,090,000

=====

===== 1,940,000 -----
Metals & Mining 0.5% U.S. Steel Corp., 10.75%,
08/01/2008 1,000,000 1,135,000

=====

===== ----- Paper & Forest
Products 0.5% Millar Western Forest Products, 7.75%,
11/15/2013 144A 1,000,000 1,005,000

=====

===== -----
TELECOMMUNICATION SERVICES 1.4% Diversified
Telecommunication Services 0.5% Insight Midwest LP,
10.50%, 11/01/2010 1,000,000 1,090,000

=====

===== ----- Wireless
Telecommunications Services 0.9% Nextel
Communications, Inc., 5.95%, 03/15/2014 1,000,000
932,500

=====

===== Rural Cellular Corp., 8.25%,
03/15/2012 144A 1,000,000 1,030,000

=====

===== 1,962,500 -----
UTILITIES 0.5% Multi-Utilities & Unregulated Power
0.5% Reliant Resources, Inc., 9.50%, 07/15/2013
1,000,000 1,065,000

=====

===== Total Corporate Bonds (cost
\$76,858,591) 75,037,875

=====

===== YANKEE OBLIGATIONS-CORPORATE
0.4% TELECOMMUNICATION SERVICES 0.4%
Wireless Telecommunications Services 0.4% Rogers
Wireless, Inc., 6.375%, 03/01/2014 144A (cost \$930,325)
1,000,000 942,500

