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VAN KAMPEN SENIOR INCOME TRUST

Form N-2/A

February 11, 2004

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 11, 2004

1933 ACT FILE NO. 333-111002

1940 ACT FILE NO. 811-08743

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM N-2

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. 1  
 Post-Effective Amendment No. \_\_\_\_\_

(Check appropriate box or boxes)  
-----

VAN KAMPEN SENIOR INCOME TRUST  
(Exact Name of Registrant as Specified in Agreement and Declaration of Trust)

1 PARKVIEW PLAZA, P.O. BOX 5555, OAKBROOK TERRACE, ILLINOIS 60181-5555  
(Address of Principal Executive Offices)  
TELEPHONE NUMBER: (630) 684-6000  
(Area Code and Telephone Number)

A. THOMAS SMITH III, ESQ.  
MANAGING DIRECTOR AND GENERAL COUNSEL  
VAN KAMPEN INVESTMENTS INC.  
1221 AVENUE OF THE AMERICAS  
NEW YORK, NEW YORK 10020  
(212) 762-5260  
(Name and Address of Agent for Service)  
-----

COPIES TO:

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CHARLES B. TAYLOR, ESQ.  
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333 WEST WACKER DRIVE

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CHICAGO, ILLINOIS 60606  
(312) 407-0700

NEW YORK, NEW YORK 10017  
(212) 455-2000

Approximate Date of Proposed Public Offering: As soon as practical after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. [ ]

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933:

TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE
Shares of Auction Rate Cumulative Preferred Shares, par value \$0.01 per share.....	28,000	\$25,000	\$700,000,000

(1) \$80.90 of which has been paid previously.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities Exchange Commission, acting pursuant to Section 8(a) of the Securities Act of 1933, as amended, may determine.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED FEBRUARY 11, 2004

PRELIMINARY PROSPECTUS

\$700,000,000

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## VAN KAMPEN SENIOR INCOME TRUST

### AUCTION RATE CUMULATIVE PREFERRED SHARES

5,600 SHARES, SERIES M  
 5,600 SHARES, SERIES T  
 5,600 SHARES, SERIES W  
 5,600 SHARES, SERIES TH  
 5,600 SHARES, SERIES F

LIQUIDATION PREFERENCE \$25,000 PER SHARE  
 -----

Van Kampen Senior Income Trust (the "Fund") is a non-diversified, closed-end management investment company. The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital. The Fund seeks to achieve its objective by investing primarily in a professionally managed portfolio of interests in floating or variable rate senior loans ("Senior Loans") to corporations, partnerships and other entities ("Borrowers") which operate in a variety of industries and geographical regions. The Fund's investment adviser is Van Kampen Asset Management (the "Adviser").

The Fund is offering 5,600 Series M, 5,600 Series T, 5,600 Series W, 5,600 Series TH and 5,600 Series F Auction Rate Cumulative Preferred Shares (collectively, the "Preferred Shares"). The minimum purchase amount for Preferred Shares is \$25,000.

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AN INVESTMENT IN THE PREFERRED SHARES MAY NOT BE APPROPRIATE FOR ALL INVESTORS AND THERE IS NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE. SEE RISK FACTORS OF THE FUND DESCRIBED IN THE SECTION "RISK FACTORS" BEGINNING ON PAGE 24 OF THIS PROSPECTUS.

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

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	Per Share -----	Total -----
Public Offering Price(1)	\$25,000	\$700,000,000
Sales Load	\$	\$
Proceeds to Fund (before expenses) (2)	\$	\$

-----  
 (1) The public offering price per share will be increased by the amount of dividends, if any, that have accumulated from the date the Preferred Shares

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are first issued.

(2) Not including offering expenses incurred by the Fund, estimated to be \$ .

The underwriters are offering the Preferred Shares subject to various conditions. The underwriters expect to deliver the Preferred Shares to an investor's broker-dealer, in book-entry form through The Depository Trust Company, on or about February , 2004.

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CITIGROUP

MERRILL LYNCH & CO.

A.G. EDWARDS & SONS, INC.