=====

===== ----- Shares Value


```

----- COMMON STOCKS 67.0%
CONSUMER DISCRETIONARY 3.3% Specialty Retail
3.3% Snam Rete Gas, Inc. 1,700,000 7,164,978
=====
----- ENERGY 7.5% Oil & Gas 7.5% Eni SpA
400,000 8,155,736 =====
Pennon Group LLC 200,000 2,699,716
===== Western
Gas Resources, Inc. 100,000 5,530,000
=====
----- 16,385,452 -----
INDUSTRIALS 4.2% Industrial Conglomerates 4.2%
Allele, Inc. 50,000 1,737,500 =====
===== Severn Trent, Inc. 500,000 7,404,516
=====
9,142,016 ----- INFORMATION
TECHNOLOGY 1.0% Communications Equipment 1.0%
Sierra Wireless, Inc. 75,000 2,092,500
=====
----- TELECOMMUNICATION SERVICES
1.2% Diversified Telecommunication Services 1.2%
BellSouth Corp. 100,000 2,496,000 =====
===== UTILITIES 49.8%
Electric Utilities 35.6% American Electric Power Co., Inc.
175,000 5,559,750
=====
===== Cleco Corp. 75,000 1,301,250
===== Dominion
Resources, Inc. 175,000 11,019,750
=====
===== DPL, Inc. 100,000 1,975,000 =====
===== Enel 1,175,000 7,787,408 =====
===== Entergy Corp. 215,000
11,741,150 =====
Exelon Corp. 350,000 11,655,000 =====
===== FirstEnergy Corp. 150,000
5,850,000 =====
===== Hawaiian Electric Industries, Inc. 150,000
7,291,500
=====
===== Pepco Holdings, Inc. 250,000
4,600,001 =====
===== TXU Corp. 200,000 8,530,000 =====
===== 77,310,809 -----
Multi-Utilities & Unregulated Power 14.2% Crosstex
Energy, Inc. 14,000 586,320
===== Duke
Energy Corp. 450,000 8,973,000 =====
===== Scana Corp. 200,000 7,116,000
===== United Utilities
Plc 1,000,000 9,961,273 =====

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=====	Vectren Corp.	175,000	
4,200,000	=====	=====	
30,836,593	-----	Total Common Stocks (cost	
\$147,900,727)		145,428,348	
=====			
=====	-----	PREFERRED STOCKS	
0.4%	FINANCIALS	0.4%	Diversified Financial Services
0.4%	Genworth Financial Inc.	(cost \$765,000)	30,600
779,534	=====	=====	-----
			Shares Value

			SHORT-TERM
			INVESTMENTS
14.5%	Evergreen Institutional Money Market Fund 0	(cost	
\$31,580,858)		31,580,858	31,580,858
=====			
=====	-----	Total	
Investments (cost \$256,194,004)	116.9%	253,769,115	
=====			
=====		Other Assets and Liabilities (16.9%)	
(36,595,609)			
=====			
=====	-----	Net Assets	100.0%
\$217,173,506	=====	=====	

----- 144A Security that may be sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. This security has been determined to be liquid under the guidelines established by the Board of Trustees. 0 Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund. Summary of Abbreviations: REIT Real Estate Investment Trust See Notes to Financial Statements EVERGREEN UTILITIES AND HIGH INCOME FUND Notes to Financial Statements May 31, 2004 (Unaudited) 1. ORGANIZATION Evergreen Utilities and High Income Fund (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified closed-end management investment company. The Fund's investment objective is to seek a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income. 2. SIGNIFICANT ACCOUNTING POLICIES The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect amounts reported herein. Actual results could differ from these estimates. a. Valuation of investments Listed equity securities are usually valued at the last sales price or official closing price on the national securities exchange where the securities are principally traded. Portfolio debt

securities acquired with more than 60 days to maturity are valued at prices obtained from an independent pricing service which takes into consideration such factors as similar security prices, yields, maturities, liquidity and ratings. Securities for which valuations are not available from an independent pricing service may be valued by brokers which use prices provided by market makers or estimates of market value obtained from yield data relating to investments or securities with similar characteristics. Short-term securities with remaining maturities of 60 days or less at the time of purchase are valued at amortized cost, which approximates market value. Investments in other mutual funds are valued at net asset value. Securities for which market quotations are not available or not reflective of current market value are valued at fair value as determined in good faith, according to procedures approved by the Board of Trustees.

b. Repurchase agreements Securities pledged as collateral for repurchase agreements are held by the custodian bank or in a segregated account in the Fund's name until the agreements mature. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal. However, in the event of default or bankruptcy by the other party to the agreement, retention of the collateral may be subject to legal proceedings. The Fund will only enter into repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy pursuant to guidelines established by the Board of Trustees.

c. Reverse repurchase agreements To obtain short-term financing, the Fund may enter into reverse repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the custodian containing qualified assets having a value not less than the repurchase price, including accrued interest. If the counterparty to the transaction is rendered insolvent, the Fund may be delayed or limited in the repurchase of the collateral securities.

d. Foreign currency translation All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of portfolio securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for that portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses on securities.

e.

When-issued and delayed delivery transactions The Fund records when-issued securities as of trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked-to-market daily and begin earning interest on the settlement date. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract. f. Security transactions and investment income Security transactions are recorded on trade date. Realized gains and losses are computed using the specific cost of the security sold. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums. Dividend income is recorded on the ex-dividend date, or in the case of some foreign securities, on the date when the Fund is made aware of the dividend. Foreign income and capital gains realized on some securities may be subject to foreign taxes, which are accrued as applicable. g. Federal taxes The Fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income, including any net capital gains. Accordingly, no provision for federal taxes is required. h. Distributions Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from generally accepted accounting principles. Shareholders have the option of receiving their dividends in cash or in the Fund's common shares in accordance with the Fund's Automatic Dividend Reinvestment Plan. 3. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES Evergreen Investment Management Company, LLC ("EIMC"), an indirect, wholly-owned subsidiary of Wachovia Corporation ("Wachovia"), is the investment advisor to the Fund and is paid an annual fee of 0.60% of the Fund's average daily total assets From time to time, EIMC may voluntarily or contractually waive its fee and/or reimburse expenses in order to limit operating expenses. For any fee waivers and/or reimbursements made after January 1, 2003, EIMC may recoup certain amounts waived and/or reimbursed up to a period of three years following the end the fiscal year in which the fee waivers and/or reimbursements were made. Evergreen Investment Services, Inc. ("EIS"), an indirect, wholly-owned subsidiary of Wachovia, is the administrator to the Fund. As administrator, EIS provides the Fund with facilities, equipment and personnel and is paid an annual rate of 0.05% of the Fund's average daily total assets. The Fund has placed a portion of its portfolio transactions with

brokerage firms that are affiliates of Wachovia. During the period ended May 31, 2004, the Fund paid brokerage commissions of \$15,000 to Wachovia Securities, LLC. 4.

CAPITAL SHARE TRANSACTIONS The Fund has authorized an unlimited number of common shares, without par value. For the period from April 30, 2004 (commencement of operations) to May 31, 2004, the Fund issued 11,505,000 shares of common shares. 5.

SECURITIES TRANSACTIONS Cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were \$53,087,745 and \$30,113,313, respectively, for the period ended May 31, 2004. During the period ended May 31, 2004, the Fund entered into reverse repurchase agreements. The average daily balance of reverse repurchase agreements outstanding during the period ended May 31, 2004 was approximately \$20,338,282 at a weighted average interest rate of 1.80 %. The maximum amount outstanding under reverse repurchase agreements during the period ended May 31, 2004 was \$40,065,000 (including accrued interest). During the period ended May 31, 2004, the Fund paid \$31,039 in interest expense representing 0.17 % of the Fund's average daily net assets (on an annualized basis). At May 31, 2004, reverse repurchase agreements outstanding were as follows:

Repurchase Amount	Maturity Date	Counterparty	Interest Rate
\$39,055,895	06/15/2004	Lehman Brothers	1.50%

On May 31, 2004, the aggregate cost of securities for federal income tax purposes was \$256,194,004. The gross unrealized appreciation and depreciation on securities based on tax cost was \$2,258,976 and \$4,683,865, respectively, with a net unrealized depreciation of \$2,424,889. 6.

DEFERRED TRUSTEES' FEES Each Trustee of the Fund may defer any or all compensation related to performance of their duties as Trustees. The Trustees' deferred balances are allocated to deferral accounts, which are included in the accrued expenses for the Fund. The investment performance of the deferral accounts are based on the investment performance of certain Evergreen funds. Any gains earned or losses incurred in the deferral accounts are reported in the Fund's Trustees' fees and expenses. At the election of the Trustees, the deferral account will be paid either in one lump sum or in quarterly installments for up to ten years. 7. **CONCENTRATION OF RISK** The Fund may invest a substantial portion of its assets in an industry or sector and, therefore, may be more affected by changes in that industry or sector than would be a comparable mutual fund that is not heavily weighted in any industry or sector. 8. **AUTOMATIC DIVIDEND REINVESTMENT PLAN** All common shareholders are eligible to participate

in the Automatic Dividend Reinvestment Plan ("the Plan"). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by EquiServe Trust Company, N.A., as agent for shareholders in administering the Plan ("Plan Agent", in addition to common shares of the Fund. Whenever the Fund declares an ordinary income dividend or capital gain dividend (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common shares. The shares are acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund ("newly issued common shares") or (ii) by purchase of outstanding common shares on the open market (open-market purchases) on the American Stock Exchange or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions ("market premium"), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value or market premium ("market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 43010, Providence, Rhode Island 02940-3010. APPENDIX A - DESCRIPTION OF RATINGS CORPORATE AND MUNICIPAL BOND RATINGS The Fund relies on ratings provided by

independent rating services to help determine the credit quality of bonds and other obligations the Fund intends to purchase or already owns. A rating is an opinion of an issuer's ability to pay interest and/or principal when due. Ratings reflect an issuer's overall financial strength and whether it can meet its financial commitments under various economic conditions. If a security held by the Fund loses its rating or has its rating reduced after the Fund has purchased it, the Fund is not required to sell or otherwise dispose of the security, but may consider doing so. The principal rating services, commonly used by the Fund and investors generally, are Moody's, Fitch and S&P. Rating systems are similar among the different services. As an example, the chart below compares basic ratings for long-term bonds. The "Credit Quality" terms in the chart are for quick reference only. Following the chart are the specific definitions each service provides for its ratings.

COMPARISON OF LONG-TERM BOND RATINGS

Moody's	S&P	Fitch	Credit Quality
Aaa	AAA	AAA	Excellent Quality (lowest risk)
Aa	AA	AA	Almost Excellent Quality (very low risk)
A	A	A	Quality (low risk)
Baa	BBB	BBB	Satisfactory Quality (some risk)
Ba	BB	BB	Questionable Quality (definite risk)
B	B	B	Low

Quality (high risk) -----

----- Caa/Ca/C
CCC/CC/C CCC/CC/C In or Near Default -----

----- D DDD/DD/D In
Default =====
=====

CORPORATE BONDS LONG-TERM RATINGS

Moody's Corporate Long-Term Bond Ratings Aaa Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. Aa Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities. A Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future. Baa Bonds which are rated Baa are considered as medium-grade obligations, (i.e. they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. Ba Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class. B Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of

interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small. Caa Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest. Ca Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings. C Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. Note: Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa to Caa. The modifier 1 indicates that the company ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the company ranks in the lower end of its generic rating category. S&P Corporate Long-Term Bond Ratings AAA An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. AA An obligation rated AA differs from the highest-rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. A An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. BBB An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. BB, B, CCC, CC and C: As described below, obligations rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. BB An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. B An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or

willingness to meet its financial commitment on the obligation. CCC An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. CC An obligation rated CC is currently highly vulnerable to nonpayment. C The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued. D The D rating, unlike other ratings, is not prospective; rather, it is used only where a default has actually occurred--and not where a default is only expected. S&P changes ratings to D either: o On the day an interest and/or principal payment is due and is not paid. An exception is made if there is a grace period and S&P believes that a payment will be made, in which case the rating can be maintained; or o Upon voluntary bankruptcy filing or similar action. An exception is made if S&P expects that debt service payments will continue to be made on a specific issue. In the absence of a payment default or bankruptcy filing, a technical default (i.e., covenant violation) is not sufficient for assigning a D rating. Plus (+) or minus (-) The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Fitch Corporate Long-Term Bond Ratings Investment Grade

AAA Highest credit quality. AAA ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. AA ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. A ratings denote a lower expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. BBB ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

Speculative Grade

BB Speculative. BB ratings indicate that there is a possibility

of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade. B Highly speculative. B ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. CCC, CC, C High default risk. Default is a real possibility. Capacity for meeting financial commitment is solely reliant upon sustained, favorable business or economic developments. A CC rating indicates that default of some kind appears probable. C ratings signal imminent default. DDD, DD, D Default. Securities are not meeting current obligations and are extremely speculative. DDD designates the highest potential for recovery of amounts outstanding on any securities involved. For U.S. corporates, for example, DD indicates expected recovery of 50%-90% of such outstandings, and D the lowest recovery potential, i.e. below 50%. + or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA rating category or to categories below CCC.

CORPORATE SHORT-TERM RATINGS Moody's

Corporate Short-Term Issuer Ratings Prime-1 Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations.

Prime-1 repayment ability will often be evidenced by many of the following characteristics. -- Leading market positions in well-established industries. -- High rates of return on funds employed. -- Conservative capitalization structure with moderate reliance on debt and ample asset protection. -- Broad margins in earnings coverage of fixed financial changes and high internal cash generation. -- Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2 Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3 Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require

relatively high financial leverage. Adequate alternate liquidity is maintained. Not Prime Issuers rated Not Prime do not fall within any of the Prime rating categories. S&P Corporate Short-Term Obligation Ratings A-1 A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. A-2 A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory. A-3 A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. B A short-term obligation rated B is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. C A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. D The D rating, unlike other ratings, is not prospective; rather, it is used only where a default has actually occurred--and not where a default is only expected. S&P changes ratings to D either: o On the day an interest and/or principal payment is due and is not paid. An exception is made if there is a grace period and S&P believes that a payment will be made, in which case the rating can be maintained; or o Upon voluntary bankruptcy filing or similar action, An exception is made if S&P expects that debt service payments will continue to be made on a specific issue. In the absence of a payment default or bankruptcy filing, a technical default (i.e., covenant violation) is not sufficient for assigning a D rating. Fitch Corporate Short-Term Obligation Ratings F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature. F2 Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings. F3 Fair credit quality. The capacity for timely payment of financial commitments is

adequate; however, near-term adverse changes could result in a reduction to non-investment grade. B Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions. C High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. D Default. Denotes actual or imminent payment default.

MUNICIPAL BONDS LONG-TERM RATINGS Moody's Municipal Long-Term Bond Ratings

Aaa Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities. A Bonds rated A possess many favorable investment attributes and are to be considered as upper-medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa Bonds rated Baa are considered as medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B Bonds rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa Bonds rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with

respect to principal or interest. Ca Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings. C Bonds rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. Note: Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to B. The modifier 1 indicates that the company ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range rating and the modifier 3 indicates that the company ranks in the lower end of its generic rating category. S&P Municipal Long-Term Bond Ratings AAA An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. AA An obligation rated AA differs from the highest-rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. A An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. BBB An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. BB, B, CCC, CC and C: As described below, obligations rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. BB An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. B An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. CCC An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. CC An obligation rated CC is currently highly vulnerable to nonpayment. C The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action has been taken, but payments on this obligation are being continued. D An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized. Plus (+) or minus (-) The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. Fitch Municipal Long-Term Bond Ratings Investment Grade AAA Highest credit quality. AAA ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. AA Very high credit quality. AA ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. A High credit quality. A ratings denote a lower expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. BBB Good credit quality. BBB ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category. Speculative Grade BB Speculative. BB ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade. B Highly speculative. B ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. CCC, CC, C High default risk.

Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. A CC rating indicates that default of some kind appears probable. C ratings signal imminent default. DDD, DD, D Default. The ratings of obligations in this category are based on their prospects for achieving partial or full recovery in a reorganization or liquidation of the obligor. While expected recovery values are highly speculative and cannot be estimated with any precision, the following serve as general guidelines. 'DDD' obligations have the highest potential for recovery, around 90% - 100% of outstanding amounts and accrued interest. 'DD' indicates potential recoveries in the range of 50% - 90% and 'D' the lowest recovery potential, i.e., below 50%. Entities rated in this category have defaulted on some or all of their obligations. Entities rated 'DDD' have the highest prospect for resumption of performance or continued operation with or without a formal reorganization process. Entities rated 'DD' and 'D' are generally undergoing a formal reorganization or liquidation process; those rated 'DD' are likely to satisfy a higher portion of their outstanding obligations, while entities rated 'D' have a poor prospect of repaying all obligations. + or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA rating category or to categories below CCC or to short-term ratings (as discussed below) other than F1.

SHORT-TERM MUNICIPAL RATINGS Moody's Municipal Short-Term Issuer Ratings Prime-1 Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics. -- Leading market positions in well-established industries. -- High rates of return on funds employed. -- Conservative capitalization structure with moderate reliance on debt and ample asset protection. -- Broad margins in earnings coverage of fixed financial changes and high internal cash generation. -- Well-established access to a range of financial markets and assured sources of alternate liquidity. Prime-2 Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained. Prime-3 Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and

market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained. Not Prime Issuers rated Not Prime do not fall within any of the Prime rating categories. Moody's Municipal Short-Term Loan Ratings MIG 1 This designation denotes best quality. There is strong protection by established cash flows, superior liquidity support, or demonstrated broad-based access to the market for refinancing. MIG 2 This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group. MIG 3 This designation denotes favorable quality. Liquidity and cash-flow protection may be narrow and market access for refinancing is likely to be less well established. SG This designation denotes speculative quality. Debt instruments in this category may lack margins of protection. S&P Commercial Paper Ratings A-1 This designation indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation. A-2 Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1. A-3 Issues carrying this designation have an adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations. B Issues rated B are regarded as having only speculative capacity for timely payment. C This rating is assigned to short-term debt obligations with a doubtful capacity for payment. D Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due, even if the applicable grace period has not expired, unless S&P believes such payments will be made during such grace period. S&P Municipal Short-Term Obligation Ratings SP-1 Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation. SP-2 Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes. SP-3 Speculative capacity to pay principal and interest. Fitch Municipal Short-Term Obligation Ratings F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature. F2 Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings. F3

Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade. B Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near-term adverse changes in financial and economic conditions. C High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment. D Default. Denotes actual or imminent payment default.

APPENDIX B--PROXY VOTING POLICY AND PROCEDURES Evergreen Investment Management Company, LLC Proxy Voting Policy and Procedures ISS Proxy Voting Guidelines Summary June 16, 2003 Statement of Principles Evergreen Investment Management Company, LLC (EIMCO) recognizes it has a fiduciary duty to vote proxies on behalf of clients who have delegated such responsibility to EIMCO, and that in all cases proxies should be voted in a manner reasonably believed to be in the clients' best interest. Corporate Governance Committee EIMCO has established a corporate governance committee (Committee) which is a sub-committee of EIMCO's Investment Policy Committee. The Committee is responsible for approving EIMCO's proxy voting policies and procedures, for overseeing the proxy voting process, and for reviewing proxy voting on a regular basis. The Committee will meet quarterly to review reports of all proxies voted for the prior period and to conduct other business as required. Conflicts of Interest EIMCO recognizes that under certain circumstances it may have a conflict of interest in voting proxies on behalf of its clients. Such circumstances may include, but are not limited to, situations where EIMCO or one or more of its affiliates has a client or customer relationship with the issuer of the security that is the subject of the proxy vote. In most cases, structural and informational barriers within EIMCO and Wachovia Corporation will prevent EIMCO from becoming aware of the relationship giving rise to the potential conflict of interest. In such circumstances, EIMCO will vote the proxy according to its standard guidelines and procedures described above. If persons involved in proxy voting on behalf of EIMCO becomes aware of a potential conflict of interest, the Committee shall consult with EIMCO's Legal Department and consider whether to implement special procedures with respect to the voting of that proxy, including whether an independent third party should be retained to vote the proxy. Share Blocking EIMCO does not vote global proxies, with share blocking restrictions, requiring shares to be prohibited from sale. Proxy Voting Guideline

Summary I. The Board of Directors Voting on Director Nominees in Uncontested Elections Votes on director nominees should be made on a case-by-case basis, examining the following factors: composition of the board and key board committees, attendance at board meetings, corporate governance provisions and takeover activity, long-term company performance relative to a market index, directors' investment in the company, whether the chairman is also serving as CEO, and whether a retired CEO sits on the board. However, there are some actions by directors that should result in votes being withheld. These instances include directors who:

- o Attend less than 75 percent of the board and committee meetings without a valid excuse
- o Implement or renew a dead-hand or modified dead-hand poison pill
- o Ignore a shareholder proposal that is approved by a majority of the shares outstanding
- o Ignore a shareholder proposal that is approved by a majority of the votes cast for two consecutive years
- o Have failed to act on takeover offers where the majority of the shareholders have tendered their shares
- o Are inside directors and sit on the audit, compensation, or nominating committees
- o Are inside directors and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees

In addition, directors who enacted egregious corporate governance policies or failed to replace management as appropriate would be subject to recommendations to withhold votes.

Separating Chairman and CEO Vote on a case-by-case basis on shareholder proposals requiring that the positions of chairman and CEO be held separately. Proposals Seeking a Majority of Independent Directors Shareholder proposals asking that a majority of directors be independent should be evaluated on a case-by-case basis. Vote for shareholder proposals asking that board audit, compensation, and/or nominating committees be composed exclusively of independent directors. Stock Ownership Requirements Vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board. Term of Office Vote against shareholder proposals to limit the tenure of outside directors. Age Limits Vote against shareholder proposals to impose a mandatory retirement age for outside directors. Director and Officer Indemnification and Liability Protection Proposals on director and officer indemnification and liability protection should be evaluated on a case-by-case basis, using Delaware law as the standard. Vote against proposals to eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care. Vote against indemnification proposals that would expand

coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness. Vote for only those proposals providing such expanded coverage in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director's legal expenses would be covered. Charitable Contributions Vote against proposals regarding charitable contributions. II. Proxy Contests Voting for Director Nominees in Contested Elections Votes in a contested election of directors must be evaluated on a case-by-case basis, considering the following factors: long-term financial performance of the target company relative to its industry; management's track record; background to the proxy contest; qualifications of director nominees (both slates); evaluation of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met; and stock ownership positions. Reimburse Proxy Solicitation Expenses Voting to reimburse proxy solicitation expenses should be analyzed on a case-by-case basis. In cases where Evergreen recommends in favor of the dissidents, we also recommend voting for reimbursing proxy solicitation expenses. III. Auditors Ratifying Auditors Vote for proposals to ratify auditors, unless: an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position. IV. Proxy Contest Defenses Board Structure: Staggered vs. Annual Elections Vote against proposals to classify the board. Vote for proposals to repeal classified boards and to elect all directors annually. Shareholder Ability to Remove Directors Vote against proposals that provide that directors may be removed only for cause. Vote for proposals to restore shareholder ability to remove directors with or without cause. Vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies. Vote for proposals that permit shareholders to elect directors to fill board vacancies. Cumulative Voting Vote against proposals to eliminate cumulative voting. Vote proposals to restore or permit cumulative voting on a case-by-case basis relative to the company's other governance provisions. Shareholder Ability to Call Special Meetings Vote against proposals to restrict or prohibit shareholder ability to call special meetings. Vote for proposals that remove restrictions on the right of shareholders to act independently of management. Shareholder Ability to Act by Written

Consent Vote against proposals to restrict or prohibit shareholder ability to take action by written consent. Vote for proposals to allow or make easier shareholder action by written consent. Shareholder Ability to Alter the Size of the Board Vote for proposals that seek to fix the size of the board. Vote against proposals that give management the ability to alter the size of the board without shareholder approval. V. Tender Offer Defenses Poison Pills Vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification. Review on a case-by-case basis shareholder proposals to redeem a company's poison pill. Review on a case-by-case basis management proposals to ratify a poison pill. Fair Price Provisions Vote proposals to adopt fair price provisions on a case-by-case basis, evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price. Generally, vote against fair price provisions with shareholder vote requirements greater than a majority of disinterested shares. Greenmail Vote for proposals to adopt antigreenmail charter of bylaw amendments or otherwise restrict a company's ability to make greenmail payments. Review on a case-by-case basis antigreenmail proposals when they are bundled with other charter or bylaw amendments. Pale Greenmail Review on a case-by-case basis restructuring plans that involve the payment of pale greenmail. Unequal Voting Rights Vote against dual-class exchange offers. Vote against dual-class recapitalizations. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws Vote against management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments. Vote for shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments. Supermajority Shareholder Vote Requirement to Approve Mergers Vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations. Vote for shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations. White Squire Placements Vote for shareholder proposals to require approval of blank check preferred stock Issues for other than general corporate purposes. VI. Miscellaneous Governance Provisions Confidential Voting Vote for shareholder proposals that request companies to adopt confidential voting, use independent tabulators, and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: In the case of a contested election, management should be permitted to request that the

dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived. Vote for management proposals to adopt confidential voting. Equal Access Vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board. Bundled Proposals Review on a case-by-case basis bundled or "conditioned" proxy proposals. In the case of items that are conditioned upon each other, examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests, vote against the proposals. If the combined effect is positive, support such proposals. Shareholder Advisory Committees Review on a case-by-case basis proposals to establish a shareholder advisory committee. VII. Capital Structure Common Stock Authorization Review proposals to increase the number of shares of common stock authorized for issue on a case-by-case basis. Vote against proposals to increase the number of authorized shares of the class of stock that has superior voting rights in companies that have dual-class capitalization structures. Stock Distributions: Splits and Dividends Vote for management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance given a company's industry and performance in terms of shareholder returns. Reverse Stock Splits Vote for management proposals to implement a reverse stock split when the number of shares will be proportionately reduced to avoid delisting. Review on a case-by-case basis on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for Issue. Preferred Stock Vote against proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock). Vote for proposals to create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense. Vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable. Vote case-by-case on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for Issue given a company's industry and performance in terms of shareholder returns. Shareholder

Proposals Regarding Blank Check Preferred Stock Vote for shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification. Adjustments to Par Value of Common Stock Vote for management proposals to reduce the par value of common stock. Preemptive Rights Review on a case-by-case basis shareholder proposals that seek preemptive rights. In evaluating proposals on preemptive rights, consider the size of a company and the characteristics of its shareholder base. Debt Restructurings Review on a case-by-case basis proposals to increase common and/or preferred shares and to Issue shares as part of a debt restructuring plan. Consider the following Issues: Dilution--How much will ownership interest of existing shareholders be reduced, and how extreme will dilution to any future earnings be? Change in Control--Will the transaction result in a change in control of the company? Bankruptcy--Generally, approve proposals that facilitate debt restructurings unless there are clear signs of self-dealing or other abuses. Share Repurchase Programs Vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms. Tracking Stock Votes on the creation of tracking stock are determined on a case-by-case basis, weighing the strategic value of the transaction against such factors as: o adverse governance changes o excessive increases in authorized capital stock o unfair method of distribution o diminution of voting rights o adverse conversion features o negative impact on stock option plans o other alternatives such as spinoff VIII. Executive and Director Compensation Votes with respect to compensation plans should be determined on a case-by-case basis. Our new methodology for reviewing compensation plans primarily focuses on the transfer of shareholder wealth (the dollar cost of pay plans to shareholders instead of simply focusing on voting power dilution). Using the expanded compensation data disclosed under the SEC's new rules, Evergreen will value every award type. Evergreen will include in its analyses an estimated dollar cost for the proposed plan and all continuing plans. This cost, dilution to shareholders' equity, will also be expressed as a percentage figure for the transfer of shareholder wealth, and will be considered along with dilution to voting power. Once Evergreen determines the estimated cost of the plan, we compare it to a company-specific dilution cap. Our model determines a company-specific allowable pool of shareholder wealth that may be transferred from the company to executives, adjusted for (1) long-term corporate performance (on an

absolute basis and relative to a standard industry peer group and an appropriate market index), (2) cash compensation, and (3) categorization of the company as emerging, growth, or mature. These adjustments are pegged to market capitalization. Evergreen will continue to examine other features of proposed pay plans such as administration, payment terms, plan duration, and whether the administering committee is permitted to reprice underwater stock options without shareholder approval.

Management Proposals Seeking Approval to Reprice Options Vote on management proposals seeking approval to reprice options on a case-by-case basis.

Director Compensation Votes on stock-based plans for directors are made on a case-by-case basis.

Employee Stock Purchase Plans Votes on employee stock purchase plans should be made on a case-by-case basis.

OBRA-Related Compensation Proposals: Amendments that Place a Cap on Annual Grants or Amend Administrative Features Vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of OBRA.