LEHMAN BROTHERS

WACHOVIA SECURITIES

February , 2004

Senior Loans in which the Fund invests generally pay interest at rates which are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally the prime rate offered by one or more major United States banks, the London Inter-Bank Offered Rate, the Certificate of Deposit rate or other base lending rates used by commercial lenders. Senior Loans generally hold the most senior position in the capital structure of the Borrowers and generally are secured with specific collateral, which may include guarantees, although the Fund may also invest in Senior Loans that are not secured by any collateral. The terms of Senior Loans typically include various restrictive covenants which are designed to limit certain activities of the Borrowers. It is anticipated that the proceeds of the Senior Loans in which the Fund acquires interests will be used primarily to finance leveraged buyouts, recapitalizations, mergers, acquisitions and stock repurchases and, to a lesser extent, to finance internal growth and for other corporate purposes of Borrowers.

Senior Loans in which the Fund invests generally have a claim on the assets of an issuer senior to that of subordinated debt, preferred stock and common stock of such issuer. Senior Loans in which the Fund may invest generally are not registered with the SEC or listed on any national securities exchange, and there is no express limitation on the percentage of the Fund's assets that may be invested in illiquid securities or the percentage of the Fund's assets that may be invested in below investment grade Senior Loans, which are considered speculative by rating agencies (and which are often referred to as "junk securities").

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Investors in Preferred Shares will be entitled to receive cash dividends at an annual rate that may vary for the successive dividend periods for such shares. The dividend rate on the Series M Preferred Shares for the initial dividend period from and including the date of issue to but excluding \_\_\_\_\_, 2004 will be \_\_\_\_%. The dividend rate on the Series T Preferred Shares for the initial dividend period from and including the date of issue to but excluding \_\_\_\_\_, 2004 will be \_\_\_\_%. The dividend rate on the Series W Preferred Shares for the initial dividend period from and including the date of issue to but excluding \_\_\_\_\_, 2004 will be \_\_\_\_%. The dividend rate on the Series TH Preferred Shares for the initial dividend period from and including the date of issue to but excluding \_\_\_\_\_, 2004 will be \_\_\_\_%. The dividend rate on the Series F Preferred Shares for the initial dividend period from and including the date of issue to but excluding \_\_\_\_\_, 2004 will be \_\_\_\_%. For each subsequent dividend period, the auction agent will determine the dividend rate for a particular period by an auction conducted on the business day prior to that period.

The Preferred Shares are not listed on an exchange. Investors in Preferred Shares may participate in auctions through broker-dealers that have entered into an agreement with the auction agent and the Fund in accordance with the procedures specified herein. Broker-dealers are not required to maintain a secondary market in Preferred Shares, and there can be no assurance that a secondary market will develop, or if it does develop a secondary market may not provide you with liquidity. The Fund may redeem Preferred Shares as described under "Description of Preferred Shares."

The Preferred Shares will be senior to the Fund's outstanding common shares, par value \$0.01 per share. The Fund's common shares are traded on the New York Stock Exchange ("NYSE") under the symbol "VVR." It is a condition of closing this offering that the Preferred Shares be offered with a rating of "Aaa" from Moody's Investors Service, Inc. ("Moody's") and "AAA" from Fitch Ratings ("Fitch").

This Prospectus sets forth concisely the information that prospective investors should know before investing in Preferred Shares, including information about risks. Investors should read this Prospectus before investing and keep the Prospectus for future reference. The Fund's Statement of Additional Information ("SAI") dated February \_\_\_\_\_, 2004, contains additional information about the Fund and is incorporated by reference into this Prospectus. You may obtain a copy of the SAI without charge by calling (800) 847-2424 (or (800) 421-2833 for the hearing impaired) or by writing to the Fund at 1 Parkview Plaza, P.O. Box 5555, Oakbrook Terrace, Illinois 60181-5555. A table of contents to the SAI is located at page 53 of this Prospectus. The SAI has been filed with the SEC and is available along with other Fund-related materials at the SEC's internet site (<http://www.sec.gov>).

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

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY

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REFERENCE INTO THIS PROSPECTUS. THE FUND HAS NOT, AND THE UNDERWRITERS HAVE NOT, AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION YOU SHOULD NOT RELY ON IT. THE FUND IS NOT, AND THE UNDERWRITERS ARE NOT, MAKING AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER IS NOT PERMITTED. THE FUND'S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATION AND PROSPECTS MAY HAVE CHANGED SINCE THE DATE OF THIS PROSPECTUS.