Amendments to Added Performance-Based Goals Vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of OBRA.

Amendments to Increase Shares and Retain Tax Deductions Under OBRA Votes on amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) should be evaluated on a case-by-case basis.

Approval of Cash or Cash-and-Stock Bonus Plans Vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of OBRA.

Shareholder Proposals to Limit Executive and Director Pay Generally, vote for shareholder proposals that seek additional disclosure of executive and director pay information. Review on a case-by-case basis all other shareholder proposals that seek to limit executive and director pay.

Golden and Tin Parachutes Vote for shareholder proposals to have golden and tin parachutes submitted for shareholder ratification. Review on a case-by-case basis all proposals to ratify or cancel golden or tin parachutes.

Employee Stock Ownership Plans (ESOPs) Vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).

401(k) Employee Benefit Plans Vote for proposals to implement a 401(k) savings plan for employees.

IX. State of Incorporation Voting on State

Takeover Statutes Review on a case-by-case basis proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, antigreenmail provisions, and disgorgement provisions). Voting on Reincorporation Proposals Proposals to change a company's state of incorporation should be examined on a case-by-case basis. X. Mergers and Corporate Restructurings Mergers and Acquisitions Votes on mergers and acquisitions should be considered on a case-by-case basis, taking into account at least the following: anticipated financial and operating benefits; offer price (cost vs. premium); prospects of the combined companies; how the deal was negotiated; and changes in corporate governance and their impact on shareholder rights. Corporate Restructuring Votes on corporate restructuring proposals, including minority squeezeouts, leveraged buyouts, spinoffs, liquidations, and asset sales should be considered on a case-by-case basis. Spinoffs Votes on spinoffs should be considered on a case-by-case basis depending on the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives. Asset Sales Votes on asset sales should be made on a case-by-case basis after considering the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies. Liquidations Votes on liquidations should be made on a case-by-case basis after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation. Appraisal Rights Vote for proposals to restore, or provide shareholders with, rights of appraisal. Changing Corporate Name Vote for changing the corporate name. XI. Mutual Fund Proxies Election of Directors Vote the election of directors on a case-by-case basis, considering the following factors: board structure; director independence and qualifications; and compensation of directors within the fund and the family of funds attendance at board and committee meetings. Votes should be withheld from directors who: o attend less than 75 percent of the board and committee meetings without a valid excuse for the absences. Valid reasons include illness or absence due to company business. Participation via telephone is acceptable. In addition, if the director missed only one meeting or one day's meetings, votes should not be withheld even if such absence dropped the director's attendance below 75 percent. o ignore a shareholder proposal that is approved by a majority of shares outstanding o ignore a shareholder proposal that is

approved by a majority of the votes cast for two consecutive years o are interested directors and sit on the audit or nominating committee o are interested directors and the full board serves as the audit or nominating committee or the company does not have one of these committees. Converting Closed-end Fund to Open-end Fund Vote conversion proposals on a case-by-case basis, considering the following factors: past performance as a closed-end fund; market in which the fund invests; measures taken by the board to address the discount; and past shareholder activism, board activity, and votes on related proposals. Proxy Contests Vote proxy contests on a case-by-case basis, considering the following factors: past performance; market in which fund invests; and measures taken by the board to address the Issues past shareholder activism, board activity, and votes on related proposals. Investment Advisory Agreements Vote the investment advisory agreements on a case-by-case basis, considering the following factors: proposed and current fee schedules; fund category/investment objective; performance benchmarks; share price performance as compared with peers; and the magnitude of any fee increase. Approving New Classes or Series of Shares Vote for the establishment of new classes or series of shares. Preferred Stock Proposals Vote the authorization for or increase in preferred shares on a case-by-case basis, considering the following factors: stated specific financing purpose and other reasons management gives possible dilution for common shares. 1940 Act Policies Vote these proposals on a case-by-case basis, considering the following factors: potential competitiveness; regulatory developments; current and potential returns; and current and potential risk. Changing a Fundamental Restriction to a Nonfundamental Restriction Vote these proposals on a case-by-case basis, considering the following factors: fund's target investments; reasons given by fund for change; and the projected impact of change on portfolio. Change Fundamental Investment Objective to Nonfundamental Vote against proposals to change a fund's fundamental investment objective to nonfundamental. Name Rule Proposals Vote these proposals on a case-by-case basis, considering the following factors: political/economic changes in target market; bundling with quorum requirements; bundling with asset allocation changes; and consolidation in the fund's target market. Disposition of Assets/Termination/Liquidation Vote this proposal on a case-by-case basis, considering the following factors: strategies employed to salvage the company; company's past performance; and terms of the liquidation. Changes to the Charter Document Vote changes to the charter document on a case-by-case basis, considering the

following factors: degree of change implied by the proposal; efficiencies that could result; state of incorporation; and regulatory standards and implications. Changing the Domicile of a Fund Vote reincorporations on a case-by-case basis, considering the following factors: state regulations of both states; required fundamental policies of both states; and the increased flexibility available. Change in Fund's Subclassification Vote these proposals on a case-by-case basis, considering the following factors: potential competitiveness; current and potential returns; risk of concentration; and consolidation in the target industry. Authorizing the Board to Hire and Terminate Subadvisors Without Shareholder Approval Vote against these proposals. Distribution Agreements Vote these proposals on a case-by-case basis, considering the following factors: fees charged to comparably sized funds with similar objectives; proposed distributor's reputation and past performance; and competitiveness of fund in industry. Master-Feeder Structure Vote for the establishment of a master-feeder structure. Changes to the Charter Document Vote changes to the charter document on a case-by-case basis, considering the following factors: degree of change implied by the proposal; efficiencies that could result; state of incorporation; and regulatory standards and implications. Mergers Vote merger proposals on a case-by-case basis, considering the following factors: resulting fee structure; performance of both funds; and continuity of management personnel. Shareholder Proposals Establish Director Ownership Requirement Vote against the establishment of a director ownership requirement. Reimburse Shareholder for Expenses Incurred Voting to reimburse proxy solicitation expenses should be analyzed on a case-by-case basis. In cases where Evergreen recommends in favor of the dissidents, we also recommend voting for reimbursing proxy solicitation expenses. Terminate the Investment Advisor Vote to terminate the investment advisor on a case-by-case basis, considering the following factors: performance of the fund's NAV and the history of shareholder relations. XII. Social and Environmental Issues Energy and Environment In most cases, Evergreen refrains from providing a vote recommendation on proposals that request companies to file the CERES Principles. Generally, vote for disclosure reports that seek additional information, particularly when it appears companies have not adequately addressed shareholders' environmental concerns. South Africa In most cases, Evergreen refrains from providing a vote recommendation on proposals pertaining to South Africa. Generally, vote for disclosure reports that seek additional information such as the amount of business that could be lost by conducting

business in South Africa. Northern Ireland In most cases, Evergreen refrains from providing a vote recommendation on proposals pertaining to the MacBride Principles. Generally, vote for disclosure reports that seek additional information about progress being made toward eliminating employment discrimination, particularly when it appears companies have not adequately addressed shareholder concerns. Military Business In most cases, Evergreen refrains from providing a vote recommendation on defense Issue proposals. Generally, vote for disclosure reports that seek additional information on military related operations, particularly when the company has been unresponsive to shareholder requests. Maquiladora Standards and International Operations Policies In most cases, Evergreen refrains from providing a vote recommendation on proposals relating to the Maquiladora Standards and international operating policies. Generally, vote for disclosure reports on these Issues, particularly when it appears companies have not adequately addressed shareholder concerns. World Debt Crisis In most cases, Evergreen refrains from providing a vote recommendation on proposals dealing with third world debt. Generally, vote for disclosure reports on these Issues, particularly when it appears companies have not adequately addressed shareholder concerns. Equal Employment Opportunity and Discrimination In most cases, Evergreen refrains from providing a vote recommendation on proposals regarding equal employment opportunities and discrimination. Generally, vote for disclosure reports that seek additional information about affirmative action efforts, particularly when it appears companies have been unresponsive to shareholder requests. Animal Rights In most cases, Evergreen refrains from providing a vote recommendation on proposals that deal with animal rights. Product Integrity and Marketing In most cases, Evergreen refrains from providing a vote recommendation on proposals that ask companies to end their production of legal, but socially questionable, products. Generally, vote for disclosure reports that seek additional information regarding product integrity and marketing Issues, particularly when it appears companies have been unresponsive to shareholder requests. Human Resources issues In most cases, Evergreen refrains from providing a vote recommendation on proposals regarding human resources Issues. Generally, vote for disclosure reports that seek additional information regarding human resources Issues, particularly when it appears companies have been unresponsive to shareholder requests. APPENDIX C EVERGREEN UTILITIES AND HIGH INCOME FUND STATEMENT OF PREFERENCES OF AUCTION PREFERRED SHARES TABLE OF CONTENTS

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EVERGREEN UTILITIES AND HIGH INCOME FUND, a Delaware statutory trust (the "Fund"), certifies that: First: Pursuant to authority expressly vested in the Board of Trustees of the Fund by Article III of the Fund's Amended and Restated Agreement and Declaration of Trust, dated February 9, 2004 (which, as hereafter restated or amended from time to time is, together with this Statement, herein called the "Declaration"), the Board of Trustees adopts this Statement of Preferences of Auction Preferred Shares (the "Statement"), authorizes the establishment, designation and issuance of an unlimited number of shares of the Fund's Auction Preferred Shares, liquidation preference \$25,000 per share plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared), having the designation or designations as set forth in this Statement (the "Preferred Shares"). Second: That 3,200 shares of Preferred Shares are hereby designated as Auction Preferred Shares, Series M28. Third: That any provision of the Declaration that conflicts with or is inconsistent with the provisions of this Statement are hereby amended to conform to the terms of this Statement. As set forth herein,

this Statement shall be deemed to be a supplement to and amendment of the Declaration. Fourth: The preferences, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption, and other rights and limitations of the shares of the Auction Preferred Shares, Series M28 (hereinafter the "Series M28 Preferred Shares") are as set forth in this Statement.

DEFINITIONS As used in Parts I and II of this Statement, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires: "Accountant's Confirmation" has the meaning set forth in Section 6(c) of Part I of this Statement. "Adviser" means the Fund's investment adviser which initially shall be Evergreen Investment Management Company, LLC. "Affected Series" has the meaning set forth in Section 4(c) of Part I of this Statement. "Affiliate" means any Person known to the Auction Agent to be controlled by, in control of, or under common control with, the Fund. "Agent Member" means a member of, or participant in, the Securities Depository that will act on behalf of a Bidder. "Applicable Rate" means the rate per annum at which cash dividends are payable on the Preferred Shares for any Dividend Period. "Applicable Percentage" means the percentage determined based on the lower of the credit ratings assigned to the Series M28 Preferred Shares on such date by S&P and Fitch as follows: Credit Ratings Applicable Percentage S&P Fitch AAA AAA 125% ==== == AA- to AA+ AA- to AA+ 150% ==== ==== = A- to A+ A- to A+ 200% = = = BBB- to BBB+ BBB- to BBB+ 250% ===== = BB+ and lower BB+ and lower 300% ==== == For purposes of this definition, the "prevailing rating" of the Series M28 Preferred Shares shall be (i) AAA if such shares have a rating of AAA by S&P or Fitch or the equivalent of such ratings by such agencies or a Substitute Rating Agency or Substitute Rating Agencies; (ii) if not AAA, then AA- if such shares have a rating of AA- or better by S&P or Fitch or the equivalent of such rating by such agencies or a Substitute Rating Agency or Substitute Rating Agencies, (iii) if not AA- or higher, then A- if such shares have a rating of A- or better by S&P or Fitch or the equivalent of such ratings by such agencies or a Substitute Rating Agency or Substitute Rating Agencies, (iv) if not A- or higher, then BBB- if such shares have a rating of BBB- or better by S&P or Fitch or the equivalent of such ratings by such agencies or Substitute Rating Agency or Substitute Rating Agencies, (v) if not BBB- or higher, then below BBB-. The Applicable Percentage as so determined shall be further subject to upward but not downward adjustment in the discretion of the Board of Trustees of the

Fund after consultation with the Broker-Dealers, provided that immediately following any such increase the Fund would be in compliance with the Preferred Shares Basic Maintenance Amount. The Fund shall take all reasonable action necessary to enable S&P and Fitch to provide a rating for the Series M28 Preferred Shares. If S&P or Fitch shall not make such a rating available, the Fund shall select another Rating Agency to act as a Substitute Rating Agency. Notwithstanding the foregoing, the Fund shall not be required to have more than one Rating Agency provide a rating for the Series M28 Preferred Shares. "Applicable Spread" means the spread determined based on the credit rating assigned to the Series M28 Preferred Shares on such date by S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) as follows: Applicable Credit Ratings Spread -----
 ----- ===== S&P Fitch === ===== AAA AAA
 125 bps === ===== AA- to AA+ AA- to AA+ 150 bps ===
 ===== A- to A+ A- to A+ 200 bps = = ===== BBB- to
 BBB+ BBB- to BBB+ 250 bps ===== ===== BB+ and
 lower BB+ and lower 300 bps ===== For purposes of
 this definition, the "prevailing rating" of the Series M28
 Preferred Shares shall be (i) AAA if such shares have a
 rating of AAA by S&P or Fitch or the equivalent of such
 ratings by such agencies or a Substitute Rating Agency or
 Substitute Rating Agencies; (ii) if not AAA, then AA- if
 such shares have a rating of AA- or better by S&P or Fitch
 or the equivalent of such rating by such agencies or a
 Substitute Rating Agency or Substitute Rating Agencies,
 (iii) if not AA- or higher, then A- if such shares have a
 rating of A- or better by S&P or Fitch or the equivalent of
 such ratings by such agencies or a Substitute Rating
 Agency or Substitute Rating Agencies, (iv) if not A- or
 higher, then BBB- if such shares have a rating of BBB- or
 better by S&P or Fitch or the equivalent of such ratings by
 such agencies or Substitute Rating Agency or Substitute
 Rating Agencies, (v) if not BBB- or higher, then below
 BBB-. The Applicable Spread as so determined shall be
 further subject to upward but not downward adjustment in
 the discretion of the Board of Trustees after consultation
 with the Broker-Dealers, provided that immediately
 following any such increase the Fund would be in
 compliance with the Preferred Shares Basic Maintenance
 Amount. "Approved Foreign Nations" has the meaning set
 forth in the definition of "Fitch Eligible Assets."
 "Approved Price" means the "fair value" as determined by
 the Fund in accordance with the valuation procedures
 adopted from time to time by the Board of Trustees of the
 Fund and for which the Fund receives a mark-to-market
 price (which, for the purpose of clarity, shall not mean
 Market Value) from an independent source at least

semi-annually. "Auction" means a periodic operation of the Auction Procedures. "Auction Agent" means Deutsche Bank Trust Company Americas unless and until another commercial bank, trust company or other financial institution appointed by a resolution of the Board of Trustees of the Fund or a duly authorized committee thereof enters into an agreement with the Fund to follow the Auction Procedures for the purpose of determining the Applicable Rate and to act as transfer agent, registrar, dividend disbursing agent and redemption agent for the Preferred Shares. "Auction Date" with respect to any Rate Period shall mean the Business Day next preceding the first day of such Rate Period. "Auction Procedures" means the procedures for conducting Auctions set forth in Part II of this Statement. "Available Preferred Shares" shall have the meaning specified in paragraph (a) of Section 3 of Part II of this Statement. "Bank Loans" means direct purchases of, assignments of, participations in and other interests in (a) any bank loan or (b) any loan made by an investment bank, investment fund or other financial institution, provided that such loan under this clause (b) is similar to those typically made, syndicated, purchased or participated by a commercial bank or institutional loan investor in the ordinary course of business. "Beneficial Owner" means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Preferred Shares or a Broker-Dealer that holds Preferred Shares for its own account. "Bid" and "Bids" shall have the respective meanings specified in paragraph (a) of Section 1 of Part II of this Statement. "Bidder" and "Bidders" shall have the respective meanings specified in paragraph (a) of Section 1 of Part II of this Statement; provided, however, that neither the Fund nor any affiliate thereof shall be permitted to be a Bidder in an Auction, except that any Broker-Dealer that is an affiliate of the Fund may be a Bidder in an Auction, but only if the Orders placed by such Broker-Dealer are not for its own account. "Bloomberg Industry Classifications" means, for the purposes of determining both Fitch Eligible Assets and S&P Eligible Assets, industry classifications as Bloomberg defines them. The Fund shall use its discretion in determining which industry classification is applicable to a particular investment. "Broker-Dealer" means any broker-dealer, or other entity permitted by law to perform the functions required of a Broker-Dealer in Part II of this Statement, that has been selected by the Fund and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective that is a member of, or a participant in, the Securities Depository or is an affiliate of such member or participant. "Broker-Dealer Agreement" means an agreement between the Auction Agent and a

Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in Part II of this Statement. "Business Day" means a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in New York City are authorized or obligated by law to close. "Canadian Bonds" has the meaning set forth in the definition of "Fitch Eligible Assets." "Closing Transaction" has the meaning set forth in Section 8(a) of Part I of this Statement. "Common Shares" means the shares of beneficial interest designated as common shares, no par value, of the Fund. "Cure Date" shall mean the Preferred Shares Basic Maintenance Cure Date or the Investment Company Act Cure Date. "Date of Original Issue" means the date on which the Fund first issues Series M28 Preferred Shares. "Debt Securities" has the meaning set forth in paragraph (iv) of the definition of "Fitch Eligible Assets." "Deposit Securities" means cash and portfolio securities rated at least A2 (having a remaining maturity of 12 months or less), P-1, VMIG-1 or MIG-1 by Moody's or A (having a remaining maturity of 12 months or less), A-1+ or SP-1+ by S&P. "Discount Factor" means a Fitch Discount Factor or a S&P Discount Factor, as applicable. "Discounted Value" of any asset of the Fund means the quotient of the Market Value of an Eligible Asset divided by the applicable Discount Factor. "Dividend Payment Date" shall mean any date on which dividends are payable on the Series M28 Preferred Shares pursuant to the provisions of paragraph (d) of Section 2 of Part I of this Statement. "Dividend Period" shall mean the period from and including the Date of Original Issue of the Series M28 Preferred Shares to but excluding the initial Dividend Payment Date for the Series M28 Preferred Shares and any period thereafter from and including one Dividend Payment Date for the Series M28 Preferred Shares to but excluding the next succeeding Dividend Payment Date for the Series M28 Preferred Shares. "Eligible Asset" means a Fitch Eligible Asset (if Fitch is then rating the Preferred Shares), a S&P Eligible Asset (if S&P is then rating the Preferred Shares) and/or any asset included in the calculations used by any Rating Agency then rating the Preferred Shares for purposes of determining such Rating Agency's rating on the Preferred Shares, as applicable. "Existing Holder" means a Broker-Dealer, or any such other Person that may be permitted by the Fund, that is listed as the holder of record of Preferred Shares in the Share Books. "Failure to Deposit" shall mean a failure by the Fund to pay to the Auction Agent, not later than 12:00 noon, New York City time, (A) on the Business Day next preceding any Dividend Payment Date for the Series M28 Preferred Shares, in funds available on such Dividend

Payment Date in the City of New York, New York, the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any Series M28 Preferred Share or (B) on the Business Day next preceding any redemption date in funds available on such redemption date for the Series M28 Preferred Shares in the City of New York, New York, the Redemption Price to be paid on such redemption date for any Series M28 Preferred Share after Notice of Redemption is mailed pursuant to paragraph (c) of Section 9 of Part I of this Statement; provided, however, that the foregoing clause (B) shall not apply to the Fund's failure to pay the Redemption Price in respect of Preferred Shares when the related Notice of Redemption provides that redemption of such shares is subject to one or more conditions precedent and any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. "Fitch" means Fitch Ratings or its successors. "Fitch Discount Factor" means, for purposes of determining the Discounted Value of any Fitch Eligible Asset, the percentage determined as follows, provided however, that for unhedged foreign investments a discount factor of 105% shall be applied to the Market Value thereof otherwise determined in accordance with the procedures below, provided further that, if the foreign issuer of such unhedged foreign investment is from a country whose sovereign debt rating in a non-local currency is not assigned a rating of `AA' or better by Fitch, a discount factor of 117% shall be applied to the Market Value thereof otherwise determined in accordance with the procedures below. According to Fitch guidelines, the portfolio coverage ratio of Fitch Eligible Assets to liabilities should not be less than 100% in order to maintain the rating of "AAA." The Fitch Discount Factor for any Fitch Eligible Asset other than the securities set forth below will be the percentage provided in writing by Fitch. (i) CORPORATE DEBT SECURITIES: The percentage determined by reference to the rating of a corporate debt security in accordance with the table set forth below. -----

----- Term to
Maturity AAA AA A BBB BB Not Rated or of Corporate
Below BB(1) Debt Security -----

----- 3 years or less 106.38%
108.11% 109.89% 111.73% 129.87% 151.52% (but longer
than 1 year) -----

----- 5 years or less 111.11%
 112.99% 114.94% 116.96% 134.24% 151.52% (but longer
 than 3 years) -----

----- 7 years or less 113.64%
 115.61% 117.65% 119.76% 135.66% 151.52% (but longer
 than 5 years) -----

----- 10 years or less 115.61%
 117.65% 119.76% 121.95% 136.74% 151.52% (but longer
 than 7 years) -----

----- 15 years or less 119.76%
 121.95% 124.22% 126.58% 139.05% 151.52% (but longer
 than 10 years) -----

----- More than 15 124.22%
 126.58% 129.03% 131.58% 144.55% 151.52% years

----- (1) If a security is not rated by Fitch but is rated by two other Rating Agencies, then the lower of the ratings on the security from the two other Rating Agencies will be used to determine the Fitch Discount Factor (e.g., where the S&P rating is A- and the Moody's rating is Baa1, a Fitch rating of BBB+ will be used). If a security is not rated by Fitch but is rated by only one other Rating Agency, then the rating on the security from the other Rating Agency will be used to determine the Fitch Discount Factor (e.g., where the only rating on a security is an S&P rating of AAA, a Fitch rating of AAA will be used, and where the only rating on a security is a Moody's rating of Ba3, a Fitch rating of BB- will be used). If a security is not rated by any Rating Agency, the Fund will use the percentage set forth under "Not Rated or Below BB" in this table. The Fitch Discount Factors presented in the immediately preceding table apply to corporate debt securities that are Performing and have a Market Value determined by a Pricing Service or an Approved Price. The Fitch Discount Factor noted in the table above for a Debt Security rated B by Fitch shall apply to any non-Performing Debt Security with a price equal to or greater than \$0.90. The Fitch Discount Factor noted in the table above for a Debt Security rated CCC by Fitch shall apply to any non-Performing Debt Security with a price less than \$0.90 but equal to or greater than \$0.20. If a Debt Security does not have a Market Value determined by a Pricing Service or an Approved Price, a

rating two rating categories below the actual rating on the Debt Security will be used (e.g., where the actual rating is A-, the rating for Debt Securities rated BB- will be used). The Fitch Discount Factor for a Debt Security issued by a limited partnership that is not a Rule 144A Security shall be the Discount Factor determined in accordance with the table set forth above multiplied by 110%. The Fitch Discount Factors presented in the immediately preceding table will also apply to (i) interest rate swaps and caps, whereby the rating of the counterparty to the swap or cap will be the rating used to determine the Fitch Discount Factor in the table; and (ii) tradable credit baskets, whereby the ratings in the table will be applied to the underlying securities and the Market Value of each underlying security will be its proportionate amount of the Market Value of the tradable credit baskets. The Fitch Discount Factors presented in the immediately preceding table will also apply to corporate obligations backed by a guaranty, a letter of credit or insurance issued by a third party. If the third-party credit rating is the basis for the rating on the obligation, then the rating on the third party will be used to determine the Fitch Discount Factor in the table. The Fitch Discount Factors presented in the immediately preceding table will also apply to preferred trust certificates, the rating on which will be determined by the underlying debt instruments in the trust, unless such preferred trust certificates are determined by Fitch to qualify for a traditional equity discount factor, in which case the Fitch Discount Factor shall be 370%. (ii) PREFERRED SHARES: Preferred Shares Discount Factor AAA Taxable Preferred 130% AA Taxable Preferred 133% A Taxable Preferred 135% BBB Taxable Preferred 139% BB Taxable Preferred 154% Not rated or below BB Taxable Preferred 161% Investment Grade DRD Preferred 164% Not rated or below Investment Grade DRD Preferred 200% (iii) SHORT-TERM INSTRUMENTS: The Fitch Discount Factor applied to short-term portfolio securities, including without limitation Debt Securities, Short Term Money Market Instruments and municipal debt obligations, will be (A) 100%, so long as such portfolio securities mature or have a demand feature at par exercisable within the Fitch Exposure Period; (B) 115%, so long as such portfolio securities mature or have a demand feature at par not exercisable within the Fitch Exposure Period; and (C) 125%, so long as such portfolio securities neither mature nor have a demand feature at par exercisable within the Fitch Exposure Period. A Fitch Discount Factor of 100% will be applied to cash, including shares of affiliated money market funds held in conjunction with the Fund's nightly sweep account. (iv) U.S. GOVERNMENT SECURITIES AND U.S.

TREASURY STRIPS: TIME REMAINING TO MATURITY DISCOUNT FACTOR 1 year or less 101.5% 2 years or less (but longer than 1 year) 103% 3 years or less (but longer than 2 years) 105% 4 years or less (but longer than 3 years) 107% 5 years or less (but longer than 4 years) 109% 7 years or less (but longer than 5 years) 112% 10 years or less (but longer than 7 years) 114% Greater than 10 years 122% (v) CONVERTIBLE SECURITIES. The Fitch Discount Factor applied to convertible securities is (A) 200% for investment grade convertibles and (B) 222% for below investment grade convertibles so long as such convertible securities have neither (x) conversion premium greater than 100% nor (y) have a yield to maturity or yield to worst of > 15.00% above the relevant Treasury curve. The Fitch Discount Factor applied to convertible securities which have conversion premiums of greater than 100% is (A) 152% for investment grade convertibles and (B) 179% for below investment grade convertibles so long as such convertible securities do not have a yield to maturity or yield to worst of > 15.00% above the relevant Treasury curve. The Fitch Discount Factor applied to convertible securities which have a yield to maturity or yield to worst of > 15.00% above the relevant Treasury curve is 370%. If a security is not rated by Fitch but is rated by two other Rating Agencies, then the lower of the ratings on the security from the two other Rating Agencies will be used to determine the Fitch Discount Factor (e.g., where the S&P rating is A- and the Moody's rating is Baa1, a Fitch rating of BBB+ will be used). If a security is not rated by Fitch but is rated by only one other Rating Agency, then the rating on the security from the other Rating Agency will be used to determine the Fitch Discount Factor (e.g., where the only rating on a security is an S&P rating of AAA, a Fitch rating of AAA will be used, and where the only rating on a security is a Moody's rating of Ba3, a Fitch rating of BB- will be used). If a security is not rated by any Rating Agency, the Fund will treat the security as if it were below investment grade. (vi) RULE 144A SECURITIES: The Fitch Discount Factor applied to Rule 144A Securities will be 110% of the Fitch Discount Factor which would apply were the securities registered under the Securities Act. (vii) ASSET-BACKED AND MORTGAGE-BACKED SECURITIES: The percentage determined by reference to the asset type in accordance with the table set forth below. ASSET TYPE (WITH TIME REMAINING TO MATURITY, IF APPLICABLE) DISCOUNT FACTOR U.S. Treasury/agency securities (10 years or less) 118% U.S. Treasury/agency securities (greater than 10 years) 127% U.S. agency sequentials (10 years or less) 128% U.S. agency sequentials (greater than

10 years) 142% U.S. agency principal only securities
 236% U.S. agency interest only securities (with Market Value greater than \$0.40) 696% U.S. agency interest only securities 214% (with Market Value less than or equal to \$0.40) AAA LockOut securities, interest only 236% U.S. agency planned amortization class bonds (10 years or less) 115% U.S. agency planned amortization class bonds (greater than 10 years) 136% AAA sequentials (10 years or less) 118% AAA sequentials (greater than 10 years) 135% AAA planned amortization class bonds (10 years or less) 115% AAA planned amortization class bonds (greater than 10 years) 140% Jumbo mortgage rated AAA(1) 123% Jumbo mortgage rated AA(1) 130% Jumbo mortgage rated A(1) 136% Jumbo mortgage rated BBB(1) 159% Commercial mortgage-backed securities rated AAA 131% Commercial mortgage-backed securities rated AA 139% Commercial mortgage-backed securities rated A 148% Commercial mortgage-backed securities rated BBB 177% Commercial mortgage-backed securities rated BB 283% Commercial mortgage-backed securities rated B 379% Commercial mortgage-backed securities rated CCC or not rated 950% (1) Applies to jumbo mortgages, credit cards, auto loans, home equity loans, manufactured housing and prime mortgage-backed securities not issued by a U.S. agency or instrumentality. (viii) BANK LOANS: The percentage determined by reference to the Fitch Loan Category in accordance with the table set forth below. FITCH LOAN CATEGORY DISCOUNT FACTOR A 126% B 157% C 184% D 433% The Fitch Discount Factors presented in the immediately preceding table will also apply to interest rate swaps and caps, and the rating of the counterparty to the swap or cap will be the rating used to determine the Fitch Discount Factor in the table. (ix) MUNICIPAL DEBT OBLIGATIONS: The Fitch Discount Factor applied to municipal debt obligations will be the percentage determined by reference to the table set forth below: -----

 FITCH RATING CATEGORY -----

----- FITCH
 EXPOSURE AAA (1) AA (1) A (1) BBB (1) F1 (2)
 UNRATED (3) PERIOD -----

----- 7 weeks
 151% 159% 166% 173% 136% 225% -----

----- 8 weeks

or less 154% 161% 168% 176% 137% 231% but greater
than 7 weeks -----

----- 9 weeks or less
158% 163% 170% 177% 138% 240% but greater than 8
weeks -----

(1) Fitch rating. (2) Municipal debt obligations rated by Fitch which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating. (3) If a security is not rated by Fitch but is rated by two other Rating Agencies, then the lower of the ratings on the security from the two other Rating Agencies will be used to determine the Fitch Discount Factor (e.g., where the S&P rating is A- and the Moody's rating is Baa1, a Fitch rating of BBB+ will be used). If a security is not rated by Fitch but is rated by only one other Rating Agency, then the rating on the security from the other Rating Agency will be used to determine the Fitch Discount Factor (e.g., where the only rating on a security is an S&P rating of AAA, a Fitch rating of AAA will be used, and where the only rating on a security is a Moody's rating of Ba3, a Fitch rating of BB- will be used). If a security is not rated by any Rating Agency, the Fund will use the percentage set forth under "Unrated" in this table. The Fitch Discount Factors presented in the immediately preceding table will also apply to interest rate swaps and caps, and the rating of the counterparty to the swap or cap will be the rating used to determine the Fitch Discount Factor in the table. The Fitch Discount Factors presented in the immediately preceding table will also apply to municipal debt obligations backed by a guaranty, a letter of credit or insurance issued by a third party. If the third-party credit rating is the basis for the rating on the securities, then the rating on the third party will be used to determine the Fitch Discount Factor in the table. (x) FOREIGN BONDS: The Fitch Discount Factor (A) for a Foreign Bond the principal of which (if not denominated in U.S. dollars) is subject to a currency hedging transaction will be the Fitch Discount Factor that would otherwise apply to such Foreign Bonds in accordance with this definition and (B) for (1) a Foreign Bond the principal of which (if not denominated in U.S. dollars) is not subject to a currency hedging transaction and (2) a bond issued in a currency other than U.S. dollars by a corporation, limited liability company or limited partnership domiciled in, or the government or any agency, instrumentality or political subdivision of, a nation other than an Approved Foreign Nation, will be 370%. (xi) REITS. (a) Common Stock and

Preferred Stock of REITs and Other Real Estate Companies: Discount Factor(1)(2) REIT or Other Real Estate Company Preferred Shares 154% REIT or Other Real Estate Company Common Stock 196% (b) Corporate Debt Securities of REITs: Term to Maturity.. AAA AA A BBB BB B CCC ----- 1 year.....
 111% 114% 117% 120% 121% 127% 227% 2 year.....
 116% 125% 125% 127% 132% 137% 137% 3 year.....
 121% 123% 127% 131% 133% 140% 225% 4 year.....
 126% 126% 129% 132% 136% 140% 164% 5 year.....
 131% 132% 135% 139% 144% 149% 185% 7 year.....
 140% 143% 146% 152% 159% 167% 228% 10 year.....
 141% 143% 147% 153% 160% 168% 232% 12 year.....
 144% 144% 150% 157% 165% 174% 249% 15 year.....
 148% 151% 155% 163% 172% 182% 274% 20-30 year...
 152% 156% 160% 169% 180% 191% 306% (1) The Fitch Discount Factors will also apply to interest rate swaps and caps, whereby the rating on the counterparty will determine the appropriate Discount Factor to apply. (2) If a security is unrated by Fitch, but is rated by two other Rating Agencies, then the lower of the ratings on the security from the two other Rating Agencies should be used to determine the Fitch Discount Factor. If the security is not rated by Fitch, but has a rating from only one other Rating Agency, and the security is above investment grade, then the security will be notched one rating category, i.e., considered as if it had been rated one rating category lower than the rating category assigned by that Rating Agency, for purposes of computing the Discount Factor. If the security is not rated by Fitch, but has a rating from only one other Rating Agency, and the security is below investment grade, then the security will be notched two rating categories for purposes of computing the Discount Factor. (xii) STRUCTURED NOTES: The Fitch Discount Factor applied to Structured Notes will be (A) in the case of a corporate issuer, the Fitch Discount Factor determined in accordance with paragraph (i) under this definition, whereby the rating on the issuer of the Structured Note will be the rating on the Structured Note for purposes of determining the Fitch Discount Factor in the table in paragraph (i); and (B) in the case of an issuer that is the U.S. government or an agency or instrumentality thereof, the Fitch Discount Factor determined in accordance with paragraph (iii) under this definition. "Fitch Eligible Assets" means (i) cash (including interest and dividends due on assets rated (A) BBB or higher by Fitch or the equivalent by another Rating Agency if the payment date is within five Business Days of the Valuation Date, (B) A or higher by Fitch or the equivalent by another Rating Agency if the payment date is within thirty days of the Valuation Date,

and (C) A+ or higher by Fitch or the equivalent by another Rating Agency if the payment date is within the Fitch Exposure Period) and receivables for Fitch Eligible Assets sold if the receivable is due within five Business Days of the Valuation Date, and if the trades which generated such receivables are settled within five business days; (ii) Preferred shares if (i) dividends on such preferred shares are cumulative, (ii) such securities provide for the periodic payment of dividends thereon in cash in U.S. dollars or euros and do not provide for conversion or exchange into, or have warrants attached entitling the holder to receive equity capital at any time over the respective lives of such securities, (iii) the issuer of such preferred shares is listed on the New York Stock Exchange, American Stock Exchange, NASDAQ, or FTSE and has a market capitalization of at least \$500 million, and (iv) the issuer of such preferred shares has a senior debt rating or preferred stock rating from Fitch of BBB- or higher or the equivalent rating by another Rating Agency. In addition, the preferred shares issue must be at least \$50 million; (iii) Common stocks (i) (a) which are traded on the New York Stock Exchange, the American Stock Exchange, the NASDAQ, FTSE or in the over-the-counter market, (b) which, if cash dividend paying, pay cash dividends in U.S. dollars, and (c) which may be sold without restriction by the Fund; provided, however, that (1) common stock which, while a Fitch Eligible Asset owned by the Fund, ceases paying any regular cash dividend will no longer be considered a Fitch Eligible Asset until 60 calendar days after the date of the announcement of such cessation, unless the issuer of the common stock has senior debt securities rated at least A- by Fitch and (2) the Fund's holding of the common stock of any issuer in excess of 5% will not be considered a Fitch Eligible Asset; (ii) securities denominated in any currency other than the U.S. dollar and securities of issuers formed under the laws of jurisdictions other than the United States, its states and the District of Columbia for which there are dollar-denominated American Depository Receipts ("ADRs") which are traded in the United States on exchanges or over-the-counter and are issued by banks formed under the laws of the United States, its states or the District of Columbia; provided, however, that the aggregate Market Value of the Fund's holdings of securities denominated in currencies other than the U.S. dollar and ADRs in excess of 3% of the aggregate Market Value of the Outstanding shares of common stock of such issuer or in excess of 10% of the Market Value of the Fund's Fitch Eligible Assets with respect to issuers formed under the laws of any single such non-U.S. jurisdiction other than Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea, Mexico, Spain or the United

Kingdom (the "Approved Foreign Nations") shall not be a Fitch Eligible Asset; (iv) Short Term Money Market Instruments so long as (A) such securities are rated at least F1+ by Fitch or the equivalent by another Rating Agency, (B) in the case of demand deposits, time deposits and overnight funds, the supporting entity is rated at least A by Fitch or the equivalent by another Rating Agency, or (C) in all other cases, the supporting entity (1) is rated at least A by Fitch or the equivalent by another Rating Agency and the security matures within one month, (2) is rated at least A by Fitch or the equivalent by another Rating Agency and the security matures within three months or (3) is rated at least AA by Fitch or the equivalent by another Rating Agency and the security matures within six months. Unrated securities will not be considered Eligible Assets; (v) U.S. Government Securities and U.S. Treasury Strips; (vi) debt securities if such securities have been registered under the Securities Act or are restricted as to resale under federal securities laws but are eligible for resale pursuant to Rule 144A under the Securities Act as determined by the Fund's investment adviser or portfolio manager acting pursuant to procedures approved by the Board of Trustees of the Fund; and (C) such securities are issued by (1) a U.S. corporation, limited liability company or limited partnership, (2) a corporation, limited liability company or limited partnership domiciled in Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea, Mexico, Spain or the United Kingdom (the "Approved Foreign Nations"), (3) the government of any Approved Foreign Nation or any of its agencies, instrumentalities or political subdivisions (the debt securities of Approved Foreign Nation issuers being referred to collectively as "Foreign Bonds"), (4) a corporation, limited liability company or limited partnership domiciled in Canada or (5) the Canadian government or any of its agencies, instrumentalities or political subdivisions (the debt securities of Canadian issuers being referred to collectively as "Canadian Bonds"). Foreign Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. Similarly, Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. Notwithstanding the limitations in the two preceding sentences, Foreign Bonds and Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 30% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. In addition, bonds which are issued in connection with a reorganization under U.S. federal bankruptcy law ("Reorganization

Bonds") will be considered debt securities constituting Fitch Eligible Assets if (a) they provide for periodic payment of interest in cash in U.S. dollars or euros; (b) they do not provide for conversion or exchange into equity capital at any time over their lives; (c) they have been registered under the Securities Act or are restricted as to resale under federal securities laws but are eligible for trading under Rule 144A promulgated pursuant to the Securities Act as determined by the Fund's investment manager or portfolio manager acting pursuant to procedures approved by the Board of Trustees of the Fund; (d) they were issued by a U.S. corporation, limited liability company or limited partnership; and (e) at the time of purchase at least one year had elapsed since the issuer's reorganization. Reorganization Bonds may also be considered debt securities constituting Fitch Eligible Assets if they have been approved by Fitch, which approval shall not be unreasonably withheld. All debt securities satisfying the foregoing requirements and restrictions of this paragraph (iv) are herein referred to as "Debt Securities." (vii) asset-backed and mortgage-backed securities; (viii) Rule 144A Securities; (ix) Bank Loans; (x) municipal debt obligations that (a) pay interest in cash (b) are part of an issue of municipal debt obligations of at least \$5 million, except for municipal debt obligations rated below A by Fitch or the equivalent rating by another Rating Agency, in which case the minimum issue size is \$10 million; (xi) Structured Notes; (xii) tradable credit baskets (e.g., Traded Custody Receipts or TRACERS and Targeted Return Index Securities Trust or TRAINS); (xiv) Interest rate swaps entered into according to International Swap Dealers Association ("ISDA") standards if (1) the counterparty to the swap transaction has a short-term rating of not less than F1 by Fitch or the equivalent by another Rating Agency, or, if the swap counterparty does not have a short-term rating, the counterparty's senior unsecured long-term debt rating is AA or higher by Fitch or the equivalent by another Rating Agency and (2) the original aggregate notional amount of the interest rate swap transaction or transactions is not greater than the liquidation preference of the Preferred Shares originally issued; (xv) Common Stock, Preferred Stock, and any debt security of REITs and Real Estate Companies; and (xvi) Unrated Debt Securities issued by an issuer which (1) has not filed for bankruptcy in the past three years; (2) is current on all interest and principal on its fixed income obligations; and (3) is current on all preferred stock dividends. Financial contracts, as such term is defined in Section 3(c)(2)(B)(ii) of the Investment Company Act, not otherwise provided for in this definition may be included in Fitch Eligible Assets, but, with respect to any financial

contract, only upon receipt by the Fund of a writing from Fitch specifying any conditions on including such financial contract in Fitch Eligible Assets and assuring the Fund that including such financial contract in the manner so specified would not affect the credit rating assigned by Fitch to the Preferred Shares. Where the Fund sells an asset and agrees to repurchase such asset in the future, the Discounted Value of such asset will constitute a Fitch Eligible Asset and the amount the Fund is required to pay upon repurchase of such asset will count as a liability for the purposes of the Preferred Shares Basic Maintenance Amount. Where the Fund purchases an asset and agrees to sell it to a third party in the future, cash receivable by the Fund thereby will constitute a Fitch Eligible Asset if the long-term debt of such other party is rated at least A- by Fitch or the equivalent by another Rating Agency and such agreement has a term of 30 days or less; otherwise the Discounted Value of such purchased asset will constitute a Fitch Eligible Asset. Notwithstanding the foregoing, an asset will not be considered a Fitch Eligible Asset to the extent that it has been irrevocably deposited for the payment of (i)(A) through (i)(E) under the definition of Preferred Shares Basic Maintenance Amount or to the extent it is subject to any Liens, except for (A) Liens which are being contested in good faith by appropriate proceedings and which Fitch has indicated to the Fund will not affect the status of such asset as a Fitch Eligible Asset, (B) Liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (C) Liens to secure payment for services rendered or cash advanced to the Fund by its investment manager or portfolio manager, the Fund's custodian, transfer agent or registrar or the Auction Agent and (D) Liens arising by virtue of any repurchase agreement.

Diversification. Fitch requires that the Fund adhere to a maximum single issuer concentration, with respect to 75% of its assets, of 5% of total assets. **Fitch Diversification Limitations.** Portfolio holdings as described below must be within the following diversification and issue size requirements in order to be included in Fitch's Eligible Assets:

Security Rated At	Maximum Single	Maximum Single	Minimum Issue Size
Least Issuer(1)	Industry(1),(2)	(\$ in million)(3)	AAA
100%	100%	\$100	AA-
20	75	100	A-
10	50	100	BBB-
6	25	100	BB-
4	16	50	B-
3	12	50	CCC
2	8	50	

If a security is not rated by Fitch, look to the lower of Moody's or S&P rating. (1) Percentages represent a portion of the aggregate market value of corporate debt securities. (2) Industries are determined according to Bloomberg's Industry Classifications, as defined herein. (3) Preferred stock has a minimum issue size of \$50 million for all rating categories in the table. "Fitch Exposure Period" means the period

commencing on (and including) a given Valuation Date and ending 41 days thereafter. "Fitch Hedging Transactions" has the meaning set forth in Section 8 of Part I of this Declaration. "Fitch Loan Category" means the following four categories (and, for purposes of this categorization, the Market Value of a Fitch Eligible Asset trading at par is equal to \$1.00): (i) "Fitch Loan Category A" means Performing Bank Loans which have a Market Value or an Approved Price greater than or equal to \$0.90. (ii) "Fitch Loan Category B" means: (A) Performing Bank Loans which have a Market Value or an Approved Price of greater than or equal to \$0.80 but less than \$0.90; and (B) non-Performing Bank Loans which have a Market Value or an Approved Price greater than or equal to \$0.85. (iii) "Fitch Loan Category C" means: (A) Performing Bank Loans which have a Market Value or an Approved Price of greater than or equal to \$0.70 but less than \$0.80; (B) non-Performing Bank Loans which have a Market Value or an Approved Price of greater than or equal to \$0.75 but less than \$0.85; and (C) Performing Bank Loans without an Approved Price rated BB- or higher by Fitch. If a security is not rated by Fitch but is rated by two other Rating Agencies, then the lower of the ratings on the security from the two other Rating Agencies will be used to determine the Fitch Discount Factor (e.g., where the S&P rating is A- and the Moody's rating is Baa1, a Fitch rating of BBB+ will be used). If a security is not rated by Fitch but is rated by only one other Rating Agency, then the rating on the security from the other Rating Agency will be used to determine the Fitch Discount Factor (e.g., where the only rating on a security is an S&P rating of AAA, a Fitch rating of AAA will be used, and where the only rating on a security is a Moody's rating of Ba3, a Fitch rating of BB- will be used). (iv) "Fitch Loan Category D" means Bank Loans not described in any of the foregoing categories. Notwithstanding any other provision contained above, for purposes of determining whether a Fitch Eligible Asset falls within a specific Fitch Loan Category, to the extent that any Fitch Eligible Asset would fall within more than one of the Fitch Loan Categories, such Fitch Eligible Asset shall be deemed to fall into the Fitch Loan Category with the lowest applicable Fitch Discount Factor. "Foreign Bonds" has the meaning set forth in the definition of "Fitch Eligible Assets." "Forward Commitment" has the meaning set forth in Section 8 of Part I of this Statement. "Holder" means a Person identified as a holder of record of Preferred Shares in the Share Register. "Hold Order" and "Hold Orders" shall have the respective meanings specified in paragraph (a) of Section 1 of Part II of this Statement. "Independent Accountant" means a nationally recognized accountant, or

firm of accountants, that is, with respect to the Fund, an independent public accountant or firm of independent public accountants under the Securities Act and serving as such for the Fund. "Interest Equivalent" has the meaning set forth in the definition of "'AA' Financial Composite Commercial Paper Rate." "Initial Rate Period" shall have the meaning specified with respect to the Series M28 Preferred Shares in Section 2(d) of Part I of this Statement. "Investment Company Act" shall mean the Investment Company Act of 1940, as amended from time to time. "Investment Company Act Cure Date," with respect to the failure by the Fund to maintain the Investment Company Act Preferred Share Asset Coverage (as required by Section 5 of Part I of this Statement) as of the last Business Day of each month, shall mean the last Business Day of the following month. "Investment Company Act Preferred Share Asset Coverage" shall mean asset coverage, as defined in Section 18(h) of the Investment Company Act, of at least 200% with respect to all outstanding senior securities of the Fund which are shares of beneficial interest including all outstanding Preferred Shares (or such other asset coverage as may in the future be specified in or under the Investment Company Act as the minimum asset coverage for senior securities which are shares or stock of a closed-end investment company as a condition of declaring dividends on its common shares or stock). "Late Charge" shall have the meaning specified in subparagraph (e)(i)(B) of Section 2 of Part I of this Statement. "LIBOR Dealers" means Citigroup Global Markets Inc. ("Citigroup") and such other dealer or dealers as the Fund may from time to time appoint, or, in lieu of any thereof, their respective affiliates or successors. "LIBOR Rate" on any Auction Date, means (i) the rate for deposits in U.S. dollars for the designated Dividend Period, which appears on display page 3750 of Moneyline's Telerate Service ("Telerate Page 3750") (or such other page as may replace that page on that service, or such other service as may be selected by the LIBOR Dealer or its successors that are LIBOR Dealers) as of 11:00 a.m., London time, on the day that is the London Business Day preceding the Auction Date (the "LIBOR Determination Date"), or (ii) if such rate does not appear on Telerate Page 3750 or such other page as may replace such Telerate Page 3750, (A) the LIBOR Dealer shall determine the arithmetic mean of the offered quotations of the Reference Banks to leading banks in the London interbank market for deposits in U.S. dollars for the designated Dividend Period in an amount determined by such LIBOR Dealer by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such date made by such LIBOR Dealer to the Reference Banks, (B) if at least two of the Reference Banks provide

such quotations, LIBOR Rate shall equal such arithmetic mean of such quotations, (C) if only one or none of the Reference Banks provide such quotations, LIBOR Rate shall be deemed to be the arithmetic mean of the offered quotations that leading banks in The City of New York selected by the LIBOR Dealer (after obtaining the Fund's approval) are quoting on the relevant Determination Date for deposits in U.S. dollars for the designated Dividend Period in an amount determined by the LIBOR Dealer (after obtaining the Fund's approval) that is representative of a single transaction in such market at such time by reference to the principal London offices of leading banks in the London interbank market; provided, however, that if one of the LIBOR Dealers does not quote a rate required to determine the LIBOR Rate, the LIBOR Rate will be determined on the basis of the quotation or quotations furnished by any Substitute LIBOR Dealer or Substitute LIBOR Dealers selected by the Fund to provide such rate or rates not being supplied by the LIBOR Dealer; provided further, that if the LIBOR Dealer and Substitute LIBOR Dealers are required but unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR Rate shall be LIBOR Rate as determined on the previous Auction Date. If the number of Dividend Period days shall be (i) 7 or more but fewer than 21 days, such rate shall be the seven-day LIBOR rate; (ii) more than 21 but fewer than 49 days, such rate shall be the one-month LIBOR rate; (iii) 49 or more but fewer than 77 days, such rate shall be the two-month LIBOR rate; (iv) 77 or more but fewer than 112 days, such rate shall be the three-month LIBOR rate; (v) 112 or more but fewer than 140 days, such rate shall be the four-month LIBOR rate; (vi) 140 or more but fewer than 168 days, such rate shall be the five-month LIBOR rate; (vii) 168 or more but fewer than 189 days, such rate shall be the six-month LIBOR rate; (viii) 189 or more but fewer than 217 days, such rate shall be the seven-month LIBOR rate; (ix) 217 or more but fewer than 252 days, such rate shall be the eight-month LIBOR rate; (x) 252 or more but fewer than 287 days, such rate shall be the nine-month LIBOR rate; (xi) 287 or more but fewer than 315 days, such rate shall be the ten-month LIBOR rate; (xii) 315 or more but fewer than 343 days, such rate shall be the eleven-month LIBOR rate; and (xiii) 343 or more but fewer than 365 days, such rate shall be the twelve-month LIBOR rate. "Liquidation Preference," with respect to a given number of Preferred Shares, means \$25,000 times that number. "Lien" means any material lien, mortgage, pledge, security interest or security agreement of any kind. "London Business Day" means any day on which commercial banks are generally open for business in London. "Market Value" of any asset of the

Fund shall be the market value thereof determined by a Pricing Service. Market Value of any asset shall include any interest accrued thereon. A Pricing Service shall value portfolio securities at the quoted bid prices or the mean between the quoted bid and asked price or the yield equivalent when quotations are not readily available. Securities for which quotations are not readily available shall be valued at fair value as determined by a Pricing Service using methods which include consideration of: yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. A Pricing Service may employ electronic data processing techniques and/or a matrix system to determine valuations. In the event a Pricing Service is unable to value a security, the security shall be valued at the lower of two dealer bids obtained by the Fund from dealers who are members of the National Association of Securities Dealers, Inc. and who make a market in the security, at least one of which shall be in writing. The Fund shall notify Fitch and S&P of the valuation. Futures contracts and options are valued at closing prices for such instruments established by the exchange or board of trade on which they are traded, or if market quotations are not readily available, are valued at fair value on a consistent basis using methods determined in good faith by the Board of Trustees of the Fund.

"Maximum Rate" with respect to Preferred Shares for any Dividend Period will be the greater of the Applicable Percentage of the Reference Rate or the Applicable Spread plus the Reference Rate. The Auction Agent will round each applicable Maximum Rate to the nearest one-thousandth (0.001) of one percent per annum, with any such number ending in five ten-thousandths of one percent being rounded upwards to the nearest one-thousandth (0.001) of one percent. "Minimum Rate Period" shall mean any rate period of seven (7) Rate Period days. "Moody's" means Moody's Investors Service, Inc. or its successors. "Non-Payment Period Rate" means 300% of the applicable Reference Rate, provided that the Board of Trustees of the Fund shall have the authority to adjust, modify, alter or change from time to time the initial Non-Payment Period Rate if the Board of Trustees of the Fund determines and each of Fitch and S&P (and any Substitute Rating Agency in lieu of Fitch or S&P in the event Fitch or S&P shall not rate the Preferred Shares) advises the Fund in writing that such adjustment, modification, alteration or change will not adversely affect its then current ratings on the Preferred Shares. "Notice of Redemption" shall mean any notice with respect to the redemption of Preferred Shares pursuant to paragraph (c) of Section 9 of Part I of this Statement. "Notice of Special Rate Period" shall mean any

notice with respect to a Special Rate Period of Preferred Shares pursuant to subparagraph (d)(i) of Section 3 of Part I of this Statement. "Order" and "Orders" shall have the respective meanings specified in paragraph (a) of Section 1 of Part II of this Statement. "Outstanding" means, as of any date (i) with respect to Preferred Shares, Preferred Shares theretofore issued by the Fund except, without duplication, (A) any Preferred Shares theretofore canceled or delivered to the Auction Agent for cancellation, or redeemed by the Fund, or as to which a Notice of Redemption shall have been given and Deposit Securities shall have been deposited in trust or segregated by the Fund pursuant to Section 9 of Part I of this Statement and (B) any Preferred Shares as to which the Fund or any Affiliate (other than an Affiliate that is a Broker-Dealer) thereof shall be a Beneficial Owner, provided that Preferred Shares held by an Affiliate shall be deemed outstanding for purposes of calculating the Preferred Shares Basic Maintenance Amount and (ii) with respect to other preferred shares of beneficial interest of the Fund, the meaning equivalent to that for Preferred Shares as set forth in clause (i). "Performing" means with respect to any asset that is a Bank Loan or other debt, the issuer of such investment is not in default of any payment obligations in respect thereof. "Person" means and includes an individual, a partnership, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof. "Potential Beneficial Owner" means a customer of a Broker-Dealer or a Broker-Dealer that is not a Beneficial Owner of Preferred Shares but that wishes to purchase such shares, or that is a Beneficial Owner that wishes to purchase additional Preferred Shares. "Potential Holder" means any Broker-Dealer or any such other Person as may be permitted by the Fund, including any Existing Holder, who may be interested in acquiring Preferred Shares (or, in the case of an Existing Holder, additional Preferred Shares). "Preferred Shares Basic Maintenance Amount," as of any Valuation Date, means the dollar amount equal (i) to the sum of (A) the product of the number of Preferred Shares outstanding on such date multiplied by \$25,000 (plus the product of the number of shares of any other series of preferred shares outstanding on such date multiplied by the liquidation preference of such shares), plus any redemption premium applicable to the Preferred Shares (or other preferred shares) then subject to redemption; (B) the aggregate amount of dividends that will have accumulated at the respective Applicable Rates (whether or not earned or declared) to (but not including) the first respective Dividend Payment Dates for the Series M28 Preferred Shares outstanding that follow such Valuation Date (plus the aggregate amount of

dividends, whether or not earned or declared, that will have accumulated in respect of other outstanding preferred shares to, but not including, the first respective dividend payment dates for such other shares that follow such Valuation Date); (C) the aggregate amount of dividends that would accumulate on the Series M28 Preferred Shares outstanding from such first respective Dividend Payment Date therefor through the 49th day after such Valuation Date, at the Maximum Rate (calculated as if such Valuation Date were the Auction Date for the Rate Period commencing on such Dividend Payment Date) for a Minimum Rate Period of the Series M28 Preferred Shares to commence on such Dividend Payment Date, assuming, solely for purposes of the foregoing, that if on such Valuation Date the Fund shall have delivered a Notice of Special Rate Period to the Auction Agent pursuant to Section 3(d)(i) of this Part I with respect to the Series M28 Preferred Shares, such Maximum Rate shall be the Maximum Rate for the Special Rate Period of the Series M28 Preferred Shares to commence on such Dividend Payment Date (except that (1) if such Valuation Date occurs at a time when a Failure to Deposit (or, in the case of preferred shares other than the Preferred Shares, a failure similar to a Failure to Deposit) has occurred that has not been cured, the dividend for purposes of calculation would accumulate at the current dividend rate then applicable to the shares in respect of which such failure has occurred and (2) for those days during the period described in this subparagraph (D) in respect of which the Applicable Rate in effect immediately prior to such Dividend Payment Date will remain in effect (or, in the case of preferred shares other than the Preferred Shares, in respect of which the dividend rate or rates in effect immediately prior to such respective dividend payment dates will remain in effect), the dividend for purposes of calculation would accumulate at such Applicable Rate (or other rate or rates, as the case may be) in respect of those days); (D) the amount of anticipated non-interest expenses of the Fund for the 90 days subsequent to such Valuation Date; (E) the amount of any indebtedness or obligations of the Fund senior in right of payment to the Preferred Shares; (F) any current liabilities as of such Valuation Date to the extent not reflected in any of (i)(A) through (i)(D) (including, without limitation, any payables for portfolio securities of the Fund purchased as of such Valuation Date and any liabilities incurred for the purpose of clearing securities transactions) less (ii) the value (i.e., the face value of cash, short-term securities rated MIG-1, VMIG-1, or P-1, and short-term securities that are the direct obligation of the U.S. government, provided in each case that such securities mature on or

prior to the date upon which any of (i)(A) through (i)(F) become payable, otherwise the Discounted Value) of any of the Fund's assets irrevocably deposited by the Fund for the payment of any of (i)(A) through (i)(F). "Preferred Shares Basic Maintenance Cure Date," with respect to the failure by the Fund to satisfy the Preferred Shares Basic Maintenance Amount (as required by Section 6 of Part I of this Statement) as of a given Valuation Date, means the sixth Business Day following such Valuation Date.

"Preferred Shares Basic Maintenance Report" means a report signed by any of the President, Treasurer, any Vice President or any Assistant Treasurer of the Fund which sets forth, as of the related Valuation Date, the assets of the Fund, the Market Value and the Discounted Value thereof (seriatim and in aggregate), the Preferred Shares Basic Maintenance Amount, the net asset value of the Fund, the trade price and the Fund's total return. "Pricing Service" means any of the pricing services listed below, provided such pricing service has been approved by the Board of Trustees of the Fund, for purposes of determining whether the Fund has Eligible Assets with an aggregate Discounted Value that equals or exceeds the Preferred Shares Basic Maintenance Amount: Bear Stearns Pricing Direct Securities Evaluation Services

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===== Bloomberg J.J. Kenny Drake ===== Bridge Global Pricing Standard & Poor's Evaluation Services
=====
- ===== Data Resources Inc. Thomson Financial Securities Management
=====
- ===== FT Interactive Data Telekurs =====
===== JP Morgan Pricing Services Trepp Pricing Service =====

===== Van Kampen Merritt Investment Advisory Corp Pricing Service Loan Pricing Corporation Reuters CIBC World Markets "Quarterly Valuation Date" means the last Friday of the last month of each fiscal quarter of the Fund in each fiscal year of the Fund, commencing August 27, 2004, provided that if such day is not a Business Day, then the immediately prior Business Day. "Rate Period" shall mean the Initial Rate Period of the Series M28 Preferred Shares and any Subsequent Rate Period, including any Special Rate Period, of the Series M28 Preferred Shares. "Rating Agency" means a nationally recognized statistical rating organization. "Redemption Price" shall mean the applicable redemption price specified in paragraph (a) or (b) of Section 9 of Part I of this Statement. "Reference

Banks" means four major banks in the London interbank market selected by Citigroup or its affiliates or successors or such other party as the Fund may from time to time appoint. "Reference Rate" means LIBOR Rate (for a Dividend Period of fewer than 365 days) or the applicable Treasury Index Rate (for a Dividend Period of 365 days or more). "Reorganization Bonds" has the meaning set forth under the definition of "Fitch Eligible Assets." "Rule 144A Securities" means securities which are restricted as to resale under federal securities laws but are eligible for resale pursuant to Rule 144A under the Securities Act as determined by the Fund's investment adviser or portfolio manager acting pursuant to procedures approved by the Board of Trustees of the Fund. "S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., or its successors. "S&P Discount Factor" means, with respect to an S&P Eligible Asset specified below, the following applicable number, provided that the S&P Exposure Period is 20 Business Days or less: DISCOUNT FACTOR FOR AAA RATING TYPE OF S&P ELIGIBLE ASSET
Common Stock 168% DRD Eligible Preferred Stock with a senior 228%

===== or preferred stock rating of at least BBB-
===== REIT and
Non-DRD Eligible Preferred Stock with a senior or 155%

===== Stock with a senior or preferred stock rating of at
least BBB-

===== DRD Eligible Preferred Stock with a senior 233%

===== or preferred stock rating below BBB-
===== REIT and non-DRD
Eligible Preferred 160%

===== Stock with a senior or preferred stock rating below
BBB- =====
Un-rated DRD Eligible Preferred Stock 238%

===== Un-rated Non-DRD Eligible and un-rated REIT Preferred
Stock 165%

===== Convertible bonds rated AAA to AAA- 148%

===== Convertible bonds rated AA+ to AA- 155%

===== Convertible bonds rated A+ to A- 162%

===== Convertible bonds rated BBB+ to BBB- 168%

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Convertible bonds rated BB+ to BB- 175%
=====

Convertible bonds rated B+ to B- 182%
=====

Convertible bonds rated CCC+ to CCC- 189%
=====

Fixed rate Preferred stock 228.10%
=====

Adjustable
rate Preferred stock 198.29%
=====

Taxable Preferred stock (Non-DRD) 154.66%
=====

Convertible securities AAA 148.25%
=====

Convertible securities AA 154.97%
=====

Convertible
securities A 161.70% =====

Convertible securities BBB 168.42%
=====

Convertible securities BB 175.15%
=====

Convertible
securities B 181.87% =====

Convertible securities CCC 188.60%
=====

Treasury
1-year 101.99% ===== Treasury
2-year 103.77% ===== Treasury
5-year 109.09% ===== Treasury
10-year 115.14% =====

Treasury 30-year 126.33% =====

U.S. Agency Debt Securities 120.48%
=====

U.S.
Agency Mortgage Securities 15-year 128.80%
=====

U.S. Agency Mortgage Securities 30-year
131.20%
=====

U.S. Agency Mortgage Securities 1/1 ARMS
121.70%
=====

U.S. Agency Mortgage Securities 3/1 ARMS
122.10%
=====

U.S. Agency Mortgage Securities 5/1 ARMS
122.50%
=====

U.S. Agency Mortgage Securities 10/1 ARMS
122.70%
=====

Corporate Bonds Rated AAA 110.01%
=====

Corporate
Bonds Rated AA 113.28%

Corporate	
Bonds Rated A	116.85%
Corporate Bonds Rated BBB	121.82%
Corporate	
Bonds Rated BB	135.32%
Corporate	
Bonds Rated B	168.76%
Corporate Bonds Rated CCC	252.03%
Corporate	
Bonds Rated CCC-	350.00%
Bank Loan	
Performing, greater than \$.90	117.79%
Bank Loan Performing, between \$.85 and \$.90	125.47%
Bank Loan Non-performing, greater than \$.85	154.08%
Bank Loan Non-performing, less than or equal to \$.85	178.25%
Auto Loans (fixed or floating) WAL less than 5-years	130.00%
Auto Loans (fixed or floating) WAL between 5 and 10-years	140.00%
Credit Card Loans (fixed) WAL less than 5-years	130.00%
Credit Card Loans (fixed) WAL between 5 and 10-years	140.00%
Credit Card Loans (floating)	112.70%
REIT	
Common Stock	148.79%
Standard & Poor's 500 Index (including ADRs)	168.46%
Master Limited Partnerships	625.00%
Credit	
Linked Notes rate AAA	125.00%
U.S.	
Short-Term Money Market Investments with maturities of 180 days or less	104%
U.S.	
Short-Term Money Market Investments with maturities	113%

==== of between 181 and 360 days
===== U.S. Government
Obligations (52 week Treasury Bills) 102%
=====

==== U.S. Government Obligations (Two-Year Treasury
Notes) 104%
=====

==== U.S. Government Obligations (Five-Year Treasury
Notes) 110%
=====

==== U.S. Government Obligations (Ten-Year Treasury
Notes) 117%
=====

==== U.S. Government Obligations (Thirty-Year Treasury
Bonds) 130%
=====

==== Agency Mortgage Collateral (Fixed 15-Year) 129%
=====

==== Agency Mortgage Collateral (Fixed 30-Year) 132%
=====

==== Agency Mortgage Collateral (ARM 1/1) 122%
=====

==== Agency Mortgage Collateral (ARM 3/1) 123%
=====

==== Agency Mortgage Collateral (ARM 5/1) 123%
=====

==== Agency Mortgage Collateral (ARM 10/1) 123%
=====

==== Mortgage Pass-Through Fixed (15 Year) 131%
=====

==== Mortgage Pass-Through Fixed (30 Year) 134%
=====

==== Bank Loans (S&P Loan Category A) 132.90%
=====

==== Bank Loans (S&P Loan Category B) 140.58%
=====

==== Bank Loans (S&P Loan Category C) 169.19%
=====

==== Bank Loans (S&P Loan Category D) 193.36%
=====

==== Corporate Bonds rated at least AAA 110%
=====

==== Corporate Bonds rated at least AA+ 111%
=====

==== Corporate Bonds rated at least AA 113%
=====

==== Corporate Bonds rated at least AA- 115%
=====

==== Corporate Bonds rated at least A+ 116%
=====

==== Corporate Bonds rated at least A 117%
=====

Corporate Bonds rated at least A-	118%
Corporate Bonds rated at least BBB+	120%
Corporate Bonds rated at least BBB	122%
Corporate Bonds rated at least BBB-	124%
Corporate Bonds rated at least BB+	129%
Corporate Bonds rated at least BB	135%
Corporate Bonds rated at least BB-	142%
Corporate Bonds rated at least B+	156%
Corporate Bonds rated at least B	169%
Corporate Bonds rated at least B-	184%
Corporate Bonds rated at least CCC+	202%
Corporate Bonds rated at least CCC	252%
Corporate Bonds rated at least CCC-	350%
Cash and Cash Equivalents	100%
Municipal Bonds rated AAA	146.10%
Municipal Bonds rated AA	149.10%
Municipal Bonds rated A	152.10%
Municipal Bonds rated BBB	155.10%
Municipal Bonds rated BB	175.10%
Municipal Bonds rated B	195.10%
Municipal Bonds rated CCC	215.10%
Unrated Municipal Bonds	220.00%
Common Stock of REITs and other real estate companies	152.82%
Mortgage Pass-Through Certificates 15-yr	145.80%
Mortgage Pass-Through Certificates 30-yr	149.50%
Mortgage Pass-Through Certificates 1/1	

137.60%

=====
===== Mortgage Pass-Through Certificates 3/1
138.30%

=====
===== Mortgage Pass-Through Certificates 5/1
139.00%

=====
===== Mortgage Pass-Through Certificates 10/1
139.30%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 15-year 148.80%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 30-year 152.50%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 1/1 143.40%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 3/1 144.50%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 5/1 144.70%

=====
===== Conventional/FHA/VA Mortgages and Whole
Loans 10/1 145.00%

=====
===== Collateralized Mortgage Obligations (WAL less
than 5-years) 140.00%

=====
===== Collateralized Mortgage Obligations (WAL
more than 5-years 150.00%

=====
===== and more than 10-years)
===== FHA-Insured Multifamily
Loans 190.00%

=====
===== ABS (Automobile loans and fixed-rate credit
card 135.00%

=====
===== receivables with WAL less than 5-years)

=====
===== ABS (Automobile loans and fixed-rate credit card
145.00%

=====
===== receivables with WAL more than 5-yr and less
than 10-years)

=====
===== ABS (Floating-rate credit cards) 119.00%

Debt securities of REITS and other real estate companies

=====

according to the following corporate bond schedule:

=====

Corporate Bonds rated at least AAA 110%

=====

==== Corporate Bonds rated at least AA+ 111%

=====

==== Corporate Bonds rated at least AA 113%

=====

Corporate Bonds rated at least AA- 115%

=====

==== Corporate Bonds rated at least A+ 116%

=====

==== Corporate Bonds rated at least A 117%

=====

Corporate Bonds rated at least A- 118%

=====

Corporate Bonds rated at least BBB+ 120%

=====

==== Corporate Bonds rated at least BBB 122%

=====

==== Corporate Bonds rated at least BBB- 124%

=====

==== Corporate Bonds rated at least BB+ 129%

=====

==== Corporate Bonds rated at least BB 135%

=====

Corporate Bonds rated at least BB- 142%

=====

==== Corporate Bonds rated at least B+ 156%

=====

Corporate Bonds rated at least B 169%

=====

Corporate Bonds rated at least B- 184%

=====

Corporate Bonds rated at least CCC+ 202%

=====

==== Corporate Bonds rated at least CCC 252%

=====

==== Corporate Bonds rated at least CCC- 350%

=====

==== Notwithstanding the foregoing, the S&P Discount Factor for short-term Municipal Obligations will be 115% so long as such Municipal Obligations are rated A-1 + or SP-1 + by S&P and mature or have a demand feature exercisable within 30 days or less, or 123% so long as such Municipal Obligations are rated A-1 or SP-1 by S&P and mature or have a demand feature exercisable in 30 days or less, or 125% if such Municipal Obligations are not rated by S&P but are rated equivalent to A-1+ or SP-1+ by