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### PROSPECTUS SUMMARY

This summary highlights selected information from this Prospectus. It may not contain all of the information that is important to you. To understand the offering of the Preferred Shares fully, you should read this entire Prospectus carefully, including the risk factors. The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this Prospectus, the SAI and the Fund's Certificate of Vote (the "Certificate") attached as Appendix B to the SAI.

The Fund..... Van Kampen Senior Income Trust is a non-diversified, closed-end management investment company. The Fund was organized as a Massachusetts

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business trust on April 8, 1998, and is registered under the Investment Company Act of 1940, as amended (the "1940 Act").

The Fund commenced investment operations on June 23, 1998 upon the closing of an initial public offering of its common shares of beneficial interest, par value \$0.01 per share. The Fund's common shares are traded on the NYSE under the symbol "VVR." As of December 31, 2003, the Fund had total assets of approximately \$2.2 billion and net assets of approximately \$1.5 billion.

The Offering..... The Fund is offering 5,600 Series M Preferred Shares, 5,600 Series T Preferred Shares, 5,600 Series W Preferred Shares, 5,600 Series TH Preferred Shares and 5,600 Series F Preferred Shares, each series with a par value of \$0.01 at a purchase price of \$25,000 per share plus dividends, if any, that have accumulated from the commencement date of the dividend period during which the Fund first issues the Preferred Shares. The Fund is offering the Preferred Shares through a group of underwriters led by Citigroup Global Markets Inc. See "Underwriting."

The Preferred Shares of the Fund will entitle their holders to receive cash dividends at an annual rate that may vary for the successive dividend periods for such shares. In general, except as described under "Description of Preferred Shares -- Dividends and Dividend Periods," the dividend period for each series will be seven days. The auction agent will determine the dividend rate for a particular dividend period by an auction conducted on the business day immediately prior to the start of that dividend period. See "Description of Preferred Shares -- Summary of Auction Procedures."

The Preferred Shares are not listed on an exchange. Investors and potential investors in Preferred Shares may participate in auctions for the Preferred Shares through broker-dealers that have entered into an agreement with the auction agent and the Fund. Generally, an investor in Preferred Shares will not receive certificates representing ownership of his or her shares. The securities depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's broker-dealer will maintain record ownership of the Preferred Shares in book-entry form. An investor's broker-dealer, in turn, will maintain records of that investor's beneficial ownership of Preferred Shares.

The Fund will not issue Preferred Shares unless such shares have a rating of "Aaa" from Moody's and "AAA" from Fitch. A rating is not a financial guarantee and can change. The Fund may at some future

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time seek to have the Preferred Shares rated by another rating agency. See "Description of Preferred Shares."

Use of Proceeds..... The Fund will use all of the net proceeds of the offering to (i) pay down amounts borrowed by the Fund under its commercial paper program by approximately \$640 million and (ii) invest the remaining proceeds in accordance with the Fund's investment objective and policies as soon as practicable following the offering.

Investment Objective and Investment Policies..... The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital. The Fund seeks to achieve its objective by investing primarily in a professionally managed portfolio of interests in Senior Loans to Borrowers which operate in a variety of industries and geographical regions (including domestic and foreign entities). Senior Loans in which the Fund invests generally pay interest at rates which are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally the prime rate offered by one or more major United States banks ("Prime Rate"), the London Inter-Bank Offered Rate ("LIBOR"), the Certificate of Deposit ("CD") rate or other base lending rates used by commercial lenders. The value of the Fund's portfolio may be affected by changes in the credit quality of Borrowers with respect to Senior Loan interests in which the Fund invests. No assurance can be given that the Fund will achieve its investment objective.

Senior Loans generally hold the most senior position in the capital structure of the Borrowers and generally are secured with specific collateral, which may include guarantees, although the Fund may also invest in Senior Loans that are not secured by any collateral. The terms of Senior Loans typically include various restrictive covenants which are designed to limit certain activities of the Borrowers. Senior Loans generally are arranged through private negotiations between a Borrower and several financial institutions ("Lenders")



represented in each case by one or more such Lenders acting as agent ("Agent") of the several Lenders. On behalf of the several Lenders, the Agent will be primarily responsible for negotiating the loan agreement ("Loan Agreement") that establishes the relative terms and conditions of the Senior Loan and rights of the Borrower and the several Lenders. The Fund may invest in participations ("Participations") in Senior Loans, may purchase assignments ("Assignments") of portions of Senior Loans from third parties and may act as one of the group of Lenders originating a Senior Loan (an "Original Lender"). The Fund will purchase an Assignment or act as Original Lender with respect to a syndicated Senior Loan only where the Agent with respect to the Senior Loan at the time of investment has outstanding debt or deposit obligations rated investment grade (BBB or A-3 or higher by Standard & Poor's Ratings Group ("S&P") or Baa or P-3 or higher by Moody's) or determined by the Adviser to be of comparable quality.

Under normal market conditions, at least 80% of the Fund's total assets are invested in Senior Loans (either as an Original Lender or as a purchaser of an Assignment or Participation) of domestic Borrowers or foreign Borrowers (so long as Senior Loans to such foreign Borrowers are U.S. dollar denominated and payments of interest and

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repayments of principal pursuant to such Senior Loans are required to be made in U.S. dollars). It is anticipated that the proceeds of the Senior Loans in which the Fund acquires interests will be used primarily to finance leveraged buyouts, recapitalizations, mergers, acquisitions and stock repurchases and, to a lesser extent, to finance internal growth and for other corporate purposes of Borrowers. Senior Loans generally have the most senior position in a Borrower's capital structure, although some Senior Loans may hold an equal ranking with other senior securities of the Borrower. Senior Loans generally are secured by specific collateral, which may include guarantees. Such guaranteed Senior Loans may be guaranteed by, or fully secured by assets of, shareholders, owners or affiliated entities of the Borrower, even if the Senior Loans are not otherwise collateralized by assets of the Borrower. The Fund may invest up to 20% of its total assets in interests in Senior Loans which are not secured by any collateral. Senior loans which are not secured by specific collateral generally pose a greater risk of non-payment of interest or loss of principal than do collateralized Senior Loans. The Fund may also

acquire warrants, equity securities and, in limited circumstances, junior debt securities in connection with its investments in Senior Loans. Such equity securities and junior debt securities will not be treated by the Fund as Senior Loans. Investments in Senior Loans which are not secured by specific collateral and in warrants, equity securities and junior debt securities entail certain risks in addition to those associated with investments in collateralized Senior Loans.

The Fund is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio. The Fund's assets invested in Senior Loans generally consist of Senior Loans with stated maturities of between three and ten years, and with rates of interest which are redetermined either daily, monthly, quarterly or semi-annually; provided, however, that the Fund may invest up to 5% of its total assets in Senior Loans which permit the Borrower to select an interest rate redetermination period of up to one year. Investments in Senior Loans with longer interest rate redetermination periods may increase fluctuations in the value of the Fund's portfolio as a result of changes in interest rates. The Senior Loans in the Fund's portfolio will at all times have a dollar-weighted average time until next interest rate redetermination of 90 days or less. Because of prepayment provisions, the actual remaining maturity of Senior Loans may vary substantially from the stated maturity of such loans. The Fund estimates that the actual maturities of Senior Loans in the portfolio generally range between 18 and 24 months.

The Adviser generally relies on its own credit analyses of Borrowers and not on analyses prepared by ratings agencies or other independent parties. There is no minimum rating or other independent evaluation of a Borrower or its securities limiting the Fund's investments. Although a Senior Loan may not be rated by any rating agency at the time the Fund purchases the Senior Loan, rating agencies have become more active in rating Senior Loans, and at any given time a substantial portion of the Senior Loans in the Fund's portfolio may be rated. The lack of a rating does not necessarily imply that a Senior Loan is of lesser investment quality. There is no limit on the

percentage of the Fund's assets that may be invested in Senior Loans that are rated below

investment grade or that are unrated but of comparable quality, which are commonly referred to as "junk securities." The Fund invests only in those Senior Loans with respect to which the Borrower, in the opinion of the Adviser, demonstrates one or more of the following characteristics: sufficient cash flow to service debt; adequate liquidity; successful operating history; strong competitive position; experienced management; and, with respect to collateralized Senior Loans, adequate collateral coverage of the Senior Loans. In addition, the Adviser may consider, and may rely in part, on analyses performed by Lenders other than the Fund.