another nationally recognized statistical rating organization, on a case by case basis; provided, however, that any such non-S&P rated short-term Municipal Obligations which have demand features exercisable within 30 days or less must be backed by a letter of credit, liquidity facility or guarantee from a bank or other financial institution with a short-term rating of at least A-1+ from S&P ; and further provided that such non-S&P rated short-term Municipal Obligations may comprise no more than 50% of short-term Municipal Obligations that qualify as S&P Eligible Assets; provided, however, that Municipal Obligations not rated by S&P but rated equivalent to BBB or lower by another nationally recognized statistical rating organization, rated BB+ or lower by S&P or non-rated (such Municipal Obligations are hereinafter referred to as "High Yield Securities") may comprise no more than 20% of the short-term Municipal Obligations that qualify as S&P Eligible Assets; (ii) the S&P Discount Factor for Receivables for Municipal Obligations Sold that are due in more than five Business Days from such Valuation Date will be the S&P Discount Factor applicable to the Municipal Obligations sold; (iii) no S&P Discount Factor will be applied to cash or to Receivables for Municipal Obligations Sold if such receivables are due within five Business Days of such Valuation Date; and (iv) except as set forth in clause (i) above, in the case of any Municipal Obligation that is not rated by S&P but qualifies as an S&P Eligible Asset pursuant to clause (iii) of that definition, such Municipal Obligation will be deemed to have an S&P rating one full rating category lower than the S&P rating category that is the equivalent of the rating category in which such Municipal Obligation is placed by a nationally recognized statistical rating organization. "Receivables for Municipal Obligations Sold," for purposes of calculating S&P Eligible Assets as of any Valuation Date, means the book value of receivables for Municipal Obligations sold as of or prior to such Valuation Date. The Fund may adopt S&P Discount Factors for Municipal Obligations other than Municipal Obligations provided that S&P advises the Fund in writing that such action will not adversely affect its then current rating on the Preferred Shares. For purposes of the foregoing, Anticipation Notes rated SP-1+ or, if not rated by S&P, equivalent to A-1+ or SP-1+ by another nationally recognized statistical rating organization, on a case by case basis, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating, shall be considered to be short-term Municipal Obligations. The S&P Discount Factor applied to cash and cash equivalents and demand deposits in an "A-1+" rated institution are valued at 100%. "A-1+" rated commercial

paper, with maturities no greater than 30 days and held instead of cash until maturity, is valued at 100%. Securities with next-day maturities invested in "A-1+" rated institutions are considered cash equivalents and are valued at 100%. Securities maturing in 181 to 360 calendar days are valued at 114.2%. The S&P Discount Factor for shares of unrated Money Market Funds affiliated with the Fund used as "sweep" vehicles will be 110%. Money Market Funds rated "AAAm" will be discounted at the appropriate level as dictated by the exposure period. No S&P Discount Factor will be applied to Money Market Funds rated AAAM by S&P with effective next day maturities. Receivables that are due in more than five business days of a valuation date qualify as a S&P's-eligible asset at a value no greater than the settlement price discounted at the applicable credit rating and/or exposure period discount factor. For purposes of determining the discount factors applicable to collateral not rated by S&P, the collateral will carry an S&P rating one full rating category lower than the equivalent S&P rating. "S&P Eligible Assets" will mean: (A) Deposit Securities; (B) U.S. Government Obligations of U.S. Government Agencies; (C) Corporate Indebtedness. Evidences of indebtedness other than Deposit Securities, U.S. Government Obligations and Municipal Obligations that are not convertible into or exchangeable or exercisable for stock of a corporation (except to the extent of ten percent (10%) in the case of a share exchange or tender offer) ("Other Debt") and that satisfy all of the following conditions: (1) be no more than 10% of total assets may be below a S&P rating of BBB-, or comparable Moody's or Fitch rating, or unrated; (2) the remaining term to maturity of such Other Debt will not exceed fifty (50) years; (3) such Other Debt must provide for periodic interest payments in cash over the life of the security; (4) no more than 10% of the issuers of such evidences of indebtedness do not file periodic financial statements with the Securities and Exchange Commission; (5) which, in the aggregate, have an average duration of not more than 12 years. (D) Convertible Corporate Indebtedness. Evidences of indebtedness other than Deposit Securities, U.S. Government Obligations and Municipal Obligations that are convertible into or exchangeable or exercisable for stock of a corporation and that satisfy all of the following conditions: (1) such evidence of indebtedness is rated at least CCC by SP and (2) if such evidence of indebtedness is rated BBB or lower by S&P, the market capitalization of the issuer of such evidence of indebtedness is at least \$100 million; (E) Agency Mortgage Collateral. Certificates guaranteed by U.S. Government Agencies (as defined below) (e.g., FNMA, GNMA and FHLMC) for timely payment of

interest and full and ultimate payment of principal. Agency Mortgage Collateral also evidence undivided interests in pools of level-payment, fixed, variable, or adjustable rate, fully amortizing loans that are secured by first liens on one- to four-family residences residential properties (or in the case of Plan B FHLMC certificates, five or more units primarily designed for residential use) ("Agency Mortgage Collateral"). Agency Mortgage Collateral the following conditions apply: (1) For GNMA certificates backed by pools of graduated payment mortgages, levels are 20 points above established levels; (2) Qualifying "large pool" FNMA mortgage-backed securities and FHLMC participation certificates are acceptable as eligible collateral. The eligible fixed-rate programs include FNMA MegaPools, FNMA Majors, FHLMC Multilender Swaps, and FHLMC Giant certificates. Eligible adjustable rate mortgage ("ARMs") programs include nonconvertible FNMA ARM MegaPools and FHLMC weighted average coupon ARM certificates. Eligible FHLMC Giant programs exclude interest-only and principal only stripped securities; (3) FNMA certificates backed by multifamily ARMs pegged to the 11th District Cost of Funds Index are acceptable as eligible collateral at 5 points above established levels; and (4) Multiclass REMICs issued by FNMA and FHLMC are acceptable as eligible collateral at the collateral levels established for CMOs. (F) Mortgage Pass-Through Certificates. Publicly issued instruments maintaining at least a AA - ratings by S&P. Certificates evidence proportional, undivided interests in pools of whole residential mortgage loans. Pass-through certificates backed by pools of convertible ARMs are acceptable as eligible collateral at 5 points above the levels established for pass-through certificates backed by fixed or non-convertible ARM pools. (G) Mortgage-backed Securities. (1) Mortgage Pass-through Certificates are publicly issued instruments rated at least "AA-" by S&P. Pass-throughs backed by pools of convertible adjustable-rate mortgages (ARMs) are discounted at an additional five percentage points above the levels established for pass-throughs backed by fixed or nonconventional ARM pools. (2) Fixed-Rate and Adjustable-rate mortgage collateral (conventional/FHA/VA and Whole Loans) Pool must consist of at least 100 loans each secured by single-family, one-unit, detached primary residence. 25% of the total pool may have an LTV greater than 80% but less than or equal to 90%. 10% may have an original LTV of no greater than 95%. Loans with LTV greater than 80% must have a `AA' rated primary mortgage insurance. 25% may have balances between \$400,000 and \$600,000, provided the maximum size of any loan is appropriate with respect to the market

area of the originator. 10% of the pool may represent condominiums that are four stories or less. High LTVs, high loan balance, and condominiums, in aggregate, should not exceed 35% of the pool. (3) FHAA-Insured Multifamily Loans must have a minimum principal balance of \$100,000 and have at least a one-year remaining maturity. The aggregate market value of any one loan may not exceed 5% of the aggregate market value of the portfolio. Such loans should be initially included in minimum blocks of \$5 million. Project loans must have at least a 90% occupancy rate at the time the loan is pledged. After 90 days defaulted mortgage loans must be valued at zero. A loan in default should be liquidated or substituted within a 90-day period. (4) Collateralized Mortgage Obligations tranches are publicly issued instruments rated `AAA' by S&P. No more than 25% of the total market value of collateral may be from one private sector issuer. (H) Rule 144A Securities; (I) Senior Loans, provided, however, that the initial issue amount (facility size) is at least \$100 million. The minimum accepted holding size (notional amount) of any given loan not rated by S&P, Moody's or other nationally recognized rating agency is at least \$1 million, provided, that participation loans are limited to not more than 10% of the aggregate value of the S&P Eligible Asset. For loans rated by S&P, Moody's or other nationally recognized rating agency, there is no minimum accepted holding size. Senior Loan Participations and non-Senior Loans will qualify as S&P Eligible Assets only up to an aggregate maximum of 15% of the Fund's total assets. These levels apply to U.S. lenders only; any international loans are excluded. (J) Preferred Stocks. Preferred stocks that satisfy all of the following conditions: 1. The preferred stock issue has a senior rating from S&P, or the preferred issue must be rated. In the case of Yankee preferred stock, the issuer should have a S&P senior rating of at least "BBB-", or the preferred issue must be rated at least "BBB-". 2. The issuer -- or if the issuer is a special purpose corporation, its parent -- is listed on either the New York Stock Exchange, the American Stock Exchange or NASDAQ if the traded par amount is less than \$1,000. If the traded par amount is \$1,000 or more exchange listing is not required. 3. The collateral pays cash dividends denominated in U.S. dollars. 4. Private placement 144A with registration rights are eligible assets. 5. The minimum market capitalization of eligible issuers is US\$100 million. Restrictions for floating-rate preferred stock: 1. Holdings must be limited to stock with a dividend period of less than or equal to 49 days, except for a new issue, where the first dividend period may be up to 64 days. 2. The floating-rate preferred stock may not have been subject to a failed auction.

Restrictions for adjustable -- or auction-rate preferred stock: 1. The total fair market value of adjustable-rate preferred stock held in the portfolio may not exceed 10% of eligible assets. Concentration Limits: 1. Total issuer exposure in preferred stock of any one issuer is limited to 10% of the fair market value of eligible assets. 2. Preferred stock rated below B- (including non-rated preferred stock) and preferred stock with a market cap of less than US\$100 million are limited to no more than 15% of the fair market value of the eligible assets. 3. Add 5 points to over-collateralization level for issuers with a senior rating or preferred stock rating of less than BBB-. 4. Add 10 points to over-collateralization level of issuers with no senior rating, preferred stock rating or dividend history. (K) Common stocks that satisfy all of the following conditions: 1. The issuer can hold no more than the average monthly trading volume over the past year. 2. Each stock must have a minimum market capitalization of at least \$100 million. 3. Restricted stocks (144a securities) or any pink sheet stocks (generally, stocks that are not carried in daily over-the-counter newspaper listings) are ineligible. 4. The issuer may not hold any equity unless it has been listed on an exchange or traded for more than one year and one quarter, or 15 months (eligible stock exchanges are the New York Stock Exchange, American Stock Exchange, Philadelphia Stock Exchange, Boston Stock Exchange, Washington Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange, NASDAQ, and National Market Quotations). 5. The collateral is owned by the Fund, or the trustee or collateral agent has a first perfected priority security interest in the collateral. (For S&P's perfection of Security Interest Criteria, see Legal Criteria For Structured Finance Transactions, April 2002). Note: Add 20 points to the overcollateralization level for common stock that do not meet the requirement of item number 4 above. (L) Municipal Obligations. A Municipal Obligation owned by the Fund that (i) is interest bearing and pays interest at least semi-annually; (ii) is payable with respect to principal and interest in U.S. Dollars; (iii) has an original issuance size of \$10 million or greater and any securities with an issuance size of under \$10 million must be rated `AA' or better by SP or, if not rated by S&P but rated AAA by another nationally recognized statistical rating organization, on a case by case basis; (iv) except for Inverse Floaters, is not part of a private placement of Municipal Obligations; (v) is issued by any of the 50 states of the U.S., its territories, and their subdivisions, counties, cities, towns, villages, and school districts; by agencies such as authorities and special districts created by the states; and by certain federally sponsored agencies such as local housing authorities. Payments made on these bonds

are exempt from federal income taxes and are generally exempt from state and local taxes in the state of issuance; and (vi) Fifty percent of the aggregate fair market value of the pledged pool may be rated by a nationally recognized statistical rating organization other than S&P.

Notwithstanding the foregoing limitations: (1) Municipal Obligations (excluding Escrowed Bonds) of any one issuer or guarantor (excluding bond insurers) rated at least "BBB" by S&P or "A" by another NRSRO shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations (including short-term Municipal Obligations) does not exceed 10% of the aggregate Market Value of S&P Eligible Assets, provided that either (i) 2% is added to the S&P Discount Factor for every 1% by which the Market Value for any issuer exceeds 5%, up to a maximum of 10% or (ii) 10% is added to the S&P Discount Factor for any issuer that exceeds 5% of the aggregate S&P Eligible Assets. High Yield Securities (as defined below) of any one issuer shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 5% of the aggregate Market Value of S&P Eligible Assets; (2) Municipal Obligations not rated by S&P shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 50% of the aggregate Market Value of S&P Eligible Assets; provided, however, that High Yield Securities (as defined below) shall be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 20% of the aggregate Market Value of S&P Eligible Assets; and (3) Municipal Obligations issued by issuers in any one state or territory will be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Obligations does not exceed 25% of the aggregate Market Value of S&P Eligible Assets; or (M) Asset Backed Securities. Receivables-backed tranches are publicly issued with a rating of "AA" or higher by S&P, tranches are current interest-bearing, fixed- or floating-rate, and are backed by automobile loans or credit card (fixed-rate only) receivables with an original issuance size of at least \$200 million. No more than 25% of the total market value of the collateral can be from one private sector issuer. With respect to floating-rate credit card receivables, not more than 25% of the collateral may be from one investment-grade private sector issuer. No more than 10% of the market value of the collateral may be from one non investment-grade private sector issuer. Escrow Bonds may comprise 100% of the Fund's S&P Eligible Assets. Bonds that are legally defeased and secured by direct U.S. Government Obligations are not required to meet any

minimum issuance size requirement. Bonds that are economically defeased or secured by other U.S. Agency paper must meet the minimum issuance size requirement for the Fund described above. Bonds initially rated or rerated as an escrow bond by another Rating Agency are limited to 50% of the Fund's S&P Eligible Assets, and carry one full rating lower than the equivalent S&P rating for purposes of determining the applicable discount factors. Bonds economically defeased and either initially rated or rerated by S&P or another Rating Agency are assigned that same rating level as its debt issuer, and will remain in its original industry category unless it can be demonstrated that a legal defeasance has occurred. With respect to the above, the Fund's portfolio must consist of no less than 20 issues representing no less than 10 industries as determined according to Bloomberg Industry Classifications. For industry concentration, the following sectors represent distinct industry classifications: electric-distribution, electric-integrated, natural gas-distribution, natural gas-integrated, and unregulated utilities. Notwithstanding the foregoing, an asset will not be considered a S&P Eligible Asset to the extent that it has been irrevocably deposited for the payment of (i)(A) through (i)(E) under the definition of Preferred Shares Basic Maintenance Amount or to the extent it is subject to any Liens, except for (A) Liens which are being contested in good faith by appropriate proceedings and which S&P has indicated to the Fund will not affect the status of such asset as a S&P Eligible Asset, (B) Liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (C) Liens to secure payment for services rendered or cash advanced to the Fund by its investment manager or portfolio manager, the Fund's custodian, transfer agent or registrar or the Auction Agent and (D) Liens arising by virtue of any repurchase agreement. For purposes of determining the discount factors applicable to collateral not rated by S&P, the collateral will carry an S&P rating one full rating level lower than the equivalent S&P rating. Any asset of the Fund that does not have an S&P Discount Factor will be valued at \$0.00. "S&P Exposure Period" will mean the sum of (i) that number of days from the last Valuation Date on which the Fund's Discounted Value of S&P Eligible Assets were greater than the Preferred Shares Basic Maintenance Amount to the Valuation Date on which the Fund's Discounted Value of S&P Eligible Assets failed to exceed the Preferred Shares Basic Maintenance Amount, (ii) the maximum number of days following a Valuation Date that the Fund has under this Statement to cure any failure to maintain a Discounted Value of S&P Eligible Assets at least equal to the Preferred Shares Basic Maintenance Amount, and (iii)

the maximum number of days the Fund has to effect a mandatory redemption under Section 9(b) of Part I of this Statement. "S&P Hedging Transactions" has the meaning set forth in Section 8 of Part I of this Statement. "S&P Loan Category" means the following four categories (and, for purposes of this categorization, the Market Value of an S&P Eligible Asset trading at par is equal to \$1.00): (i) "S&P Loan Category A" means Performing Senior Loans which have a Market Value greater than \$0.90; (ii) "S&P Loan Category B" means Performing Senior Loans which have a Market Value greater than or equal to \$0.85 but equal to or less than \$0.90; (iii) "S&P Loan Category C" means non-Performing Senior Loans which have a Market Value greater than \$0.85; (iv) "S&P Loan Category D" means: (a) Performing Senior Loans which have a Market Value less than \$.85; and (b) Non-Performing Senior Loans which have a Market Value less than or equal to \$.85. (v) "Performing" means that no default as to the payment of principal or interest has occurred and is continuing. "Securities Act" means the Securities Act of 1933, as amended from time to time. "Securities Depository" means The Depository Trust Company and its successors and assigns or any successor securities depository selected by the Fund as securities depository for the Preferred Shares that agrees to follow the procedures required to be followed by such securities depository in connection with the Preferred Shares. "Sell Order" and "Sell Orders" shall have the respective meanings specified in paragraph (a) of Section 1 of Part II of this Statement. "Series M28 Preferred Shares" means the Auction Preferred Shares, Series M28. "Share Books" means the books maintained by the Auction Agent setting forth at all times a current list, as determined by the Auction Agent, of Existing Holders of the Preferred Shares. "Share Register" means the register of Holders maintained on behalf of the Fund by the Auction Agent in its capacity as transfer agent and registrar for the Preferred Shares. "Short Term Money Market Instruments" means the following types of instruments if, on the date of purchase or other acquisition thereof by the Fund, the remaining term to maturity thereof is not in excess of 180 days: (i) commercial paper rated either F1 by Fitch or A-1 by S&P if such commercial paper matures in 30 days or P-1 by Moody's and either F1+ by Fitch or A-1+ by S&P if such commercial paper matures in over 30 days; (ii) demand or time deposits in, and banker's acceptances and certificates of deposit of (A) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (B) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to

banking regulation under the laws of the United States, any state thereof or the District of Columbia); (iii) overnight funds; (iv) U.S. Government Securities; and (v) Eurodollar demand or time deposits in, or certificates of deposit of, the head office or the London branch office of a depository institution or trust company if the certificates of deposit, if any, and the long-term unsecured debt obligations (other than such obligations the ratings of which are based on the credit of a person or entity other than such depository institution or trust company) of such depository institution or trust company that have (1) credit ratings on each Valuation Date of at least P-1 from Moody's and either F1+ from Fitch or A-1+ from S&P, in the case of commercial paper or certificates of deposit, and (2) credit ratings on each Valuation Date of at least Aa3 from Moody's and either AA- from Fitch or AA- from S&P, in the case of long-term unsecured debt obligations; provided, however, that in the case of any such investment that matures in no more than one Business Day from the date of purchase or other acquisition by the Fund, all of the foregoing requirements shall be applicable except that the required long-term unsecured debt credit rating of such depository institution or trust company from Moody's, Fitch and S&P shall be at least A2, A and A, respectively; and provided further, however, that the foregoing credit rating requirements shall be deemed to be met with respect to a depository institution or trust company if (1) such depository institution or trust company is the principal depository institution in a holding company system, (2) the certificates of deposit, if any, of such depository institution or trust company are not rated on any Valuation Date below P-1 by Moody's, F1+ by Fitch or A-1+ by S&P and there is no long-term rating, and (3) the holding company shall meet all of the foregoing credit rating requirements (including the preceding proviso in the case of investments that mature in no more than one Business Day from the date of purchase or other acquisition by the Fund); and provided further, that the interest receivable by the Fund shall not be subject to any withholding or similar taxes. "Special Rate Period" shall have the meaning specified in paragraph (a) of Section 3 of Part I of this Statement. "Special Redemption Provisions" shall have the meaning specified in subparagraph (a)(i) of Section 9 of Part I of this Statement. "Structured Notes" means privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset or market (an "embedded index"), such as selected securities or an index of securities, or the differential performance of two assets or markets, such as indices reflecting bonds. "Submission Deadline" shall mean 1:30 P.M., New York city time, on any Auction Date

or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time. "Submitted Bid" And "Submitted Bids" shall have the respective meanings specified in paragraph (a) of Section 3 of Part II of this Statement. "Submitted Hold Order" and "Submitted Hold Orders" shall have the respective meanings specified in paragraph (a) of Section 3 of Part II of this Statement. "Submitted Order" and "Submitted Orders" shall have the respective meanings specified in paragraph (a) of section 3 of part II of this Statement. "Submitted Sell Order" and "Submitted Sell Orders" shall have the respective meanings specified in paragraph (a) of Section 3 of Part II of this Statement. "Subsequent Rate Period" shall mean the period from and including the first day following the Initial Rate Period of the Series M28 Preferred Shares to but excluding the next Dividend Payment Date for the Series M28 Preferred Shares and any period thereafter from and including one Dividend Payment Date for the Series M28 Preferred Shares to but excluding the next succeeding Dividend Payment Date for the Series M28 Preferred Shares; provided, however, that if any Subsequent Rate Period is also a Special Rate Period, such term shall mean the period commencing on the first day of such Special Rate Period and ending on the last day of the last Dividend Period thereof. "Substitute Rating Agency" means a Rating Agency selected by the Fund to act as the substitute Rating Agency to determine the credit ratings of the Preferred Shares. "Sufficient Clearing Bids" has the meaning set forth in Section 3 of Part II of this Statement. "Treasury Bill" means a direct obligation of the U.S. government having a maturity at the time of issuance of 364 days or less. "Treasury Bonds" means United States Treasury Bonds or Notes. "Treasury Index Rate" shall mean the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities having the same number of 30-day periods to maturity as the applicable Dividend Period, determined, to the extent necessary, by linear interpolation based upon the yield for such securities having the next shorter and next longer number of 30-day periods to maturity, treating all Dividends Periods with a length greater than the longest maturity for such securities as having a length equal to such longest maturity, in all cases based upon data set forth in the most recent weekly statistical release published by the Board of Governors of the Federal Reserve System (currently H.15 (519)); provided, however, if the most recent such statistical release shall not have been published during the 15 days preceding the date of computation, then the foregoing computations shall be based upon the average of

comparable data as quoted to the Fund by at least three U.S. Government Securities Dealers. "U.S. Government Securities" means direct obligations of the United States or of its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption. "U.S. Government Securities Dealer" shall mean Lehman Government Securities, Incorporated, Goldman, Sachs & Co., Citigroup, Morgan Guaranty Trust Company of New York and any other U.S. Government Securities dealer selected by the Fund as to which S&P (if S&P is then rating the Preferred Shares) or Fitch (if Fitch is then rating the Preferred Shares) shall not have objected, and in each case their respective affiliates or successors, if such entity is a U.S. Government securities dealer. "U.S. Treasury Securities" means direct obligations of the United States Treasury that are entitled to the full faith and credit of the United States. "U.S. Treasury Strips" means securities based on U.S. Treasury Securities created through the Separate Trading of Registered Interest and Principal of Securities program. "Valuation Date" means, for purposes of determining whether the Fund is maintaining the Preferred Shares Basic Maintenance Amount, the last Business Day of each week commencing with the Date of Original Issue. "Voting Period" has the meaning set forth in Section 4 of Part I of this Statement. "Winning Bid Rate" shall have the meaning specified in paragraph (a) of Section 3 of Part II of this Statement.

PART I. 1. NUMBER OF AUTHORIZED SHARES. The number of authorized Preferred Shares constituting the Series M28 Preferred Shares shall be unlimited, of which 3,200 shares shall be issued on , 2004, or such other date as the officers of the Fund shall determine. 2.

DIVIDENDS. (a) RANKING. The Series M28 Preferred Shares shall rank on a parity with each other and with shares of any other series of preferred shares as to the payment of dividends by the Fund and the distribution of assets upon liquidation of the Fund. **(b) CUMULATIVE CASH DIVIDENDS.** The Holders of Series M28 Preferred Shares shall be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor in accordance with the Declaration and applicable law, cumulative cash dividends at the Applicable Rate for the Series M28 Preferred Shares, determined as set forth in paragraph (e) of this Section 2, and no more, payable on the Dividend Payment Dates with respect to the Series M28 Preferred Shares determined pursuant to paragraph (d) of this Section 2. Holders of Preferred Shares shall not be entitled to any dividend, whether payable in cash, property or shares, in excess of full cumulative dividends,

as herein provided, on Preferred Shares. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Preferred Shares which may be in arrears, and, except to the extent set forth in subparagraph (e)(i) of this Section 2, no additional sum of money shall be payable in respect of any such arrearage. (c) DIVIDENDS CUMULATIVE FROM DATE OF ORIGINAL ISSUE. Dividends on the Series M28 Preferred Shares shall accumulate at the Applicable Rate for the Series M28 Preferred Shares from the Date of Original Issue thereof. (d) DIVIDEND PAYMENT DATES AND ADJUSTMENT THEREOF. The Dividend Payment Dates with respect to the Series M28 Preferred Shares, for the Initial Rate Period, shall be on , 2004, and on each 28th day thereafter; provided, however, that: (i) if the day on which dividends would otherwise be payable on the Series M28 Preferred Shares is not a Business Day, then such dividends shall be payable on the Series M28 Preferred Shares on the first Business Day that falls after such day (subject to Part II, Section 8); and (ii) notwithstanding the foregoing, the Fund in its discretion may establish the Dividend Payment Dates in respect of any Special Rate Period of the Series M28 Preferred Shares consisting of more than 28 Rate Period days; provided, however, that such dates shall be set forth in the Notice of Special Rate Period relating to such Special Rate Period, as delivered to the Auction Agent, which Notice of Special Rate Period shall be filed with the Secretary of the Fund; and further provided that (1) any such Dividend Payment Date shall be a Business Day and (2) the last Dividend Payment Date in respect of such Special Rate Period shall be the Business Day immediately following the last day thereof, as such last day is determined in accordance with paragraph (b) of Section 3 of this Part I provided, however, that with respect to any Special Rate Period consisting of more than 30 days, dividends shall be payable on the first Business Day of each calendar month within such Special Rate Period, if applicable. (iii) Although any particular Dividend Payment Date may not occur on the originally scheduled date because of the provisions hereof, the next succeeding Dividend Payment Date, subject to such provisions, will occur on the next following originally scheduled date. (iv) Notwithstanding the above, if for any reason a Dividend Period for the Preferred Shares is scheduled to begin on the same day and end on the same day as a Dividend Period for any other series of preferred shares of beneficial interest of the Fund, then the last day of such Dividend Period for such other series of preferred shares of beneficial interests shall be the second Business Day next succeeding such scheduled day unless the Fund obtains the opinion of tax counsel referred

to in this paragraph. Subject to the limitation in the next sentence, if for any reason a Dividend Payment Date cannot be fixed as described above, then the Trustees shall otherwise fix the Dividend Payment Date. In no event, however, may the Dividend Period of the Preferred Shares be co-extensive with any dividend period of any other series of preferred shares of beneficial interest unless the Fund has received an opinion of tax counsel that having such co-extensive periods will not affect the deductibility, for federal income tax purposes, of dividends paid on the different series of preferred shares of beneficial interest. The Dividend Payment Dates for any series of Preferred Shares subsequently established by the Fund shall be as set forth in resolutions of the Board of Trustees establishing such series. (e) DIVIDEND RATES AND CALCULATION OF DIVIDENDS. (i) DIVIDEND RATES. The dividend rate on the Series M28 Preferred Shares during the period from and after the Date of Original Issue of the Series M28 Preferred Shares to and including the last day of the Initial Rate Period of the Series M28 Preferred Shares shall be equal to the rate of _____% per annum. The initial dividend rate on any series of Preferred Shares subsequently established by the Fund shall be the rate set forth in or determined in accordance with the resolutions of the Board of Trustees establishing such series. For each Subsequent Rate Period of the Series M28 Preferred Shares, the dividend rate on the Series M28 Preferred Shares shall be equal to the rate per annum that results from an Auction for the Series M28 Preferred Shares on the Auction Date next preceding such Subsequent Rate Period; provided, however, that if: (A) an Auction for any such Subsequent Rate Period is not held for any reason other than as described below (subject to the provisions of Section 8 of Part II of this Statement), the dividend rate on the Series M28 Preferred Shares for such Subsequent Rate Period will be the Maximum Rate for the Series M28 Preferred Shares on the Auction Date therefor; (B) any Failure to Deposit shall have occurred with respect to the Series M28 Preferred Shares during any Rate Period thereof (other than any Special Rate Period consisting of more than 364 Rate Period days or any Rate Period succeeding any Special Rate Period consisting of more than 364 Rate Period days during which a Failure to Deposit occurred that has not been cured), but, prior to 12:00 Noon, New York City time, on the third Business Day next succeeding the date on which such Failure to Deposit occurred, such Failure to Deposit shall have been cured in accordance with paragraph (f) of this Section 2 and the Fund shall have paid to the Auction Agent a late charge ("Late Charge") equal to the sum of (1) if such Failure to Deposit consisted of the failure timely to pay to

the Auction Agent the full amount of dividends with respect to any Dividend Period of the Series M28 Preferred Shares, an amount computed by multiplying (x) 300% of the Reference Rate for the Rate Period during which such Failure to Deposit occurs on the Dividend Payment Date for such Dividend Period by (y) a fraction, the numerator of which shall be the number of days for which such Failure to Deposit has not been cured in accordance with paragraph (f) of this Section 2 (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate Liquidation Preference of the outstanding shares of the Series M28 Preferred Shares and (2) if such Failure to Deposit consisted of the failure timely to pay to the Auction Agent the Redemption Price, if any, of the Series M28 Preferred Shares for which Notice of Redemption has been mailed by the Fund pursuant to paragraph (c) of Section 9 of this Part I, an amount computed by multiplying (x) 300% of the Reference Rate for the Rate Period during which such Failure to Deposit occurs on the redemption date by (y) a fraction, the numerator of which shall be the number of days for which such Failure to Deposit is not cured in accordance with paragraph (f) of this Section 2 (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate Liquidation Preference of the outstanding Series M28 Preferred Shares to be redeemed, no Auction will be held in respect of the Series M28 Preferred Shares for the Subsequent Rate Period thereof and the dividend rate for the Series M28 Preferred Shares for such Subsequent Rate Period will be the Maximum Rate for the Series M28 Preferred Shares on the Auction Date for such Subsequent Rate Period; (C) any Failure to Deposit shall have occurred with respect to the Series M28 Preferred Shares during any Rate Period thereof (other than any Special Rate Period consisting of more than 364 Rate Period days or any Rate Period succeeding any Special Rate Period consisting of more than 364 Rate Period days during which a Failure to Deposit occurred that has not been cured), and, prior to 12:00 Noon, New York City time, on the third Business Day next succeeding the date on which such Failure to Deposit occurred, such Failure to Deposit shall not have been cured in accordance with paragraph (f) of this Section 2 or the Fund shall not have paid the applicable Late Charge to the Auction Agent, no Auction will be held in respect of the Series M28 Preferred Shares for the first Subsequent Rate Period thereof thereafter (or for any Rate Period thereof thereafter to and including the Rate Period

during which (1) such Failure to Deposit is cured in accordance with paragraph (f) of this Section 2 no later than 12:00 Noon, New York City time, on the fourth Business Day prior to the end of such Rate Period), and the dividend rate for the Series M28 Preferred Shares for each such Subsequent Rate Period shall be a rate per annum equal to the Non-Payment Period Rate for the Series M28 Preferred Shares on the Auction Date for such Subsequent Rate Period; or (D) any Failure to Deposit shall have occurred with respect to the Series M28 Preferred Shares during a Special Rate Period thereof consisting of more than 364 Rate Period days, or during any Rate Period thereof succeeding any Special Rate Period consisting of more than 364 Rate Period days during which a Failure to Deposit occurred that has not been cured, and, prior to 12:00 Noon, New York City time, on the fourth Business Day preceding the Auction Date for the Rate Period subsequent to such Rate Period, such Failure to Deposit shall not have been cured in accordance with paragraph (f) of this Section 2 or the Fund shall not have paid the applicable Late Charge to the Auction Agent (such Late Charge, for purposes of this subparagraph (D), to be calculated by using the Reference Rate, applicable to a Rate Period (x) consisting of more than 184 Rate Period days and (y) commencing on the date on which the Rate Period during which Failure to Deposit occurs commenced), no Auction will be held in respect of the Series M28 Preferred Shares for such Subsequent Rate Period (or for any Rate Period thereof thereafter to and including the Rate Period during which (1) such Failure to Deposit is cured in accordance with paragraph (f) of this Section 2 and (2) the Fund pays the applicable Late Charge to the Auction Agent, in each case no later than 12:00 Noon, New York City time, on the fourth Business Day prior to the end of such Rate Period), and the dividend rate for the Series M28 Preferred Shares for each such Subsequent Rate Period shall be a rate per annum equal to the Non-Payment Period Rate for the Series M28 Preferred Shares on the Auction Date for such Subsequent Rate Period. (ii) CALCULATION OF DIVIDENDS. The amount of dividends per share payable on the Series M28 Preferred Shares on any date on which dividends shall be payable on the Series M28 Preferred Shares shall be computed by multiplying the Applicable Rate for the Series M28 Preferred Shares in effect for such Dividend Period or Dividend Periods or part thereof for which dividends have not been paid by a fraction, the numerator of which shall be the number of days in such Dividend Period or Dividend Periods or part thereof and the denominator of which shall be 360 for all Dividend Periods, and applying the rate obtained against \$25,000. (f)