Under normal market conditions, the Fund may invest up to 20% of its total assets in (i) high quality, short-term debt securities with remaining maturities of one year or less and (ii) warrants, equity securities and, in limited circumstances, junior debt securities acquired in connection with the Fund's investments in Senior Loans. If the Adviser determines that market conditions temporarily warrant a defensive investment policy, the Fund may, subject to its ability to liquidate its relatively illiquid portfolio of Senior Loans, invest up to 100% of its assets in cash and such high quality, short-term securities. The Fund may also lend its portfolio securities to other parties and may enter into repurchase and reverse repurchase agreements for securities, subject to certain restrictions. For further discussion of the Fund's investment objective and policies and its investment practices and the associated considerations, see "Investment Objective and Investment Policies" and "Other Investment Practices."

Use of Leverage..... The Fund uses financial leverage for investment purposes. Including the proceeds of the offering of the Preferred Shares, it is currently anticipated that the amount of leverage will represent approximately 32% (and in no event will it exceed 50%) of the Fund's total assets. As discussed below, in addition to issuing Preferred Shares, the Fund borrows money through a commercial paper program. See "Use of Leverage." The Fund's obligations under the commercial paper program are senior to the Preferred Shares. Payments to holders of Preferred Shares (the "Preferred Shareholders") in liquidation or otherwise will be subject to the prior payment of all outstanding indebtedness, including the Fund's obligations under the commercial paper program. There can be no assurance that the commercial paper will remain outstanding or that the Fund will continue such borrowing.

The issuance of Preferred Shares and the use of borrowing for investment purposes are forms of financial leverage and as such pose certain risks. The Fund generally will not utilize financial leverage if it anticipates that it would result in a lower return to common shareholders over time. Use of financial leverage creates an opportunity for increased income for common shareholders but, at the same time, creates the possibility for greater loss (including the likelihood of greater volatility of net asset value and market price of the common shares and of dividends), and, under certain circumstances, the Fund's use of financial leverage may impair the ability of the Fund to maintain its qualification, for federal income tax purposes, as a regulated investment company. There can be no assurance that a

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leveraging strategy will be successful during any period in which it is employed. The fees paid to the Adviser and the Administrator (as defined below) are calculated on the basis of the Fund's managed assets, and those fees will be higher when leverage is utilized.

The Fund currently has a fundamental investment restriction that the Fund may not issue senior securities (including borrowing money or entering into reverse repurchase agreements) in excess of 33 1/3% of its total assets (including the amount of senior securities issued but excluding any liabilities and indebtedness not constituting senior securities) except that the Fund may borrow up to an additional 5% of its total assets for temporary purposes, or pledge its assets other than to secure such issuance or in connection with hedging transactions, when-issued and delayed delivery transactions and similar investment strategies. The Fund has filed a proxy statement seeking a shareholder vote to amend the aforementioned investment restriction regarding the Fund's use of financial leverage to allow the Fund to utilize financial leverage to the maximum extent allowable under the 1940 Act. The Fund expects to hold a shareholder meeting to vote on this proposal on April 8, 2004. For a description of the limitations on financial leverage under the 1940 Act, see "Use of Leverage."

Principal Investment

Risks..... Risk is inherent in all investing. The primary risks of investing in Preferred Shares are:

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- the Fund will not be permitted to declare dividends or other distributions with respect to the Preferred Shares or redeem the Preferred Shares unless the Fund meets certain asset coverage requirements and is not in default under the terms of any senior indebtedness;
  
- in extraordinary circumstances, the Fund may not earn sufficient income from its investments to pay dividends on the Preferred Shares;
  
- senior indebtedness of the Fund may also constitute a substantial lien and burden on the common shares and the Preferred Shares by reason of its prior claim against the income of the Fund and against the net assets of the Fund in liquidation;
  
- if a Preferred Share auction fails, investors may not be able to sell any or all of their Preferred Shares;
  
- because of the nature of the market for Preferred Shares, investors may receive less than the price paid for their Preferred Shares if sold outside of the auction, especially when market interest rates are rising;
  
- although broker-dealers may maintain a secondary market in the Preferred Shares, they are not obligated to do so and no secondary market may develop or exist at any time;
  
- a rating agency or agencies could downgrade the ratings assigned to the Preferred Shares, which could affect liquidity; and
  
- the Fund may be forced to redeem the Preferred Shares to meet regulatory or rating agency requirements or may voluntarily redeem the Preferred Shares in certain circumstances.