CURING A FAILURE TO DEPOSIT. A Failure to Deposit with respect to the Series M28 Preferred Shares shall have been cured (if such Failure to Deposit is not solely due to the willful failure of the Fund to make the required payment to the Auction Agent) with respect to any Rate Period of the Series M28 Preferred Shares if, within the respective time periods described in subparagraph (e)(i) of this Section 2, the Fund shall have paid to the Auction Agent (A) all accumulated and unpaid dividends on shares of such Series and (B) without duplication, the Redemption Price for the Series M28 Preferred Shares, if any, for which Notice of Redemption has been mailed by the Fund pursuant to paragraph (c) of Section 9 of Part I of this Statement; provided, however, that the foregoing clause (B) shall not apply to the Fund's failure to pay the Redemption Price in respect of Preferred Shares when the related Notice of Redemption provides that redemption of Series M28 Preferred Shares is subject to one or more conditions precedent and any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. (g) DIVIDEND PAYMENTS BY FUND TO AUCTION AGENT. The Fund shall pay to the Auction Agent, not later than 12:00 Noon, New York City time, on the Business Day next preceding each Dividend Payment Date for the Series M28 Preferred Shares, an aggregate amount of funds available on the next Business Day in the City of New York, New York, equal to the dividends to be paid to all Holders of Series M28 Preferred Shares on such Dividend Payment Date. (h) AUCTION AGENT AS TRUSTEE OF DIVIDEND PAYMENTS BY FUND. All moneys paid to the Auction Agent for the payment of dividends (or for the payment of any Late Charge) shall be held in trust for the payment of such dividends (and any such Late Charge) by the Auction Agent for the benefit of the Holders specified in paragraph (i) of this Section 2. Any moneys paid to the Auction Agent in accordance with the foregoing but not applied by the Auction Agent to the payment of dividends (and any such Late Charge) will, to the extent permitted by law, be repaid to the Fund at the end of 90 days from the date on which such moneys were so to have been applied. (i) DIVIDENDS PAID TO HOLDERS. Each dividend on Preferred Shares shall be paid on the Dividend Payment Date therefor to the Holders thereof as their names appear on the record books of the Fund on the Business Day next preceding such Dividend Payment Date. (j) DIVIDENDS CREDITED AGAINST EARLIEST ACCUMULATED BUT UNPAID DIVIDENDS. Any dividend payment made on Preferred Shares shall first be credited against the earliest accumulated but unpaid dividends due with respect to such

shares. Dividends in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the Holders as their names appear on the record books of the Fund on such date, not exceeding 15 days preceding the payment date thereof, as may be fixed by the Board of Trustees. 3. DESIGNATION OF SPECIAL RATE PERIODS. (a) LENGTH OF AND PRECONDITIONS FOR SPECIAL RATE PERIOD. The Fund, in consultation with the lead Broker-Dealer, may designate any succeeding Subsequent Rate Period of the Series M28 Preferred Shares as a Special Rate Period consisting of a specified number of Rate Period days evenly divisible by seven and not more than 1,820; provided, however, that such Special Rate Period may consist of a number of Rate Period days not evenly divisible by seven if all the Series M28 Preferred Shares are to be redeemed at the end of such Special Rate Period, subject to adjustment as provided in paragraph (b) of this Section 3. A designation of a Special Rate Period shall be effective only if, (i) notice thereof shall have been given as provided herein, (ii) any failure to pay in a timely manner to the Auction Agent the full amount of any dividend on, or the redemption price of, the Series M28 Preferred Shares shall have been cured as provided above, (iii) Sufficient Clearing Orders shall have existed in an Auction held on the Auction Date immediately preceding the first day of such proposed Special Dividend Period, (iv) if the Fund, shall have mailed a Notice of Redemption with respect to any shares, the redemption price with respect to such shares shall have been deposited with Paying Agent, (v) in the case of the designation of a Special Dividend Period, Citigroup, or any successor Broker-Dealer designated by the Fund shall have notified the Fund that it does not object to the designation of such Special Rate Period, and (vi) each Rating Agency that is then rating the Series M28 Preferred Shares shall have confirmed in writing to the Fund that such designation shall not adversely affect their respective then-current ratings of the Preferred Shares. (b) ADJUSTMENT OF LENGTH OF SPECIAL RATE PERIOD. With respect to the Series M28 Preferred Shares, if the Fund wishes to designate a Subsequent Rate Period as a Special Rate Period, but if the day following what would otherwise be the last day of such Special Rate Period is not a Tuesday that is a Business Day then the Fund shall designate such Subsequent Rate Period as Special Rate Period consisting of the period commencing on the first day following the end of the immediately preceding Rate Period and ending on the first Monday that is followed by a Tuesday that is a Business Day preceding what would otherwise be such last day. (c) NOTICE OF PROPOSED SPECIAL RATE

PERIOD. If the Fund proposes to designate any succeeding Subsequent Rate Period of the Series M28 Preferred Shares as a Special Rate Period pursuant to paragraph (a) of this Section 3, not less than seven (7) (or such lesser number of days as may be agreed to from time to time by the Auction Agent) nor more than 30 days prior to the date the Fund proposes to designate as the first day of such Special Rate Period (which shall be such day that would otherwise be the first day of a Minimum Rate Period), notice shall be (i) made by press release, and (ii) communicated by the Fund by telephonic or other means to the Auction Agent and each Broker-Dealer and confirmed in writing promptly thereafter. Each such notice shall state (A) that the Fund may exercise its option to designate a succeeding Subsequent Rate Period of the Series M28 Preferred Shares as a Special Rate Period, specifying the first day thereof and (B) that the Fund will, by 3:00 P.M., New York City time, on the second Business Day next preceding the first day of such Special Rate Period (or by such later time or date, or both, as may be agreed to by the Auction Agent) notify the Auction Agent of either (x) its determination, subject to certain conditions, to exercise such option, in which case the Fund shall specify the Special Rate Period designated, or (y) its determination not to exercise such option. (d) NOTICE OF SPECIAL RATE PERIOD. No later than 3:00 P.M., New York City time, on the second Business Day next preceding the first day of any proposed Special Rate Period of the Series M28 Preferred Shares as to which notice has been given as set forth in paragraph (c) of this Section 3 (or such later time or date, or both, as may be agreed to by the Auction Agent), the Fund shall deliver to the Auction Agent either: (i) a notice ("Notice of Special Rate Period") stating (A) that the Fund has determined to designate the next succeeding Rate Period of the Series M28 Preferred Shares as a Special Rate Period, specifying the same and the first day and last day thereof, and (B) the terms of any Special Redemption Provisions; or (ii) a notice stating that the Fund has determined not to exercise its option to designate a Special Rate Period of the Series M28 Preferred Shares. (iii) A Notice of Special Rate Period may contain Special Redemption Provisions only if the Trustees, after consultation with the Broker-Dealers, determine that such Special Redemption Provisions are in the best interests of the Fund. (e) FAILURE TO DELIVER NOTICE OF SPECIAL RATE PERIOD. If the Fund fails to deliver either of the notices described in subparagraphs (d)(i) or (d)(ii) of this Section 3 or is unable to make the confirmations required by clause (v) of this Section 3(a) by 3:00 P.M., New York City time, on the second Business Day next preceding the first day of the proposed Special

Rate Period, the Fund shall be deemed to have delivered a notice to the Auction Agent with respect to such Special Rate Period to the effect set forth in subparagraph (d)(ii) of this Section 3. In the event the Fund delivers to the Auction Agent a notice described in subparagraph (d)(i) of this Section 3, it shall file a copy of such notice with the Secretary of the Fund, and the contents of such notice shall be binding on the Fund.

4. VOTING RIGHTS. (a) **ONE VOTE PER SHARE OF PREFERRED SHARES.** Except as otherwise provided in the Declaration or as otherwise required by law, (i) each Holder of Preferred Shares shall be entitled to one vote for each share of Preferred Shares held by such Holder on each matter submitted to a vote of shareholders of the Fund, and (ii) the holders of outstanding preferred shares, including each share of Preferred Shares, and of Common Shares shall vote together as a single class; provided, however, that, at any meeting of Shareholders of the Fund held for the election of Trustees, the holders of outstanding preferred shares, including the Preferred Shares, represented in person or by proxy at said meeting, shall be entitled, as a class, to the exclusion of the holders of all other securities and classes of shares of beneficial interest of the Fund, to elect two Trustees of the Fund out of the entire Board of Trustees (regardless of the number of Trustees), each share of preferred shares entitling the holder thereof to one vote; provided, further, that if the Board of Trustees shall be divided into one or more classes, the Board of Trustees shall determine to which class or classes the Trustees elected by the holders of preferred shares shall be assigned and the holders of the Preferred Shares shall only be entitled to elect the Trustees so designated as being elected by the holders of the Preferred Shares, when their term shall have expired; provided, finally, that such Trustees appointed by the holders of preferred shares shall be allocated as evenly as possible among the classes of Trustees. Subject to paragraph (b) of this Section 4, the holders of outstanding Common Shares and preferred shares voting together as a single class, shall elect the balance of the Trustees.

(b) **VOTING FOR ADDITIONAL TRUSTEES.** (i) **VOTING PERIOD.** Except as otherwise provided in the Declaration or as otherwise required by law, during any period in which any one or more of the conditions described in subparagraphs (A) or (B) of this subparagraph (b)(i) shall exist (such period being referred to herein as a "Voting Period"), the number of Trustees constituting the Board of Trustees shall be automatically increased by the smallest number that, when added to the two Trustees elected exclusively by the holders of preferred shares, including the Preferred Shares, would constitute a majority of the Board of Trustees as so

increased by such smallest number, and the holders of preferred shares, including the Preferred Shares, shall be entitled, voting as a class on a one-vote-per-share basis (to the exclusion of the holders of all other securities and classes of shares of beneficial interest of the Fund), to elect such smallest number of additional Trustees, together with the two Trustees that such holders are in any event entitled to elect. A Voting Period shall commence: (A) If at the close of business on any dividend payment date accumulated dividends (whether or not earned or declared) on any outstanding Preferred Shares, equal to at least two full years' dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Auction Agent for the payment of such accumulated dividends; or (B) If at any time holders of preferred shares, including the Preferred Shares, are entitled under the Investment Company Act to elect a majority of the Trustees of the Fund. Upon the termination of a Voting Period, the voting rights described in this subparagraph (b)(i) shall cease, subject always, however, to the reversion of such voting rights in the Holders upon the further occurrence of any of the events described in this subparagraph (b)(i). (ii) NOTICE OF SPECIAL MEETING. As soon as practicable after the accrual of any right of the holders of preferred shares, including the Preferred Shares, to elect additional Trustees as described in subparagraph (b)(i) of this Section 4, the Fund shall notify the Auction Agent and the Auction Agent shall call a special meeting of such holders, by mailing a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 20 days after the date of mailing of such notice. If the Fund fails to send such notice to the Auction Agent or if the Auction Agent does not call such a special meeting, it may be called by any such holder on like notice. The record date for determining the holders entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the day on which such notice is mailed. At any such special meeting and at each meeting of holders of preferred shares, including the Preferred Shares, held during a Voting Period at which Trustees are to be elected, such holders, voting together as a class (to the exclusion of the holders of all other securities and classes of shares of beneficial interest of the Fund), shall be entitled to elect the number of Trustees prescribed in subparagraph (b)(i) of this Section 4 on a one-vote-per-share basis. (iii) TERMS OF OFFICE OF EXISTING TRUSTEES. The terms of office of all persons who are Trustees of the Fund at the time of a special meeting of Holders and holders of other preferred shares to elect Trustees shall continue, notwithstanding the election at such meeting by the

Holder and such other holders of the number of Trustees that they are entitled to elect, and the persons so elected by the Holders and such other holders, together with the two incumbent Trustees elected by the Holders and such other holders of preferred shares and the remaining incumbent Trustees elected by the holders of the Common Shares and Preferred Shares, shall constitute the duly elected Trustees of the Fund. (iv) TERMS OF OFFICE OF CERTAIN TRUSTEES TO TERMINATE UPON TERMINATION OF VOTING PERIOD. Simultaneously with the termination of a Voting Period, the terms of office of the additional Trustees elected by the Holders and holders of other Preferred Shares pursuant to subparagraph (b)(i) of this Section 4 shall terminate, the remaining Trustees shall constitute the Trustees of the Fund and the voting rights of the Holders and such other holders to elect additional Trustees pursuant to subparagraph (b)(i) of this Section 4 shall cease, subject to the provisions of the last sentence of subparagraph (b)(i) of this Section 4. (c) HOLDERS OF PREFERRED SHARES TO VOTE ON CERTAIN OTHER MATTERS. (i) INCREASES IN CAPITALIZATION. So long as any Preferred Shares are outstanding, the Fund shall not, without the affirmative vote or consent of the Holders of at least a majority of the Preferred Shares outstanding at the time, in person or by proxy, either in writing or at a meeting, voting as a separate class: (a) authorize, create or issue any class or series of shares ranking prior to or on a parity with the Preferred Shares with respect to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund, or authorize, create or issue additional shares of any series of Preferred Shares (except that, notwithstanding the foregoing, but subject to the provisions of paragraph (c)(i) of Section 9 of this Part I, the Board of Trustees, without the vote or consent of the Holders of Preferred Shares, may from time to time authorize and create, and the Fund may from time to time issue, additional Series M28 Preferred Shares or classes or series of other preferred shares ranking on a parity with Preferred Shares with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund, if the Fund obtains written confirmation from S&P (if S&P is then rating the Preferred Shares), Fitch (if Fitch is then rating the Preferred Shares) or any Substitute Rating Agency (if any such Substitute Rating Agency is then rating the Preferred Shares) that the issuance of a class or series would not impair the rating then assigned by such rating agency to the Preferred Shares and the Fund continues to comply with Section 13 of the Investment Company Act, the Investment Company Act Preferred Share Asset

Coverage and the Preferred Shares Basic Maintenance Amount requirements; or (b) amend, alter or repeal the provisions of the Declaration or this Statement, whether by merger, consolidation or otherwise, so as to adversely affect any preference, right or power of such Preferred Shares or the Holders thereof; provided, however, that (i) none of the actions permitted by the exception to (a) above will be deemed to affect such preferences, rights or powers, (ii) a division of Preferred Shares will be deemed to affect such preferences, rights or powers only if the terms of such division adversely affect the Holders of Preferred Shares and (iii) the authorization, creation and issuance of classes or series of shares ranking junior to the Preferred Shares with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund, will be deemed to affect such preferences, rights or powers only if S&P or Fitch is then rating the Preferred Shares and such issuance would, at the time thereof, cause the Fund not to satisfy the Investment Company Act Preferred Share Asset Coverage or the Preferred Shares Basic Maintenance Amount. So long as any shares of the Preferred Shares are outstanding, the Fund shall not, without the affirmative vote or consent of the Holders of at least 66 2/3% of the Preferred Shares outstanding at the time, in person or by proxy, either in writing or at a meeting, voting as a separate class, file a voluntary application for relief under Federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent. If any action set forth above would adversely affect the rights of one or more series (the "Affected Series") of preferred shares in a manner different from any other series of preferred shares, the Fund will not approve any such action without the affirmative vote or consent of the Holders of at least a majority of the shares of each such Affected Series outstanding at the time, in person or by proxy, either in writing or at a meeting (each such Affected Series voting as a separate class). (ii) INVESTMENT COMPANY ACT MATTERS. Unless a higher percentage is provided for in the Declaration, (A) the affirmative vote of the Holders of at least a majority of the Preferred Shares outstanding at the time, voting as a separate class, shall be required to approve any conversion of the Fund from a closed-end to an open-end investment company, (B) the affirmative vote of the Holders of at least a majority of the Preferred Shares outstanding at the time, voting as a separate class, shall be negotiated to amend the provisions of the Declaration, which provides for the classification of the Board of Trustees into three classes, and (C) the affirmative vote of the Holders of a "majority of the outstanding Preferred Shares," voting as a separate class,

shall be required to approve any plan of reorganization (as such term is used in the Investment Company Act) adversely affecting such shares. The affirmative vote of the holders of a "majority of the outstanding Preferred Shares," voting as a separate class, shall be required to approve any action not described in the first sentence of this Section 4(c)(ii) requiring a vote of security holders of the Fund under section 13(a) of the Investment Company Act. For purposes of the foregoing, "majority of the outstanding Preferred Shares" means (i) 67% or more of such shares present at a meeting, if the Holders of more than 50% of such shares are present or represented by proxy, or (ii) more than 50% of such shares, whichever is less. In the event a vote of Holders of Preferred Shares is required pursuant to the provisions of section 13(a) of the Investment Company Act, the Fund shall, not later than ten Business Days prior to the date on which such vote is to be taken, notify S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) that such vote is to be taken and the nature of the action with respect to which such vote is to be taken. The Fund shall, not later than ten Business Days after the date on which such vote is taken, notify S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) of the results of such vote. (d) BOARD MAY TAKE CERTAIN ACTIONS WITHOUT SHAREHOLDER APPROVAL. The Board of Trustees, without the vote or consent of the shareholders of the Fund, may from time to time amend, alter or repeal any or all of the definitions of the terms listed below, any provision of this Statement viewed by S&P or Fitch as a predicate for any such definition, or Section 8 of Part I of the Statement, and any such amendment, alteration or repeal will not be deemed to affect the preferences, rights or powers of Preferred Shares or the Holders thereof; provided, however, that the Board of Trustees receives written confirmation from Moody's or Fitch (such confirmation being required to be obtained only in the event Moody's or Fitch is rating the Preferred Shares) that any such amendment, alteration or repeal would not impair the ratings then assigned by S&P or Fitch, as the case may be, to the Preferred Shares: Accountant's Confirmation Investment Company Act Preferred Asset Coverage Approved Foreign Nations Market Value Approved Price Maximum Rate Bank Loans Preferred Shares Basic Maintenance Amount Bloomberg Industry Classifications Preferred Shares Basic Maintenance Cure Date Canadian Bonds Preferred Shares Basic Maintenance Report Closing Transaction Pricing Service Debt Securities Quarterly Valuation Date Deposit Securities Reorganization Bond Discount Factor S&P Discount Factor Discounted Value

S&P Eligible Assets Eligible Assets S&P Exposure Period
Fitch Discount Factor S&P Hedging Transactions Fitch
Eligible Assets S&P Loan Category Fitch Exposure Period
Senior Loans Fitch Hedging Transactions Short Term
Money Market Instruments Fitch Loan Category
Structured Notes Foreign Bonds Treasury Bonds Forward
Commitment Valuation Date Independent Accountant
Investment Company Act Cure Date (e) VOTING
RIGHTS SET FORTH HEREIN ARE SOLE VOTING
RIGHTS. Unless otherwise required by law, the Holders of
Preferred Shares shall not have any relative rights or
preferences or other special rights other than those
specifically set forth herein. (f) NO PREEMPTIVE
RIGHTS OR CUMULATIVE VOTING. The Holders of
Preferred Shares shall have no preemptive rights or rights
to cumulative voting. (g) VOTING FOR TRUSTEES
SOLE REMEDY FOR FUND'S FAILURE TO PAY
DIVIDENDS. In the event that the Fund fails to pay any
dividends on the Preferred Shares, the exclusive remedy of
the Holders shall be the right to vote for trustees pursuant
to the provisions of this Section 4. (h) HOLDERS
ENTITLED TO VOTE. For purposes of determining any
rights of the Holders to vote on any matter, whether such
right is created by this Statement, by the other provisions
of the Declaration, by statute or otherwise, no Holder shall
be entitled to vote any share of Preferred Shares and no
share of Preferred Shares shall be deemed to be
"outstanding" for the purpose of voting or determining the
number of shares required to constitute a quorum if, prior
to or concurrently with the time of determination of shares
entitled to vote or shares deemed outstanding for quorum
purposes, as the case may be, the requisite Notice of
Redemption with respect to such shares shall have been
mailed as provided in paragraph (c) of Section 9 of this
Part I and the Redemption Price for the redemption of such
shares shall have been deposited in trust with the Auction
Agent for that purpose. No share of Preferred Shares held
by the Fund or any affiliate of the Fund (except for shares
held by a Broker-Dealer that is an affiliate of the Fund for
the account of its customers) shall have any voting rights
or be deemed to be outstanding for voting or other
purposes. 5. INVESTMENT COMPANY ACT
PREFERRED SHARE COVERAGE. The Fund shall
maintain, as of the last Business Day of each month in
which any Preferred Shares are Outstanding, the
Investment Company Act Preferred Share Asset Coverage.
6. PREFERRED SHARES BASIC MAINTENANCE
AMOUNT. (a) So long as Preferred Shares are
Outstanding or any Rating Agency so requires, the Fund
shall maintain, on each Valuation Date, and shall verify to
its satisfaction that it is maintaining on such Valuation

Date (i) S&P Eligible Assets having an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount (if S&P is then rating the Preferred Shares) and Fitch Eligible Assets having an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount (if Fitch is then rating the Preferred Shares), in accordance with the requirements of each rating agency. (b) On or before 5:00 PM., New York City time, on the third Business Day after a Valuation Date on which the Fund fails to satisfy the Preferred Shares Basic Maintenance Amount, and on the third Business Day after the Preferred Shares Basic Maintenance Cure Date with respect to such Valuation Date, the Fund shall complete and deliver to S&P (if S&P is then rating the Preferred Shares), Fitch (if Fitch is then rating the Preferred Shares) and the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares) a Preferred Shares Basic Maintenance Report as of the date of such failure or such Preferred Shares Basic Maintenance Cure Date, as the case may be, which will be deemed to have been delivered to the Auction Agent if the Auction Agent receives a copy or telecopy, telex or other electronic transcription thereof and on the same day the Fund mails to the Auction Agent for delivery on the next Business Day the full Preferred Shares Basic Maintenance Report. The Fund shall also deliver a Preferred Shares Basic Maintenance Report to (i) the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares) as of the last Friday of the month (or, if such day is not a Business Day, the next succeeding Business Day), and (ii) S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) as of the last Friday of the month (or, if such day is not a Business Day, the next preceding Business Day), in each case on or before the third Business Day after such day. A failure by the Fund to deliver a Preferred Shares Basic Maintenance Report pursuant to the preceding sentence shall be deemed to be delivery of a Preferred Shares Basic Maintenance Report indicating the Discounted Value for all assets of the Fund is less than the Preferred Shares Basic Maintenance Amount, as of the relevant Valuation Date. With respect to S&P, the Fund may notify S&P electronically, in lieu of furnishing it with the Preferred Shares Basic Maintenance Report required by this Section (6)(b), if: (i) the Preferred Shares Basic Maintenance Amount falls below 110%, (ii) the Fund fails to meet the Preferred Shares Basic Maintenance Amount; or (iii) the Fund meets the Preferred Shares Basic Maintenance Amount by the Preferred Shares Basic Maintenance Cure Date. (c) Within ten Business Days after the date of delivery of a Preferred Shares Basic Maintenance Report in accordance with paragraph (b) of

this Section 6 relating to a Quarterly Valuation Date, the Fund shall cause the Independent Accountant to confirm in writing to S&P (if S&P is then rating the Preferred Shares), Fitch (if Fitch is then rating the Preferred Shares) and the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares) (i) the mathematical accuracy of the calculations reflected in such Preferred Shares Basic Maintenance Report (and in any other Preferred Shares Basic Maintenance Report, randomly selected by the Independent Accountant, that was prepared by the Fund during the quarter ending on such Quarterly Valuation Date), (ii) that, in such Preferred Shares Basic Maintenance Report (and in such randomly selected Preferred Shares Basic Maintenance Report), the Fund correctly determined in accordance with this Statement the assets of the Fund which constitute S&P Eligible Assets (if S&P is then rating the Preferred Shares) and Fitch Eligible Assets (if Fitch is then rating the Preferred Shares), (iii) that, in such Preferred Shares Basic Maintenance Report (and in such randomly selected Preferred Shares Basic Maintenance Report), the Fund determined whether the Fund had, at such Quarterly Valuation Date (and at the Valuation Date addressed in such randomly selected Report) in accordance with this Statement, S&P Eligible Assets and Fitch Eligible Assets of an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount, (iv) with respect to the S&P ratings on portfolio securities of the Fund, the issuer name, issue size and coupon rate, if any, listed in such Report, that the Independent Accountant has requested that S&P verify such information and the Independent Accountant shall provide a listing in its letter of any differences, (v) with respect to the Fitch ratings on portfolio securities of the Fund, the issuer name, issue size and coupon rate, if any, listed in such Preferred Shares Basic Maintenance Report, that such information has been verified by Fitch (in the event such information is not verified by Fitch, the Independent Accountant will inquire of Fitch what such information is, and provide a listing in its letter of any differences), (vi) with respect to the Moody's ratings on portfolio securities of the Fund, the issuer name, issue size and coupon rate, if any, listed in such Preferred Shares Basic Maintenance Report, that such information has been verified by Moody's (in the event such information is not verified by Moody's, the Independent Accountant will inquire of Moody's what such information is, and provide a listing in its letter of any differences) and (vii) with respect to the bid or mean price (or such alternative permissible factor used in calculating the Market Value) provided by the custodian of the Fund's assets to the Fund for purposes of valuing securities in the Fund's portfolio, the

Independent Accountant has traced the price used in such Preferred Shares Basic Maintenance Report to the bid or mean price listed in such Preferred Shares Basic Maintenance Report as provided to the Fund and verified that such information agrees (in the event such information does not agree, the Independent Accountant will provide a listing in its letter of such differences) (such confirmation is herein called the "Accountant's Confirmation"). (d) Within ten Business Days after the date of delivery of a Preferred Shares Basic Maintenance Report in accordance with paragraph (b) of this Section 6 relating to any Valuation Date on which the Fund failed to satisfy the Preferred Shares Basic Maintenance Amount, and relating to the Preferred Shares Basic Maintenance Cure Date with respect to such failure to satisfy the Preferred Shares Basic Maintenance Amount, the Fund shall cause the Independent Accountant to provide to S&P (if S&P is then rating the Preferred Shares), Fitch (if Fitch is then rating the Preferred Shares) and the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares) an Accountant's Confirmation as to such Preferred Shares Basic Maintenance Report. (e) If any Accountant's Confirmation delivered pursuant to paragraph (c) or (d) of this Section 6 shows that an error was made in the Preferred Shares Basic Maintenance Report for a particular Valuation Date for which such Accountant's Confirmation was required to be delivered, or shows that a lower aggregate Discounted Value for the aggregate of all S&P Eligible Assets (if S&P is then rating the Preferred Shares) or Fitch Eligible Assets (if Fitch is then rating the Preferred Shares), as the case may be, of the Fund was determined by the Independent Accountant, the calculation or determination made by such Independent Accountant shall be final and conclusive and shall be binding on the Fund, and the Fund shall accordingly amend and deliver the Preferred Shares Basic Maintenance Report to S&P (if S&P is then rating the Preferred Shares), Fitch (if Fitch is then rating the Preferred Shares) and the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares) promptly following receipt by the Fund of such Accountant's Confirmation. (f) On or before 5:00 p.m., New York City time, on the first Business Day after the Date of Original Issue of any Preferred Shares, the Fund shall complete and deliver to S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) a Preferred Shares Basic Maintenance Report as of the close of business on such Date of Original Issue. Within five Business Days of such Date of Original Issue, the Fund shall cause the Independent Accountant to confirm in writing to the Auction Agent (if either S&P or Fitch is then rating the Preferred Shares), S&P (if S&P is

then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) (i) the mathematical accuracy of the calculations reflected in such Report and (ii) that the Discounted Value of S&P Eligible Assets or Fitch Eligible Assets reflected thereon equals or exceeds, as applicable, the Preferred Shares Basic Maintenance Amount reflected thereon. (g) On or before 5:00 p.m., New York City time, on the third Business Day after either (i) the Fund shall have redeemed Common Shares or (ii) the ratio of the Discounted Value of S&P Eligible Assets or the Fitch Eligible Assets to the Preferred Shares Basic Maintenance Amount is less than or equal to 105%, or (iii) whenever requested by S&P or Fitch, the Fund shall complete and deliver to S&P (if S&P is then rating the Preferred Shares) or Fitch (if Fitch is then rating the Preferred Shares), as the case may be, a Preferred Shares Basic Maintenance Report as of the date of such event. (h) As soon as practicable after the Fund's fiscal year end (but no later than 60 days after the Fund's fiscal year end), the Fund shall deliver its annual financial statements to S&P (if S&P is then rating the Preferred Shares).

7. RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS. (a) **DIVIDENDS ON SHARES OTHER THAN THE PREFERRED SHARES.** Except as set forth in the next sentence, no dividends shall be declared or paid or set apart for payment on the shares of any class or series of shares of beneficial interest of the Fund ranking, as to the payment of dividends, on a parity with the Preferred Shares for any period unless full cumulative dividends have been or contemporaneously are declared and paid on the Series M28 Preferred Shares through its most recent Dividend Payment Date. When dividends are not paid in full upon the Series M28 Preferred Shares through its most recent Dividend Payment Date or upon the shares of any other class or series of shares of beneficial interest of the Fund ranking on a parity as to the payment of dividends with the Preferred Shares through their most recent respective dividend payment dates, all dividends declared upon the Preferred Shares and any other such class or series of shares of beneficial interest ranking on a parity as to the payment of dividends with Preferred Shares shall be declared pro rata so that the amount of dividends declared per share on Preferred Shares and such other class or series of shares of beneficial interest shall in all cases bear to each other the same ratio that accumulated dividends per share on the Fund and such other class or series of shares of beneficial interest bear to each other (for purposes of this sentence, the amount of dividends declared per share of Preferred Shares shall be based on the Applicable Rate for such share for the Dividend Periods during which dividends were not paid in full). (b) **DIVIDENDS AND**

OTHER DISTRIBUTIONS WITH RESPECT TO COMMON SHARES UNDER THE INVESTMENT COMPANY ACT. The Board of Trustees shall not declare any dividend (except a dividend payable in Common Shares), or declare any other distribution, upon the Common Shares, or purchase Common Shares, unless in every such case the Preferred Shares have, at the time of any such declaration or purchase, an asset coverage (as defined in and determined pursuant to the Investment Company Act) of at least 200% (or such other asset coverage as may in the future be specified in or under the Investment Company Act as the minimum asset coverage for senior securities which are shares or stock of a closed-end investment company as a condition of declaring dividends on its common shares or stock) after deducting the amount of such dividend, distribution or purchase price, as the case may be. (c) OTHER RESTRICTIONS ON DIVIDENDS AND OTHER DISTRIBUTIONS. For so long as any Preferred Shares are outstanding, and except as set forth in paragraph (a) of this Section 7 and paragraph (c) of Section 9 of this Part I, (A) the Fund shall not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of, or in options, warrants or rights to subscribe for or purchase, Common Shares or other shares, if any, ranking junior to the Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up) in respect of the Common Shares or any other shares of the Fund ranking junior to or on a parity with the Preferred Shares as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up, or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Shares or any other such junior shares (except by conversion into or exchange for shares of the Fund ranking junior to the Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up), or any such parity shares (except by conversion into or exchange for shares of the Fund ranking junior to or on a parity with Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up), unless (i) full cumulative dividends on the Series M28 Preferred Shares through their most recently ended Dividend Period shall have been paid or shall have been declared and sufficient funds for the payment thereof deposited with the Auction Agent and (ii) the Fund has redeemed the full number of Preferred Shares required to be redeemed by any provision for mandatory redemption pertaining thereto, and (B) the Fund shall not declare, pay or set apart for payment any dividend or other distribution (other than

a dividend or distribution paid in shares of, or in options, warrants or rights to subscribe for or purchase, Common Shares or other shares, if any, ranking junior to Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up) in respect of Common Shares or any other shares of the Fund ranking junior to Preferred Shares as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up, or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Shares or any other such junior shares (except by conversion into or exchange for shares of the Fund ranking junior to Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up), unless immediately after such transaction the Discounted Value of S&P Eligible Assets (if S&P is then rating the Preferred Shares) and Fitch Eligible Assets (if Fitch is then rating the Preferred Shares) would at least equal to or greater than the Preferred Shares Basic Maintenance Amount, as applicable.

8. RATING AGENCY RESTRICTIONS. (a) For so long as any Preferred Shares are rated by S&P, the Fund will not purchase or sell futures contracts, write, purchase or sell options on futures contracts or write put options (except covered put options) or call options (except covered call options) on portfolio securities unless it receives written confirmation from S&P that engaging in such transactions will not impair the ratings then assigned to the Preferred Shares by S&P except that the Fund may engage in purchases or sales of futures contracts based on the Municipal Index or Treasury Bonds, the writings, purchases or sales of put and call options on such contracts, purchases of interest rate locks, interest rate caps, interest rate floors, interest rate collars, and entering into interest rate swaps (collectively, "S&P Hedging Transactions"), subject to the following limitations: (i) the Fund will not engage in any S&P Hedging Transaction based on the Municipal Index (other than transactions that terminate a futures contract or option held by the Fund by the Fund's taking the opposite position thereto ("Closing Transactions")), which would cause the Fund at the time of such transaction to own or have sold the least of: (A) more than 1,000 outstanding futures contracts based on the Municipal Index, (B) outstanding futures contracts based on the Municipal Index exceeding in number 50% of the quotient of the Market Value of the Fund's total assets divided by \$1,000 or (C) outstanding futures contracts based on the Municipal Index exceeding in number 10% of the average number of daily traded futures contracts based on the Municipal Index in the 30 days preceding the time of effecting such transaction as reported by The Wall

Street Journal; (ii) the Fund will not engage in any S&P Hedging Transaction based on Treasury Bonds (other than Closing Transactions) which would cause the Fund at the time of such transaction to own or have sold the lesser of: (A) outstanding futures contracts based on Treasury Bonds and on the Municipal Index exceeding in number 50% of the quotient of the Market Value of the Fund's total assets divided by \$100,000 (\$200,000 in the case of the two-year United States Treasury Note) or (B) outstanding futures contracts based on Treasury Bonds exceeding in number 10% of the average number of daily traded futures contracts based on Treasury Bonds in the 30 days preceding the time of effecting such transaction as reported by The Wall Street Journal; (iii) the Fund will engage in Closing Transactions to close out any outstanding futures contract which the Fund owns or has sold or any outstanding option thereon owned by the Fund in the event: (A) the Fund does not have S&P Eligible Assets with an aggregate Discounted Value equal to or greater than the Preferred Share Basic Maintenance Amount on two consecutive Valuation Dates and (B) the Fund is required to pay variation margin on the second such Valuation Date; (iv) the Fund will engage in a Closing Transaction to close out any outstanding futures contract or option thereon in the month prior to the delivery month under the terms of such futures contract or option thereon unless the Fund holds the securities deliverable under such terms; and (v) when the Fund writes a futures contract or option thereon, it will either: (A) maintain an amount of cash, cash equivalents or high grade (rated A or better by S&P), fixed-income securities in a segregated account with the Fund's custodian, so that the amount so segregated plus the amount of initial margin and variation margin held in the account of or on behalf of the Fund's broker with respect to such futures contract or option equals the Market Value of the futures contract or option, or, (B) in the event the Fund writes a futures contract or option thereon which requires delivery of an underlying security, hold such underlying security in its portfolio. For purposes of determining whether the Fund has S&P Eligible Assets with a Discounted Value that equals or exceeds the Preferred Shares Basic Maintenance Amount, the Discounted Value of cash or securities held for the payment of initial margin or variation margin shall be zero and the aggregate Discounted Value of S&P Eligible Assets shall be reduced by an amount equal to (i) 30% of the aggregate settlement value, as marked-to-market, of any outstanding futures contracts based on the Municipal Index which are owned by the Fund, plus (ii) 25% of the aggregate settlement value, as marked to market, of any outstanding futures contracts based on Treasury Bonds

which contracts are owned by the Fund. (b) For as long as any Preferred Shares are rated by S&P, the Fund will not, unless it has received written confirmation from S&P that such action would not impair the rating then assigned to the shares of Preferred Shares by S&P, engage in interest rate swaps, caps and floors, except that the Fund may, without obtaining the written consent described above, engage in swaps, caps and floors if: (i) the counterparty to the swap transaction has a short-term rating of A-1 or, if the counterparty does not have a short-term rating, the counterparty's senior unsecured long-term debt rating is A- or higher, (ii) the original aggregate notional amount of the interest rate swap transaction or transactions is not to be greater than the liquidation preference of the Preferred Shares, (iii) the interest rate swap transaction will be marked-to-market weekly by the swap counterparty, (iv) if the Fund fails to maintain an aggregate discounted value at least equal to the Preferred Shares Basic Maintenance Amount on two consecutive Valuation Dates then the agreement shall terminate immediately, (v) for the purpose of calculating the Discounted Value of S&P Eligible Assets, 90% of any positive mark-to-market valuation of the Fund's rights will be S&P Eligible Assets, 100% of any negative mark-to-market valuation of the Fund's rights will be included in the calculation of the Preferred Shares Basic Maintenance Amount, and (vi) the Fund must maintain liquid assets with a value at least equal to the net amount of the excess, if any, of the Fund's obligations over its entitlement with respect to each swap. For caps/floors, the Fund must maintain liquid assets with a value at least equal to the Fund's obligations with respect to such caps or floors. (c) For so long as any Preferred Shares are rated by S&P, the Fund will enter into securities lending transactions, subject to the following criteria: (1) The counterparty to the transaction must be rated AAA. (2) Collateral must be marked-to-market daily. (3) All transactions should be "matched" on both sides (cash collateral received should be invested in a security with a term as same as the loan). (4) Repayment obligation of the cash collateral is included as a liability in the minimum asset coverage test. (5) Transactions should not exceed 25% of the total portfolio value, with the term of the transaction limited to 30 days or less. (d) For so long as any Preferred Shares are rated by S&P, the Fund may engage in reverse repurchase agreements if the counterparty is rated at least A-/A-1, the securities are marked to market daily by the counterparty, the agreement is for a term of less than 183 days. (e) For so long as any Preferred Shares are rated by S&P, the Fund will not engage in any of the following transactions unless it gets a confirm from S&P: (a) except in connection with a

refinancing of the Preferred Shares, issue additional shares of any series of preferred stock, including any Series M28 Preferred Shares or reissue any shares of preferred stock, including any Series M28 Preferred Shares previously purchased or redeemed by the Fund; (b) engage in any short sales of securities; (c) merge or consolidate into or with any other trust; or (d) change the pricing service referred to in the definition of "Market Value."

Receivables due within five business days of a valuation will be treated as cash and are valued at 100%. (f) The Fund may enter into, purchase or sell, exchange-traded financial futures contracts based on any index approved by Fitch or Treasury Bonds, and purchase, write or sell exchange-traded put options on such financial futures contracts, any index approved by Fitch or Treasury Bonds and purchase, write or sell exchange-traded call options on such financial futures contracts, any index approved by Fitch or Treasury bonds ("Fitch Hedging Transactions"), subject to the following limitations: (i) The Fund may not engage in any Fitch Hedging Transaction based on any index approved by Fitch (other than transactions that terminate a futures contract or option held by the Fund by the Fund's taking the opposite position thereto ("closing transactions")) that would cause the Fund at the time of such transaction to own or have sold outstanding financial futures contracts based on such index exceeding in number 10% of the average number of daily traded financial futures contracts based on such index in the 30 days preceding the time of effecting such transaction as reported by The Wall Street Journal. (ii) The Fund will not engage in any Fitch Hedging Transaction based on Treasury Bonds (other than closing transactions) that would cause the Fund at the time of such transaction to own or have sold: (A) outstanding financial futures contracts based on Treasury Bonds with such contracts having an aggregate market value exceeding 20% of the aggregate market value of Fitch Eligible Assets owned by the Fund and rated at least AA by Fitch (or, if not rated by Fitch Ratings, rated at least Aa by Moody's; or, if not rated by Moody's, rated at least AAA by S&P); or (B) outstanding financial futures contracts based on Treasury Bonds with such contracts having an aggregate market value exceeding 40% of the aggregate market value of all Fitch Eligible Assets owned by the Fund (other than Fitch Eligible Assets already subject to a Fitch Hedging Transaction) and rated at least A or BBB by Fitch (or, if not rated by Fitch Ratings, rated at least Baa by Moody's; or, if not rated by Moody's, rated at least A or AA by S&P) (for purposes of the foregoing clauses (i) and (ii), the Fund shall be deemed to own futures contracts that underlie any outstanding options written by the Fund); (iii) The Fund may engage in closing

transactions to close out any outstanding financial futures contract based on any index approved by Fitch if the amount of open interest in such index as reported by The Wall Street Journal is less than an amount to be mutually determined by Fitch and the Fund. (iv) The Fund may not enter into an option or futures transaction unless, after giving effect thereto, the Fund would continue to have Fitch Eligible Assets with an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount. 9. REDEMPTION. (a) OPTIONAL REDEMPTION. (i) To the extent permitted under the Investment Company Act and Delaware law, the Fund at its option may, without the consent of the holders of Preferred Shares, redeem Preferred Shares having a Dividend Period of one year or less, in whole or in part, on the business day after the last day of such Dividend Period upon not less than 15 calendar days' and not more than 40 calendar days' prior notice; provided, however, that Preferred Shares may not be redeemed at the option of the Fund during the Initial Rate Period. The optional redemption price per share will be the Liquidation Preference per share, plus an amount equal to accumulated but unpaid Dividends thereon (whether or not earned or declared) to the date fixed for redemption. Preferred Shares having a Dividend Period of more than one year are redeemable at the option of the Fund, in whole or in part, prior to the end of the relevant Dividend Period, subject to any specific redemption provision, which may include the payment of redemption premiums to the extent required under any applicable specific redemption provisions; provided, however, that Preferred Shares may not be redeemed at the option of the Fund during the Initial Rate Period. The Fund will not make any optional redemption unless, after giving effect thereto (i) the Fund has available certain Deposit Securities with maturities or tender dates not later than the day preceding the applicable Redemption Date and having a value not less than the amount (including any applicable premium) due to holders of the Preferred Shares by reason of the redemption of the Preferred Shares on such date fixed for the redemption and (ii) the Fund has eligible assets with an aggregate discounted value greater than or equal to the Preferred Shares Basic Maintenance Amount, as applicable. Notwithstanding the foregoing, Preferred Shares may not be redeemed at the option of the Fund unless all dividends in arrears on the outstanding Preferred Shares, and all other outstanding preferred shares have been or are being contemporaneously paid or set aside for payment. Notice of Special Rate Period relating to a Special Rate Period of the Series M28 Preferred Shares, as delivered to the Auction Agent and filed with the Secretary of the Fund,

may provide that the Series M28 Preferred Shares shall not be redeemable during the whole or any part of such Special Rate Period (except as provided in subparagraph (iv) of this paragraph (a)) or shall be redeemable during the whole or any part of such Special Rate Period only upon payment of such redemption premium or premiums as shall be specified therein ("Special Redemption Provisions"). (ii) If fewer than all of the outstanding Series M28 Preferred Shares are to be redeemed pursuant to subparagraph (i) of this paragraph (a), the number of the Series M28 Preferred Shares to be redeemed shall be determined by the Board of Trustees, and such shares shall be redeemed pro rata from the Holders of the Series M28 Preferred Shares in proportion to the number of Series M28 Preferred Shares held by such Holders. (iii) The Fund may not on any date mail a Notice of Redemption pursuant to paragraph (c) of this Section 9 in respect of a redemption contemplated to be effected pursuant to this paragraph (a) unless on such date (A) the Fund has available Deposit Securities with maturity or tender dates not later than the day preceding the applicable redemption date and having a value not less than the amount (including any applicable premium) due to Holders of Preferred Shares by reason of the redemption of such shares on such redemption date, and (B) the Discounted Value of S&P Eligible Assets (if S&P is then rating the Preferred Shares) and Fitch Eligible Assets (if Fitch is then rating the Preferred Shares) each at least equals or exceeds the Preferred Shares Basic Maintenance Amount, as applicable, and would at least equal or exceed the Preferred Shares Basic Maintenance Amount immediately subsequent to such redemption if such redemption were to occur on such date. (b)

MANDATORY REDEMPTION. The Fund shall redeem, at a redemption price equal to \$25,000 per share plus accumulated but unpaid dividends thereon (whether or not earned or declared) to (but not including) the date fixed by the Board of Trustees for redemption, certain of the Preferred Shares, if the Fund fails to have either S&P Eligible Assets or Fitch Eligible Assets with a Discounted Value greater than or equal to the Preferred Shares Basic Maintenance Amount or fails to maintain the Investment Company Act Preferred Share Asset Coverage, in accordance with the requirements of the rating agency or agencies then rating the Preferred Shares, and such failure is not cured on or before the Preferred Shares Basic Maintenance Cure Date or the Investment Company Act Cure Date, as the case may be. The number of Preferred Shares to be redeemed shall be equal to the lesser of (i) the minimum number of Preferred Shares, together with all other preferred shares subject to redemption or retirement, the redemption of which, if deemed to have occurred

immediately prior to the opening of business on the Cure Date, would have resulted in the Fund's having S&P Eligible Assets and Fitch Eligible Assets with a Discounted Value greater than or equal to the Preferred Shares Basic Maintenance Amount or maintaining the Investment Company Act Preferred Shares Asset Coverage, as the case may be, on such Cure Date (provided, however, that if there is no such minimum number of Preferred Shares and other preferred shares the redemption or retirement of which would have had such result, all Preferred Shares and other preferred shares then outstanding shall be redeemed), and (ii) the maximum number of Preferred Shares, together with all other preferred shares subject to redemption or retirement, that can be redeemed out of funds expected to be legally available therefor in accordance with the Declaration and applicable law. In determining the Preferred Shares required to be redeemed in accordance with the foregoing, the Fund shall allocate the number required to be redeemed to satisfy the Preferred Shares Basic Maintenance Amount or the Investment Company Act Preferred Share Asset Coverage, as the case may be, pro rata among Preferred Shares and other preferred shares (and, then, pro rata among the Series M28 Preferred Shares) subject to redemption or retirement. The Fund shall effect such redemption no later than 30 days after the Fund last met the Preferred Shares Basic Maintenance Amount, except that if the Fund does not have funds legally available for the redemption of all of the required number of the Preferred Shares and other preferred shares which are subject to redemption or retirement or the Fund otherwise is unable to effect such redemption within the prescribed time period, the Fund shall redeem those Preferred Shares and other preferred shares which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption. If fewer than all of the outstanding Series M28 Preferred Shares are to be redeemed pursuant to this paragraph (b), the Series M28 Preferred Shares to be redeemed shall be selected by lot or such other method that the Fund deems fair and equitable. (c) NOTICE OF REDEMPTION. If the Fund shall determine or be required to redeem the Series M28 Preferred Shares pursuant to paragraph (a) or (b) of this Section 9, it shall mail a Notice of Redemption with respect to such redemption by first-class mail, postage prepaid, to each Holder of the Series M28 Preferred Shares to be redeemed, at such Holder's address as the same appears on the record books of the Fund on the record date established by the Board of Trustees and to the Auction Agent. Such Notice of Redemption shall be so mailed not less than 15 nor more than 45 days prior to the date fixed for redemption. Each

such Notice of Redemption shall state: (i) the redemption date; (ii) the number of Series M28 Preferred Shares to be redeemed; (iii) the CUSIP number for the Series M28 Preferred Shares; (iv) the Redemption Price; (v) the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Trustees shall so require and the Notice of Redemption shall so state) are to be surrendered for payment of the Redemption Price; (vi) that dividends on the shares to be redeemed will cease to accumulate on such redemption date; (vii) that the Holders of any Series M28 Preferred Shares being so redeemed shall not participate in the Auction, if any, immediately preceding the redemption date; and (viii) the provisions of this Section 9 under which such redemption is made. If fewer than all the Series M28 Preferred Shares held by any Holder are to be redeemed, the Notice of Redemption mailed to such Holder shall also specify the number of Series M28 Preferred Shares to be redeemed from such Holder. The Fund may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to paragraph (a) of this Section 9 that such redemption is subject to one or more conditions precedent and that the Fund shall not be required to effect such redemption unless each such condition shall have been satisfied at the time or times and in the manner specified in such Notice of Redemption. (d) NO REDEMPTION UNDER CERTAIN CIRCUMSTANCES. Notwithstanding the provisions of paragraphs (a) or (b) of this Section 9, if any dividends on the Series M28 Preferred Shares (whether or not earned or declared) are in arrears, no Series M28 Preferred Shares shall be redeemed unless all outstanding the Series M28 Preferred Shares are simultaneously redeemed, and the Fund shall not purchase or otherwise acquire any Series M28 Preferred Shares; provided, however, that the foregoing shall not prevent the purchase or acquisition of all outstanding Series M28 Preferred Shares pursuant to the successful completion of an otherwise lawful purchase or exchange offer made on the same terms to, and accepted by, Holders of all outstanding Series M28 Preferred Shares. (e) ABSENCE OF FUNDS AVAILABLE FOR REDEMPTION. To the extent that any redemption for which Notice of Redemption has been mailed is not made by reason of the absence of legally available funds therefor in accordance with the Declaration and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. Failure to redeem Preferred Shares shall be deemed to exist at any time after the date specified for redemption in a Notice of Redemption when the Fund shall have failed, for any reason whatsoever, to deposit in trust with the Auction Agent the Redemption

Price with respect to any shares for which such Notice of Redemption has been mailed; provided, however, that the foregoing shall not apply in the case of the Fund's failure to deposit in trust with the Auction Agent the Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that the Fund may not have redeemed Preferred Shares for which a Notice of Redemption has been mailed, dividends may be declared and paid on Preferred Shares and shall include those Preferred Shares for which a Notice of Redemption has been mailed. (f) AUCTION AGENT AS TRUSTEE OF REDEMPTION PAYMENTS BY FUND. All moneys paid to the Auction Agent for payment of the Redemption Price of Preferred Shares called for redemption shall be held in trust by the Auction Agent for the benefit of Holders of shares so to be redeemed. (g) SHARES FOR WHICH NOTICE OF REDEMPTION HAS BEEN GIVEN ARE NO LONGER OUTSTANDING. Provided a Notice of Redemption has been mailed pursuant to paragraph (c) of this Section 9, upon the deposit with the Auction Agent (on the Business Day next preceding the date fixed for redemption thereby, in funds available on the next Business Day in The City of New York, New York) of funds sufficient to redeem the Preferred Shares that are the subject of such notice, dividends on such shares shall cease to accumulate and such shares shall no longer be deemed to be outstanding for any purpose, and all rights of the Holders of the shares so called for redemption shall cease and terminate, except the right of such Holders to receive the Redemption Price, but without any interest or other additional amount, except as provided in subparagraph (e)(i) of Section 2 of this Part I. The Auction Agent shall pay the Redemption Price to the Holders of Preferred Shares subject to redemption upon surrender of the certificates for the shares (properly endorsed or assigned for transfer, if the Board of Trustees shall so require and the Notice of Redemption shall so state) to be redeemed in accordance with the Notice of Redemption. In the case that fewer than all of the shares represented by any such certificate are redeemed, a new certificate shall be issued, representing the unredeemed shares, without cost to the Holder thereof. The Fund shall be entitled to receive from the Auction Agent, promptly after the date fixed for redemption, any cash deposited with the Auction Agent in excess of (i) the aggregate Redemption Price of the Preferred Shares called for redemption on such date and (ii) all other amounts to

which Holders of Preferred Shares called for redemption may be entitled. Any funds so deposited that are unclaimed at the end of 90 days from such redemption date shall, to the extent permitted by law, be repaid to the Fund, after which time the Holders of Preferred Shares so called for redemption may look only to the Fund for payment of the Redemption Price and all other amounts to which they may be entitled. (h) COMPLIANCE WITH APPLICABLE LAW. In effecting any redemption pursuant to this Section 9, the Fund shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under the Investment Company Act and any applicable Delaware law, but shall effect no redemption except in accordance with the Investment Company Act and any applicable Delaware law. (i) ONLY WHOLE PREFERRED SHARES MAY BE REDEEMED. In the case of any redemption pursuant to this Section 9, only whole Preferred Shares shall be redeemed, and in the event that any provision of the Declaration would require redemption of a fractional share, the Auction Agent shall be authorized to round up so that only whole shares are redeemed. (j) MODIFICATION OF REDEMPTION PROCEDURES. Notwithstanding any of the foregoing provisions of this Section 9, the Fund may modify any or all of the requirements relating to the Notice of Redemption provided that (i) any such modification does not materially and adversely affect any Holder of the relevant series of Preferred Shares, and (ii) the Fund receives written notice from S&P (if S&P is then rating the Preferred Shares) and Fitch (if Fitch is then rating the Preferred Shares) that such modification would not impair the ratings assigned by S&P and Fitch to shares of Preferred Shares. 10. LIQUIDATION RIGHTS. (a) RANKING. The Series M28 Preferred Shares shall rank on a parity with each other and with shares of any other series of preferred shares as to the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. (b) DISTRIBUTIONS UPON LIQUIDATION. Upon the dissolution, liquidation or winding up of the affairs of the Fund, whether voluntary or involuntary, the Holders of Preferred Shares then outstanding shall be entitled to receive and to be paid out of the assets of the Fund available for distribution to its shareholders, before any payment or distribution shall be made on the Common Shares or on any other class of shares of the Fund ranking junior to the Preferred Shares upon dissolution, liquidation or winding up, an amount equal to the Liquidation Preference with respect to such shares plus an amount equal to all dividends thereon (whether or not earned or declared) accumulated but unpaid to (but not including) the date of final distribution in same day funds. After the

payment to the Holders of the Preferred Shares of the full preferential amounts provided for in this paragraph (b), the Holders of Preferred Shares as such shall have no right or claim to any of the remaining assets of the Fund. (c) PRO RATA DISTRIBUTIONS. In the event the assets of the Fund available for distribution to the Holders of Preferred Shares upon any dissolution, liquidation, or winding up of the affairs of the Fund, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such Holders are entitled pursuant to paragraph (b) of this Section 10, no such distribution shall be made on account of any shares of any other class or series of preferred shares ranking on a parity with the Preferred Shares with respect to the distribution of assets upon such dissolution, liquidation or winding up unless proportionate distributive amounts shall be paid on account of the Preferred Shares, ratably, in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon such dissolution, liquidation or winding up. (d) RIGHTS OF JUNIOR SHARES. Subject to the rights of the holders of shares of any series or class or classes of shares ranking on a parity with the preferred shares with respect to the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund, after payment shall have been made in full to the Holders of the Preferred Shares as provided in paragraph (b) of this Section 10, but not prior thereto, any other series or class or classes of shares ranking junior to the Preferred Shares with respect to the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund shall, subject to the respective terms and provisions (if any) applying thereto, be entitled to receive any and all assets remaining to be paid or distributed, and the Holders of the Preferred Shares shall not be entitled to share therein. (e) CERTAIN EVENTS NOT CONSTITUTING LIQUIDATION. Neither the sale of all or substantially all the property or business of the Fund, nor the merger or consolidation of the Fund into or with any business trust or corporation nor the merger or consolidation of any business trust or corporation into or with the Fund shall be a dissolution, liquidation or winding up, whether voluntary or involuntary, for the purposes of this Section 10. 11. MISCELLANEOUS. (a) AMENDMENT TO ADD ADDITIONAL SERIES. The Board of Trustees may, by resolution duly adopted, without shareholder approval (except as otherwise provided by this Statement or required by applicable law), amend this Statement to (1) reflect any amendments hereto which the Board of Trustees is entitled to adopt pursuant to the terms of this Statement without shareholder approval or (2) add additional series of Preferred Shares or additional Series

M28 Preferred Shares (and terms relating thereto) to the Series and Preferred Shares theretofore described thereon. Each such additional Series and all such additional shares shall be governed by the terms of this statement. (b) NO FRACTIONAL SHARES. No fractional shares of Preferred Shares shall be issued. (c) STATUS OF PREFERRED SHARES REDEEMED, EXCHANGED OR OTHERWISE ACQUIRED BY THE FUND. Preferred Shares, which are redeemed, exchanged or otherwise acquired by the Fund, shall return to the status of authorized and unissued preferred shares without designation as to series. (d) BOARD MAY RESOLVE AMBIGUITIES. To the extent permitted by applicable law, the Board of Trustees may interpret or adjust the provisions of this Statement to resolve any inconsistency or ambiguity or to remedy any formal defect, and may amend this Statement with respect to the Series M28 Preferred Shares prior to the issuance of such shares. (e) HEADINGS NOT DETERMINATIVE. The headings contained in this Statement are for convenience of reference only and shall not affect the meaning or interpretation of this statement. (f) NOTICES. All notices or communications, unless otherwise specified in the By-Laws of the Fund or this Statement, shall be sufficiently given if in writing and delivered in person or mailed by first-class mail, postage prepaid. (g) CERTIFICATE FOR PREFERRED SHARES. No certificates representing the shares of Preferred Shares will be issued unless otherwise authorized by the Board of Trustees of the Fund. (h) RATINGS. The Fund shall take all reasonable action necessary to enable either Moody's or Fitch to provide a rating for the Series M28 Preferred Shares. If neither Moody's nor Fitch shall make such a rating available, the Fund shall select another Rating Agency to act as a Substitute Rating Agency. The Rating Agency guidelines contained herein are subject to change from time to time. The Fund may, but it is not required to, adopt any such change. PART II. 1. ORDERS. (a) Prior to the Submission Deadline on each Auction Date for the Series M28 Preferred Shares: (i) each Beneficial Owner of the Series M28 Preferred Shares may submit to its Broker-Dealer by telephone or otherwise information as to: (A) the number of Outstanding Series M28 Preferred Shares, if any, held by such Beneficial Owner which such Beneficial Owner desires to continue to hold without regard to the Applicable Rate for the Series M28 Preferred Shares for the next succeeding Rate Period; (B) the number of Outstanding Series M28 Preferred Shares, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell if the Applicable Rate for the Series M28 Preferred Shares for the next succeeding Rate Period

shall be less than the rate per annum specified by such Beneficial Owner; and/or (C) the number of Outstanding Series M28 Preferred Shares, if any, held by such Beneficial Owner which such Beneficial Owner offers to sell without regard to the Applicable Rate for the Series M28 Preferred Shares for the next succeeding Rate Period; and (ii) one or more Broker-Dealers, using lists of Potential Beneficial Owners, shall in good faith for the purpose of conducting a competitive Auction in a commercially reasonable manner, contact Potential Beneficial Owners (by telephone or otherwise), including Persons that are not Beneficial Owners, on such lists to determine the number of Series M28 Preferred Shares, if any, which each such Potential Beneficial Owner offers to purchase if the Applicable Rate for the Series M28 Preferred Shares for the next succeeding Rate Period shall not be less than the rate per annum specified by such Potential Beneficial Owner. For the purposes hereof, the communication by a Beneficial Owner or Potential Beneficial Owner to a Broker-Dealer, or by a Broker-Dealer to the Auction Agent, of information referred to in clause (i) (A), (i) (B), (i) (C) or (ii) of this paragraph (a) is hereinafter referred to as an "Order" and collectively as "Orders" and each Beneficial Owner and each Potential Beneficial Owner placing an Order with a Broker-Dealer, and such Broker-Dealer placing an order with the Auction Agent, is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in clause (i)(A) of this paragraph (a) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders"; an Order containing the information referred to in clause (i)(B) or (ii) of this paragraph (a) is hereinafter referred to as a "Bid" and collectively as "Bids"; and an Order containing the information referred to in clause (i)(C) of this paragraph (a) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders." (b) (i) A Bid by a Beneficial Owner or an Existing Holder of the Series M28 Preferred Shares subject to an Auction on any Auction Date shall constitute an irrevocable offer to sell: (A) the number of Outstanding Series M28 Preferred Shares specified in such Bid if the Applicable Rate for the Series M28 Preferred Shares determined on such Auction Date shall be less than the rate specified therein; (B) such number or a lesser number of Outstanding Series M28 Preferred Shares to be determined as set forth in clause (iv) of paragraph (a) of Section 4 of this Part II if the Applicable Rate for the Series M28 Preferred Shares determined on such Auction Date shall be equal to the rate specified therein; or (C) the number of Outstanding Series M28 Preferred Shares specified in such Bid if the rate

specified therein shall be higher than the Maximum Rate for the Series M28 Preferred Shares, or such number or a lesser number of Outstanding Series M28 Preferred Shares to be determined as set forth in clause (iii) of paragraph (b) of Section 4 of this Part II if the rate specified therein shall be higher than the Maximum Rate for the Series M28 Preferred Shares and Sufficient Clearing Bids the Series M28 Preferred Shares do not exist. (ii) A Sell Order by a Beneficial Owner or an Existing Holder of Series M28 Preferred Shares subject to an Auction on any Auction Date shall constitute an irrevocable offer to sell: (A) the number of Outstanding Series M28 Preferred Shares specified in such Sell Order; or (B) such number or a lesser number of Outstanding Series M28 Preferred Shares as set forth in clause (iii) of paragraph (b) of Section 4 of this Part II if Sufficient Clearing Bids for the Series M28 Preferred Shares do not exist; provided, however, that a Broker-Dealer that is an Existing Holder with respect to the Series M28 Preferred Shares shall not be liable to any Person for failing to sell such shares pursuant to a Sell Order described in the proviso to paragraph (c) of Section 2 of this Part II if (1) such shares were transferred by the Beneficial Owner thereof without compliance by such Beneficial Owner or its transferee Broker-Dealer (or other transferee person, if permitted by the Fund) with the provisions of Section 6 of this Part II or (2) such Broker-Dealer has informed the Auction Agent pursuant to the terms of its Broker-Dealer Agreement that, according to such Broker-Dealer's records, such Broker Dealer believes it is not the Existing Holder of such shares. (iii) A Bid by a Potential Beneficial Holder or a Potential Holder of Series M28 Preferred Shares subject to an Auction on any Auction Date shall constitute an irrevocable offer to purchase: (A) the number of Outstanding Series M28 Preferred Shares specified in such Bid if the Applicable Rate for the Series M28 Preferred Shares determined on such Auction Date shall be higher than the rate specified therein; or (B) such number or a lesser number of Outstanding Series M28 Preferred Shares as set forth in clause (v) of paragraph (a) of Section 4 of this Part II if the Applicable Rate for the Series M28 Preferred Shares determined on such Auction Date shall be equal to the rate specified therein. (C) No Order for any number of Preferred Shares other than whole shares shall be valid. 2. SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT. (a) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders for Series M28 Preferred Shares subject to an Auction on such Auction Date obtained by such Broker-Dealer, designating itself (unless otherwise permitted by the Fund) as an

Existing Holder in respect of shares subject to Orders submitted or deemed submitted to it by Beneficial Owners and as a Potential Holder in respect of shares subject to Orders submitted to it by Potential Beneficial Owners, and shall specify with respect to each Order for such shares: (i) the name of the Bidder placing such Order (which shall be the Broker-Dealer unless otherwise permitted by the Fund); (ii) the aggregate number of Series M28 Preferred Shares that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder of Series M28 Preferred Shares: (A) the number of Series M28 Preferred Shares, if any, subject to any Hold Order of such Existing Holder; (B) the number of Series M28 Preferred Shares, if any, subject to any Bid of such Existing Holder and the rate specified in such Bid; and (C) the number of Series M28 Preferred Shares, if any, subject to any Sell Order of such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder of Series M28 Preferred Shares, the rate and number of Series M28 Preferred Shares specified in such Potential Holder's Bid. (b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%. (c) If an Order or Orders covering all of the outstanding Series M28 Preferred Shares held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted by or on behalf of such Existing Holder covering the number of Outstanding Series M28 Preferred Shares held by such Existing Holder and not subject to Orders submitted to the Auction Agent; provided, however, that if an Order or Orders covering all of the Outstanding Series M28 Preferred Shares held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline for an Auction relating to a Special Rate Period consisting of more than 28 Rate Period Days, the Auction Agent shall deem a Sell order to have been submitted by or on behalf of such Existing Holder covering the number of outstanding Series M28 Preferred Shares held by such Existing Holder and not subject to Orders submitted to the Auction Agent. (d) If one or more Orders of an Existing Holder is submitted to the Auction Agent covering in the aggregate more than the number of Outstanding Series M28 Preferred Shares subject to an Auction held by such Existing Holder, such Orders shall be considered valid in the following order of priority: (i) all Hold Orders for the Series M28 Preferred Shares shall be considered valid, but only up to and including in the aggregate the number of Outstanding Series M28 Preferred Shares held by such Existing Holder, and if the number of Series M28 Preferred Shares subject

to such Hold Orders exceeds the number of Outstanding Series M28 Preferred Shares held by such Existing Holder, the number of Series M28 Preferred Shares subject to each such Hold Order shall be reduced pro rata to cover the number of Outstanding Series M28 Preferred Shares held by such Existing Holder; (ii) (A) any Bid for Series M28 Preferred Shares shall be considered valid up to and including the excess of the number of Outstanding Series M28 Preferred Shares held by such Existing Holder over the number of Series M28 Preferred Shares subject to any Hold Orders referred to in clause (i) above; (B) subject to subclause (A), if more than one Bid of an Existing Holder for Series M28 Preferred Shares is submitted to the Auction Agent with the same rate and the number of Outstanding Series M28 Preferred Shares subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the number of Series M28 Preferred Shares subject to each Bid with the same rate shall be reduced pro rata to cover the number of Series M28 Preferred Shares equal to such excess; (C) subject to subclauses (A) and (B), if more than one Bid of an Existing Holder for Series M28 Preferred Shares is submitted to the Auction Agent with different rates, such Bids shall be considered valid in the ascending order of their respective rates up to and including the amount of such excess; and (D) in any such event, the number, if any, of such Outstanding Series M28 Preferred Shares subject to any portion of Bids considered not valid in whole or in part under this clause (ii) shall be treated as the subject of a Bid for Series M28 Preferred Shares by or on behalf of a Potential Holder at the rate therein specified; and (iii) all Sell Orders for Series M28 Preferred Shares shall be considered valid up to and including the excess of the number of Outstanding Series M28 Preferred Shares held by such Existing Holder over the sum of Series M28 Preferred Shares subject to valid Hold Orders referred to in clause (i) above and valid Bids referred to in clause (ii) above. (e) If more than one Bid for one or more Series M28 Preferred Shares is submitted to the Auction Agent by or on behalf of any Potential Holder, each such Bid submitted shall be a separate Bid with the rate and number of Series M28 Preferred Shares therein specified. (f) Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable. 3. DETERMINATION OF SUFFICIENT CLEARING BIDS, WINNING BIDS RATE AND APPLICABLE RATE. (a) Not earlier than the Submission Deadline on each Auction Date for Series M28 Preferred Shares, the Auction Agent shall assemble all valid Orders

submitted or deemed submitted to it by the Broker-Dealers in respect of Series M28 Preferred Shares (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine for the Series M28 Preferred Shares: (i) the excess of the number of Outstanding Series M28 Preferred Shares over the number of Outstanding Series M28 Preferred Shares subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Preferred Shares" of the Series M28 Preferred Shares); (ii) from the Submitted Orders for the Series M28 Preferred Shares whether: (A) the number of Outstanding Series M28 Preferred Shares subject to Submitted Bids of Potential Holders specifying one or more rates equal to or lower than the Maximum Rate for the Series M28 Preferred Shares, exceeds or is equal to the sum of; (B) the number of Outstanding Series M28 Preferred Shares subject to Submitted Bids of Existing Holders specifying one or more rates higher than the Maximum Rate for the Series M28 Preferred Shares; and (C) the number of Outstanding Series M28 Preferred Shares subject to Submitted Sell Orders (in the event such excess or such equality exists (other than because the number of Series M28 Preferred Shares in subclauses (B) and (C) above is zero because all of the Outstanding Series M28 Preferred Shares are subject to Submitted Hold Orders), such Submitted Bids in subclause (A) above being hereinafter referred to collectively as "Sufficient Clearing Bids" for the Series M28 Preferred Shares); and (iii) if Sufficient Clearing Bids for the Series M28 Preferred Shares, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate" for the Series M28 Preferred Shares) which if: (A) (I) each such Submitted Bid of Existing Holders specifying such lowest rate and (II) all other such Submitted Bids of Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the Series M28 Preferred Shares that are subject to such Submitted Bids; and (B) (I) each such Submitted Bid of Potential Holders specifying such lowest rate and (II) all other such Submitted Bids of Potential Holders specifying lower rates were accepted; would result in such Existing Holders described in subclause (A) above continuing to hold an aggregate number of Outstanding Series M28 Preferred Shares which, when added to the number of Outstanding Series M28 Preferred Shares to be purchased by such Potential Holders described in subclause (B) above, would equal not

less than the Available Preferred Shares of the Series M28 Preferred Shares. (b) Promptly after the Auction Agent has made the determinations pursuant to paragraph (a) of this Section 3, the Auction Agent shall advise the Fund of the Maximum Rate for the Series M28 Preferred Shares for which an Auction is being held on the Auction Date and, based on such determination the Applicable Rate for the Series M28 Preferred Shares for the next succeeding Rate Period thereof as follows: (i) if Sufficient Clearing Bids for the Series M28 Preferred Shares exist, that the Applicable Rate for all Series M28 Preferred Shares for the next succeeding Rate Period thereof shall be equal to the Winning Bid Rate for the Series M28 Preferred Shares so determined; (ii) if Sufficient Clearing Bids for Series M28 Preferred Shares do not exist (other than because all of the Outstanding Series M28 Preferred Shares are subject to Submitted Hold Orders), that the Applicable Rate for all Series M28 Preferred Shares for the next succeeding Rate Period thereof shall be equal to the Maximum Rate for the Series M28 Preferred Shares; or (iii) if all of the Outstanding Series M28 Preferred Shares are subject to Submitted Hold Orders, that the Applicable Rate for all Series M28 Preferred Shares for the next succeeding Rate Period thereof shall be 90% of the Reference Rate. 4.

ACCEPTANCE AND REJECTION OF SUBMITTED BIDS AND SUBMITTED SELL ORDERS AND ALLOCATION OF SHARES. Existing Holders shall continue to hold the Preferred Shares that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to paragraph (a) of Section 3 of this Part II, the Submitted Bids and Submitted Sell Orders shall be accepted or rejected by the Auction Agent and the Auction Agent shall take such other action as set forth below: (a) If Sufficient Clearing Bids for the Series M28 Preferred Shares have been made, all Submitted Sell Orders with respect to the Series M28 Preferred Shares shall be accepted and, subject to the provisions of paragraphs (d) and (e) of this section 4, Submitted Bids with respect to the Series M28 Preferred Shares shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids with respect to the Series M28 Preferred Shares shall be rejected: (i) Existing Holders' Submitted Bids for the Series M28 Preferred Shares specifying any rate that is higher than the Winning Bid Rate for the Series M28 Preferred Shares shall be accepted, thus requiring each such Existing Holder to sell the Preferred Shares subject to such Submitted Bids; (ii) Existing Holders' Submitted Bids for Series M28 Preferred Shares specifying any rate that is lower than the Winning Bid Rate for the Series M28 Preferred Shares shall be rejected, thus entitling each such Existing Holder to continue to hold the

Preferred Shares subject to such Submitted Bids; (iii) Potential Holders' Submitted Bids for the Series M28 Preferred Shares specifying any rate that is lower than the Winning Bid Rate for the Series M28 Preferred Shares shall be accepted; (iv) each Existing Holder's Submitted Bid for the Series M28 Preferred Shares specifying a rate that is equal to the Winning Bid Rate for the Series M28 Preferred Shares shall be rejected, thus entitling such Existing Holder to continue to hold the Preferred Shares subject to such Submitted Bid, unless the number of Outstanding Preferred Shares subject to all such Submitted Bids shall be greater than the number of Preferred Shares ("remaining shares") in the excess of the Available Preferred Shares of the Series M28 Preferred Shares over the number of Preferred Shares subject to Submitted Bids described in clauses (ii) and (iii) of this paragraph (a), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold Preferred Shares subject to such Submitted Bid, but only in an amount equal to the number of Series M28 Preferred Shares obtained by multiplying the number of remaining shares by a fraction, the numerator of which shall be the number of Outstanding Preferred Shares held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Preferred Shares subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate for the Series M28 Preferred Shares; and (v) each Potential Holder's Submitted Bid for the Series M28 Preferred Shares specifying a rate that is equal to the Winning Bid Rate for the Series M28 Preferred Shares shall be accepted but only in an amount equal to the number of the Series M28 Preferred Shares obtained by multiplying the number of shares in the excess of the Available Preferred Shares of the Series M28 Preferred Shares over the number of Preferred Shares subject to Submitted Bids described in clauses (ii) through (iv) of this paragraph (a) by a fraction, the numerator of which shall be the number of Outstanding Preferred Shares subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Preferred Shares subject to such Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate for the Series M28 Preferred Shares. (b) If Sufficient Clearing Bids for the Series M28 Preferred Shares have not been made (other than because all of the Outstanding Series M28 Preferred Shares are subject to Submitted Hold Orders), subject to the provisions of paragraph (d) of this Section 4, Submitted Orders for the Series M28 Preferred Shares shall be accepted or rejected as follows in the following order of

priority and all other Submitted Bids for the Series M28 Preferred Shares shall be rejected: (i) Existing Holders' Submitted Bids for the Series M28 Preferred Shares specifying any rate that is equal to or lower than the Maximum Rate for the Series M28 Preferred Shares shall be rejected, thus entitling such Existing Holders to continue to hold the Preferred Shares subject to such Submitted Bids; (ii) Potential Holders' Submitted Bids for Series M28 Preferred Shares specifying any rate that is equal to or lower than the Maximum Rate for the Series M28 Preferred Shares shall be accepted; and (iii) Each Existing Holder's Submitted Bid for Series M28 Preferred Shares specifying any rate that is higher than the Maximum Rate for the Series M28 Preferred Shares and the Submitted Sell Orders for the Series M28 Preferred Shares of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted or on whose behalf was submitted any such Submitted Bid or Submitted Sell Order to sell the Series M28 Preferred Shares subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the number of Series M28 Preferred Shares obtained by multiplying the number of Series M28 Preferred Shares subject to Submitted Bids described in clause (ii) of this paragraph (b) by a fraction, the numerator of which shall be the number of Outstanding Series M28 Preferred Shares held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate number of Outstanding Series M28 Preferred Shares subject to all such Submitted Bids and Submitted Sell Orders. (c) If all of the Outstanding Series M28 Preferred Shares are subject to Submitted Hold Orders, all Submitted Bids for the Series M28 Preferred Shares shall be rejected. (d) If, as a result of the procedures described in clause (iv) or (v) of paragraph (a) or clause (iii) of paragraph (b) of this Section 4, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a fraction of a Series M28 Preferred Share on any Auction Date, the Auction Agent shall, in such manner as it shall determine in its sole discretion, round up or down the number of Series M28 Preferred Shares to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date as a result of such procedures so that the number of shares so purchased or sold by each Existing Holder or Potential Holder on such Auction Date shall be whole Preferred Shares. (e) If, as a result of the procedures described in clause (v) of paragraph (a) of this Section 4, any Potential Holder would be entitled or required to purchase less than a whole share of a Series M28 Preferred Share on any Auction Date, the Auction Agent shall, in such manner as it shall determine in its sole

discretion, allocate Series M28 Preferred Shares for purchase among Potential Holders so that only whole Series M28 Preferred Shares are purchased on such Auction Date as a result of such procedures by any Potential Holder, even if such allocation results in one or more Potential Holders not purchasing Series M28 Preferred Shares on such Auction Date. (f) Based on the results of each Auction for the Series M28 Preferred Shares, the Auction Agent shall determine the aggregate number of Series M28 Preferred Shares to be purchased and the aggregate number of Series M28 Preferred Shares to be sold by Potential Holders and Existing Holders and, with respect to each Potential Holder and Existing Holder, to the extent that such aggregate number of shares to be purchased and such aggregate number of shares to be sold differ, determine to which other Potential Holder(s) or Existing Holder(s) they shall deliver, or from which other Potential Holder(s) or Existing Holder(s) they shall receive, as the case may be, Series M28 Preferred Shares. Notwithstanding any provision of the Auction Procedures to the contrary, in the event an Existing Holder or Beneficial Owner of Series M28 Preferred Shares with respect to whom a Broker-Dealer submitted a Bid to the Auction Agent for such shares that was accepted in whole or in part, or submitted or is deemed to have submitted a Sell Order for such shares that was accepted in whole or in part, fails to instruct its Agent Member to deliver such shares against payment therefor, partial deliveries of Preferred Shares that have been made in respect of Potential Holders' or Potential Beneficial Owners' submitted Bids for Series M28 Preferred Shares that have been accepted in whole or in part shall constitute good delivery to such Potential Holders and Potential Beneficial Owners. (g) None of the Fund, the Adviser, nor the Auction Agent nor any affiliate of either shall have any responsibility or liability with respect to the failure of an Existing Holder, a Potential Holder, a Beneficial Owner, a Potential Beneficial Owner or its respective Agent Member to deliver Series M28 Preferred Shares or to pay for Series M28 Preferred Shares sold or purchased pursuant to the Auction Procedures or otherwise. 5. AUCTION AGENT. For so long as any Preferred Shares are outstanding, the Auction Agent, duly appointed by the Fund to so act, shall be in each case a commercial bank, trust company or other financial institution independent of the Fund and its Affiliates (which however may engage or have engaged in business transactions with the Fund or its Affiliates) and at no time shall the Fund or any of its affiliates act as the Auction Agent in connection with the Auction Procedures. If the Auction Agent resigns or for any reason its appointment is terminated during any period

that any Preferred Shares are outstanding, the Board of Trustees shall use its best efforts promptly thereafter to appoint another qualified commercial bank, trust company or financial institution to act as the Auction Agent. The Auction Agent's registry of Existing Holders of Series M28 Preferred Shares shall be conclusive and binding on the Broker-Dealers. A Broker-Dealer may inquire of the Auction Agent between 3:00 p.m. on the Business Day preceding an Auction for the Series M28 Preferred Shares and 9:30 a.m. on the Auction Date for such Auction to ascertain the number of Series M28 Preferred Shares in respect of which the Auction Agent has determined such Broker-Dealer to be an Existing Holder. If such Broker-Dealer believes it is the Existing Holder of fewer Series M28 Preferred Shares than specified by the Auction Agent in response to such Broker-Dealer's inquiry, such Broker-Dealer may so inform the Auction Agent of that belief. Such Broker-Dealer shall not, in its capacity as Existing Holder of Series M28 Preferred Shares, submit Orders in such Auction in respect of the Series M28 Preferred Shares covering in the aggregate more than the number of Series M28 Preferred Shares specified by the Auction Agent in response to such Broker-Dealer's inquiry.

6. TRANSFER OF PREFERRED SHARES. Unless otherwise permitted by the Fund, a Beneficial Owner or an Existing Holder may sell, transfer or otherwise dispose of Preferred Shares only in whole shares and only pursuant to a Bid or Sell Order placed with the Auction Agent in accordance with the procedures described in this Part II or to a Broker-Dealer; provided, however, that (a) a sale, transfer or other disposition of Preferred Shares from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such shares to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 6 if such Broker-Dealer remains the Existing Holder of the shares so sold, transferred or disposed of immediately after such sale, transfer or disposition and (b) in the case of all transfers other than pursuant to Auctions, the Broker-Dealer (or other Person, if permitted by the Fund) to whom such transfer is made shall advise the Auction Agent of such transfer.

7. GLOBAL CERTIFICATE. Prior to the commencement of a Voting Period, (i) all of the Series M28 Preferred Shares outstanding from time to time shall be represented by one global certificate registered in the name of the Securities Depository or its nominee and (ii) no registration of transfer of Series M28 Preferred Shares shall be made on the books of the Fund to any Person other than the Securities Depository or its nominee.

8. FORCE MAJEURE. (a) Notwithstanding anything else

set forth herein, if an Auction Date is not a Business Day because the New York Stock Exchange is closed for more than three consecutive business days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the Auction Agent is not able to conduct an Auction in accordance with the Auction Procedures for any such reason, then the Applicable Rate for the next Dividend Period shall be the Applicable Rate determined on the previous Auction Date. However, if the New York Stock Exchange is closed for such reason for three or less than three consecutive business days, then the Applicable Rate for the next Dividend Period shall be the Applicable Rate determined by Auction on the first business day following such Auction Date. (b) Notwithstanding anything else set forth herein, if a Dividend Payment Date is not a Business Day because the New York Stock Exchange is closed for more than three consecutive business days due to an act of God, natural disaster, act of war civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services or the dividend payable on such date can not be paid for any such reason, then: (i) the Dividend Payment Date for the affected Dividend Period shall be the next Business Day on which the Fund and its paying agent, if any, are able to cause the dividend to be paid using their reasonable best efforts; (ii) the affected Dividend Period shall end on the day it would have ended had such event not occurred and the Dividend Payment Date had remained the scheduled date; and (iii) the next Dividend Period will begin and end on the dates on which it would have begun and ended had such event not occurred and the Dividend Payment Date remained the scheduled date. IN WITNESS WHEREOF, the undersigned being all the Trustees of the Fund have executed this instrument as of the ____ day of June, 2004.

==== ----- CHARLES A. AUSTIN, III
Charles A. Austin, III, as Trustee and not individually
----- GERALD M. MCDONNELL
Gerald M. McDonnell, as Trustee and not individually
----- DR. RUSSELL A. SALTON, III
Dr. Russell A. Salton, III, as Trustee and not individually
----- K. DUN GIFFORD K. Dun
Gifford, as Trustee and not individually
----- DR. LEROY KEITH Dr. Leroy
Keith, as Trustee and not individually
----- DAVID M. RICHARDSON David
M. Richardson, as Trustee and not individually
----- MICHAEL S. SCOFIELD Michael
S. Scofield, as Trustee and not individually
----- RICHARD J. SHIMA Richard J.

Shima, as Trustee and not individually
----- WILLIAM W. PETTIT William W.
Pettit, as Trustee and not individually
----- RICHARD WAGONER Richard
Wagoner, as Trustee and not individually
----- SHIRLEY L. FULTON Shirley L.
Fulton, as Trustee and not individually

APPENDIX D
SETTLEMENT PROCEDURES The following summary
of Settlement Procedures sets forth the procedures
expected to be followed in connection with the settlement
of each Auction and will be incorporated by reference in
the Broker-Dealer Agreement. (a) On each Auction Date,
the Auction Agent shall notify by telephone or through the
Auction Agent's auction processing system the
Broker-Dealers that participated in the Auction held on
such Auction Date and submitted an Order on behalf of
any Beneficial Owner or Potential Beneficial Owner of: (i)
the Applicable Rate fixed for the next succeeding Dividend
Period; (ii) whether Sufficient Clearing Bids existed for the
determination of the Applicable Rate; (iii) if such
Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid
or a Sell Order on behalf of a Beneficial Owner, the
number of Preferred Shares, if any, to be sold by such
Beneficial Owner; (iv) if such Broker-Dealer (a "Buyer's
Broker-Dealer") submitted a Bid on behalf of a Potential
Beneficial Owner, the number of Preferred Shares, if any,
to be purchased by such Potential Beneficial Owner; (v) if
the aggregate number of Preferred Shares to be sold by all
Beneficial Owners on whose behalf such Broker-Dealer
submitted a Bid or a Sell Order exceeds the aggregate
number of Preferred Shares to be purchased by all
Potential Beneficial Owners on whose behalf such
Broker-Dealer submitted a Bid, the name or names of one
or more Buyer's Broker-Dealers (and the name of the
Agent Member, if any, of each such Buyer's
Broker-Dealer) acting for one or more purchasers of such
excess number of Preferred Shares and the number of such
shares to be purchased from one or more Beneficial
Owners on whose behalf such Broker-Dealer acted by one
or more Potential Beneficial Owners on whose behalf each
of such Buyer's Broker-Dealers acted; (vi) if the aggregate
number of Preferred Shares to be purchased by all
Potential Beneficial Owners on whose behalf such
Broker-Dealer submitted a Bid exceeds the aggregate
number of Preferred Shares to be sold by all Beneficial
Owners on whose behalf such Broker-Dealer submitted a
Bid or a Sell Order, the name or names of one or more
Seller's Broker-Dealers (and the name of the Agent
Member, if any, of each such Seller's Broker-Dealer)
acting for one or more sellers of such excess number of
Preferred Shares and the number of such shares to be sold

to one or more Potential Beneficial Owners on whose behalf such Broker-Dealer acted by one or more Beneficial Owners on whose behalf each of such Seller's Broker-Dealers acted; and (vi) the Auction Date of the next succeeding Auction with respect to the Preferred Shares. (b) On each Auction Date, each broker-Dealer that submitted an Order on behalf of any Beneficial Owner or Potential Beneficial Owner shall: (i) (aa) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, instruct each Potential Beneficial Owner on whose behalf such Broker-Dealer submitted a Bid that we accepted, in whole or in part, to instruct such Potential Beneficial Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Preferred Shares to be purchased pursuant to such Bid against receipt of such shares and advise such Potential Beneficial Owner of the Applicable Rate for the next succeeding Dividend Period, and, (bb) in the case that the aggregate number of Preferred Shares to be purchased by all Potential Beneficial Owners on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the aggregate number of Preferred Shares to be sold by all Beneficial Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, as described in (a)(vi), then such Buyer's Broker-Dealer shall instruct each Potential Beneficial Owner of such excess Preferred Shares to instruct such Potential Beneficial Owner's Agent Member to pay to the Seller's Broker-Dealer (or its Agent Member), the names of whom are to be provided pursuant to (a)(vi), through the Securities Depository the amount necessary to purchase the number of such excess Preferred Shares to be purchased by such Potential Beneficial Owner against receipt of such shares; (ii) (aa) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Beneficial Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Beneficial Owner's Agent Member to deliver to such broker-Dealer (or its Agent Member) through the Securities Depository the number of Preferred Shares to be sold pursuant to such Order against payment therefor and advise any such Beneficial Owner that will continue to hold Preferred Shares of the Applicable Rate for the next succeeding Dividend Period, and, (bb) in the case that the aggregate number of Preferred Shares to be sold by all Beneficial Owners on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate number of Preferred Shares to be purchased by all Potential Beneficial Owners on whose behalf such Broker-Dealer submitted a Bid, as described in (a)(v), then

such Seller's Broker-Dealer shall instruct each Beneficial Owner of such excess Preferred Shares to instruct such Beneficial Owner's Agent Member to deliver to the Buyer's Broker-Dealer (or its Agent Member), the names of whom are to be provided pursuant to (a)(v), through the Securities Depository the number of Preferred Shares to be sold pursuant to such Order against payment therefor; (iii) advise each Beneficial Owner on whose behalf such Broker-Dealer submitted a Hold Order of the Applicable Rate for the next succeeding Dividend period; (iv) advise each Beneficial Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date for the next succeeding Auction; and (v) advise each Potential Beneficial Owner on whose behalf such broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date for the next succeeding Auction. (c) On the basis of the information provided to it pursuant to (a) above, each broker-Dealer that submitted a Bid or a Sell Order on behalf of a Potential Beneficial Owner or a Beneficial Owner shall, in such manner and at such time or times as in its sole discretion it may determine, allocate any funds received by it pursuant to (b)(i) above and any Preferred Shares received by it pursuant to (b)(ii) above among the Potential Beneficial Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Beneficial Owner, if any, on whose behalf such Broker-Dealer submitted Bids that were accepted or Sell Orders, and any Broker-Dealer or Broker-Dealers identified to it by the Auction Agent pursuant to (a)(v) or (a)(vi) above. (d) On each Auction Date: (i) each Potential Beneficial Owner and Beneficial Owner shall instructs its Agent Member as provided in (b)(i) or (ii) above, as the case may be; (ii) each Seller's Broker-Dealer which is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Beneficial Owner delivering shares to such Broker-Dealer pursuant to (b)(ii) above the amount necessary to purchase such shares against receipt of such shares, and (B) deliver such shares through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefore; and (iii) each Buyer's Broker-Dealer which is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to any Seller's Broker-Dealer (or its Agent Member) identified pursuant to (a)(vi) above the amount necessary to purchase the shares to be purchased pursuant to (b)(i) above against receipt of such shares, and (B) deliver such shares through the Securities Depository to the Agent Member of the purchaser thereof against

payment therefor. (e) On the day after the Auction Date: (i) Each Bidder's Agent Member referred to in (d)(i) above shall instruct the Securities Depository to execute the transactions described in (b)(i) or (ii) above, and the Securities Depository shall execute such transactions; (ii) each Seller's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d)(ii) above, and the Securities Depository shall execute such transactions; and (iii) each Buyer's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d)(iii) above, and the Securities Depository shall execute such transactions. If a Beneficial Owner selling Preferred Shares in an Auction fails to deliver such shares (by authorized book-entry), a Broker-Dealer may deliver to the Potential Beneficial Owner on behalf of which it submitted a Bid that was accepted a number of whole Preferred Shares that is less than the number of shares that otherwise was to be purchased by such Potential Beneficial Owner. In such event, the number of Preferred Shares to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser number of shares shall constitute good deliver.

Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of shares which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agency Agreement and the Broker-Dealer Agreements.

PART C -- OTHER INFORMATION ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS (1) FINANCIAL STATEMENTS -

The following financial statements have been incorporated by reference into the Registration Statement as described on page 72 of the Statement of Additional Information: (i) Statement of Assets and Liabilities as of March 15, 2004 and Notes to Statement of Assets and Liabilities dated March 15, 2004; (ii) Financial Highlights for the period ended May 31, 2004 (unaudited); (iii) Statement of Assets and Liabilities as of May 31, 2004 (unaudited); (iv) Statement of Operations for the period ended May 31, 2004 (unaudited); (v) Statement of Changes in Net Assets for the period ended May 31, 2004 (unaudited); (vi) Schedule of Investments as of May 31, 2004; and (vii) Notes to Financial Statements. Statements, schedules and historical information other than those listed above have been omitted since they are either not applicable, or not required or the required information is shown in the financial statements or notes thereto. (2) EXHIBITS

Exhibit No. Description of Exhibits

(a)(1) Amended and Restated Certificate of Trust of Evergreen Utilities and High Income Fund dated February 9, 2004 is incorporated by reference to the Registrant's Initial Registration Statement on Form N-2 as filed with the Commission on February 9, 2004, File Nos. 333-112631 and 811-21507 (the "Initial Registration Statement"). -----

(a)(2) Amended and Restated Agreement and Declaration of Trust of Evergreen Utilities and High Income Fund is incorporated by reference to the Initial Registration Statement. -----

(b) Amended and Restated By-laws are incorporated by reference to the Initial Registration Statement.

(c) Not applicable. -----

(d) Statement of Preferences of Auction Preferred Shares attached hereto as Appendix C to the Statement of Additional Information. -----

(e) Terms and Conditions of Automatic Dividend Reinvestment Plan are incorporated by reference to Pre-Effective Amendment No. 1 to the Registrant's Initial Registration Statement on Form N-2 as filed with the Commission on March 22, 2004 ("Initial Registration Statement Pre-Effective Amendment No. 1").

(f) Not applicable. -----

(g) Form of Investment Advisory and Management Agreement between Registrant and Evergreen Investment Management Company, LLC is incorporated by reference to Initial Registration Statement Pre-Effective Amendment No. 1. -----

(h)(1) Form of Underwriting Agreement is filed herein.

(h)(2) Form of Broker-Dealer Agreement is filed herein.

(h)(3) Form of Auction Agency Agreement is filed herein.

(i) Deferred Compensation Plan is incorporated by reference to Pre-Effective Amendment No. 2 to the Registrant's Initial Registration Statement on Form N-2 as filed with the Commission on April 19, 2004 ("Initial Registration Statement Pre-Effective Amendment No. 2").

(j) Form of Custodian Agreement by and between Registrant and State Street Bank and Trust Company is incorporated by reference to Initial Registration Statement Pre-Effective Amendment No. 1. -----

(k)(1) Form of Administrative Services Agreement between Registrant and Evergreen Investment Services, Inc. is incorporated by reference to Initial Registration Statement Pre-Effective Amendment No. 1.

(k)(2) Form of Transfer Agency and Service Agreement is incorporated by reference to Initial Registration Statement

Pre-Effective Amendment No. 1. -----

(l)(1) Opinion and consent of Sullivan & Worcester LLP is
filed herein. -----

(l)(2) Opinion and consent of Richards, Layton & Finger,
P.A. is filed herein. -----

(m) Not applicable. -----

(n) Consent of KPMG LLP is filed herein.

(o) Not applicable. -----

(p) Initial Stock Purchase Agreement is incorporated by
reference to Initial Registration Statement Pre-Effective
Amendment No. 2. -----

(q) Not applicable. -----

(r)(1) Code of Ethics for Evergreen Utilities and High
Income Fund is incorporated by reference to Initial
Registration Statement Pre-Effective Amendment No. 1.

(r)(2) Code of Ethics for Evergreen Investment
Management Company, LLC is filed incorporated by
reference to Initial Registration Statement Pre-Effective
Amendment No. 1. -----

(s)(1) Powers of Attorney are incorporated by reference to Initial Registration Statement Pre-Effective Amendment No. 1. -----

(s)(2) Power of Attorney of Shirley L. Fulton is incorporated by reference to the Registrant's Registration Statement on Form N-2 as filed with the Commission pursuant to Rule 462(b) under the Securities Act of 1933 on April 28, 2004, File Nos. 333-114957 and 811-21507.

ITEM 25. **MARKETING ARRANGEMENTS** See Exhibits (h)(1), (h)(2) and (h)(3) of Item 24(2) of this Registration Statement. **ITEM 26. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION** The following table sets forth the expenses to be incurred in connection with the issuance and distribution of securities described in this Registration Statement: Registration fees \$ 10,136 Rating Agency Fees \$ 48,000 Printing (other than stock certificates) \$ 25,000 Legal fees and expenses \$100,000 Miscellaneous \$ 5,000 ----- Total \$188,136 **ITEM 27. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT** None. **ITEM 28. NUMBER OF HOLDERS OF SECURITIES** (as of April 30, 2004) **TITLE OF CLASS NUMBER OF RECORD HOLDERS** ----- Common Shares (no par value) 2 Preferred Shares (liquidation preference \$25,000) 0 **ITEM 29. INDEMNIFICATION** Registrant has obtained from a major insurance carrier a trustees and officers liability policy covering certain types of errors and omissions. Provisions for the indemnification of the Registrant's Trustees and officers are also contained in the Registrant's Amended and Restated Agreement and Declaration of Trust. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the "Act"), may be permitted to Trustees, officers and controlling persons of the Fund pursuant to the foregoing provisions, or otherwise, the Fund has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Fund of expenses incurred or paid by a Trustee, officer or controlling person of the Fund in the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person in connection with the securities being registered, the Fund will, unless in the opinion of its counsel the matter has been settled by controlling

precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. The Investment Advisory and Management Agreement between the Registrant and Evergreen Investment Management Company, LLC contains provisions for the indemnification of the Registrant's Advisor. The Underwriting Agreement filed in response to Item 24 (2)(h) contains provisions requiring indemnification of the Registrant's underwriters by the Registrant. The Administrative Services Agreement between Registrant and Evergreen Investment Services, Inc. contains provisions for the indemnification of Evergreen Investment Services, Inc., the Registrant's Administrator. The Transfer Agency and Service Agreement with the Registrant's transfer agent contains provisions for the indemnification of EquiServe Trust Company, N.A., the Registrant's transfer agent for its common shares. The Auction Agency Agreement between Registrant and Deutsche Bank Trust Company Americas contains provisions for the indemnification of Deutsche Bank Trust Company Americas, the Registrant's transfer agent for its preferred shares.

ITEM 30. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISOR

The Directors and principal executive officers of Wachovia Bank, N.A. are: G. Kennedy Thompson Chairman, Wachovia Corporation and Wachovia Bank, N.A., Chief Executive Officer, President and Director, Wachovia Corporation and Wachovia Bank, N.A. Mark C. Treanor Executive Vice President, Secretary & General Counsel, Wachovia Corporation; Secretary and Executive Vice President, Wachovia Bank, N.A. Robert T. Atwood Executive Vice President and Chief Financial Officer, Wachovia Corporation; Chief Financial Officer and Executive Vice President, Wachovia Bank, N.A. All of the above persons are located at the following address: Wachovia Bank, N.A., One Wachovia Center, Charlotte, NC 28288. The information required by this item with respect to Evergreen Investment Management Company, LLC is incorporated by reference to the Form ADV (File No. 801-8327) of Evergreen Investment Management Company, LLC.

ITEM 31. LOCATION OF ACCOUNTS AND RECORDS All accounts and records required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the Rules 31a-1 through 31a-3 promulgated thereunder are maintained at one of the following locations: Evergreen Investment Services, Inc. and Evergreen Investment Management Company, LLC, all located at 200 Berkeley Street, Boston, Massachusetts 02116. Wachovia Bank, N.A., One Wachovia Center, 301 S. College Street, Charlotte, North Carolina 28288. State

Street Bank and Trust Company, 2 Heritage Drive, North Quincy, Massachusetts 02171. EquiServe Trust Company, N.A., 150 Royall Street, Canton, Massachusetts, 02021. Deutsche Bank Trust Company Americas, 60 Wall Street, 27th Floor, New York, New York 10005. ITEM 32. MANAGEMENT SERVICES Not applicable. ITEM 33. UNDERTAKINGS (1) The Registrant undertakes to suspend the offering of its shares until it amends its Prospectus if: (1) subsequent to the effective date of this Registration Statement, the net asset value per share declines more than 10% from its net asset value per share as of the effective date of the Registration Statement; or (2) the net asset value increases to an amount greater than its net proceeds as stated in the Prospectus. (2) Not Applicable. (3) Not Applicable. (4) Not Applicable. (5) Registrant hereby undertakes: (a) that for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective. (b) that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (6) The Registrant hereby undertakes to send by first class mail or by other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information. SIGNATURES Pursuant to the requirements of the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, the Registrant has duly caused this Pre-Effective Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boston, the Commonwealth of Massachusetts on the 14th day of June, 2004. EVERGREEN UTILITIES AND HIGH INCOME FUND By: /s/ Dennis H. Ferro Dennis H. Ferro President Pursuant to the requirements of the Securities Act of 1933, as amended, this Pre-Effective Amendment No. 1 to the Registration Statement has been signed below by the following persons in the capacities indicated on the 14th day of June, 2004. /s/ Carol A. Kosel
----- Carol A. Kosel Treasurer
(Principal Financial and Accounting Officer) /s/ Charles A. Austin, III /s/ K. Dun Gifford /s/ William Walt Pettit

----- Charles A. Austin III* K.
Dun Gifford* William Walt Pettit* Trustee Trustee
Trustee /s/ Gerald M. McDonnell /s/ Russell A. Salton, III
MD -----

----- Gerald M. McDonnell*
Russell A. Salton, III MD* Trustee Trustee /s/ Michael S.
Scofield /s/ David M. Richardson /s/ Richard K. Wagoner

----- Michael S. Scofield* David M.
Richardson* Richard K. Wagoner* Chairman of the Board
Trustee Trustee and Trustee /s/ Leroy Keith, Jr. /s/ Richard
J. Shima /s/ Shirley L. Fulton -----

----- Leroy
Keith, Jr.* Richard J. Shima* Shirley L. Fulton* Trustee
Trustee Trustee *By: /s/ Catherine F. Kennedy
----- Catherine F. Kennedy
Attorney-in-Fact * Catherine F. Kennedy, by signing her
name hereto, does hereby sign this document on behalf of
each of the above-named individuals pursuant to powers of
attorney duly executed by such persons. EXHIBIT INDEX

Exhibit No. Description of Exhibits

(h)(1) Form of Underwriting Agreement.

(h)(2) Form of Broker-Dealer Agreement.

(h)(3) Form of Auction Agency Agreement.

(l)(1) Opinion and Consent of Sullivan & Worcester LLP.

(l)(2) Opinion and Consent of Richards, Layton & Finger,
P.A. -----

(n) Consent of KPMG LLP. -----