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The primary risks of investing in the Fund are:

- borrowers under Senior Loans may default on obligations to pay principal or interest when

due;

- although, with respect to collateralized Senior Loans, the Fund generally will invest only in Senior Loans that the Adviser believes are secured by specific collateral, which may include guarantees, the value of which exceeds the principal amount of the Senior Loan at the time of initial investment, there can be no assurance that the liquidation of any such collateral would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated; moreover, to the extent that a Senior Loan is collateralized by stock in the borrower or its subsidiaries, such stock may lose all or substantially all of its value in the event of bankruptcy of the Borrower;
- although it is growing, the secondary market for Senior Loans is currently limited and Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for many of the Senior Loans in which the Fund will invest; accordingly, Senior Loans are generally less liquid than many other types of investments and the Fund may be restricted in its ability to sell its Senior Loans in a timely fashion and at a fair price;
- interest rates are near historical lows and it is likely that they will rise, and if long-term rates rise, the value of the Fund's investment portfolio may decline thereby reducing asset coverage for the Preferred Shares, although such risk may be reduced by the floating or variable rate nature of Senior Loans held by the Fund;
- the Fund's use of financial leverage will result in greater volatility in the net asset value of the Fund's common shares;
- in certain circumstances, the Fund may not earn sufficient income from its investments to pay interest on the Fund's indebtedness or dividends;
- to the extent the Fund invests in non-U.S. issuers, the Fund may be subject to special risks; and

- the Fund is a non-diversified Fund and to the extent the Fund invests a relatively high percentage of its assets in obligation of a limited number of issuers, the Fund may be more susceptible than a diversified company to any single corporate, economic, political or regulatory occurrence.

For further discussion of the risks of investing in the Preferred Shares and the Fund, see "Risk Factors."

Investment Adviser and  
Administrator.....

Van Kampen Asset Management is the Fund's investment adviser. The Adviser is a wholly owned subsidiary of Van Kampen Investments Inc. ("Van Kampen Investments"). Van Kampen Investments is the Fund's administrator (in such capacity, the "Administrator"). Van Kampen Investments is a diversified asset management company

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that administers more than three million retail investor accounts, has extensive capabilities for managing institutional portfolios and has more than \$84 billion under management or supervision as of December 31, 2003. Van Kampen Investments has more than 50 open-end funds, more than 30 closed-end funds and more than 2,700 unit investment trusts that are distributed by authorized dealers nationwide.

The Fund pays the Adviser a monthly fee (accrued daily and paid monthly) computed based upon an annual rate of 0.85% applied to the average daily managed assets of the Fund (which, for purposes of determining such fee, shall mean the average daily gross asset value of the Fund minus the sum of accrued liabilities other than the aggregate amount of any borrowings undertaken by the Fund). The Fund pays the Administrator a monthly fee (accrued daily and paid monthly) computed based upon an annual rate of 0.20% applied to the average daily managed assets of the Fund (as defined above). Because leverage will increase the amount of the Fund's total assets, the Fund will pay a greater amount of advisory and administrative fees when leverage is utilized.

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Dividends and Dividend

Periods..... The table below shows the dividend rates for the initial dividend periods for each series of the Preferred Shares offered in this Prospectus. For subsequent dividend periods, the Preferred Shares will pay dividends based on a rate set at auctions, normally held every 7 days. In most instances, dividends are also payable every 7 days, on the first business day following the end of the dividend period. See "Description of Preferred Shares."

The table below also shows the date from which dividends on the Preferred Shares will accumulate at the initial rate, the dividend payment date for the initial dividend period and the day on which dividends will normally be paid. If the day on which dividends otherwise would be paid is not a business day, then dividends will be paid on the first business day that falls after that day.

Finally, the table below shows the number of days of the initial dividend periods for the Preferred Shares. Subsequent dividend periods generally will be 7 days. The dividend payment date for special dividend periods of more than 7 days will be set out in the notice designating a special dividend period. See "Description of Preferred Shares -- Designation of Special Dividend Periods."

PREFERRED SHARES	INITIAL DIVIDEND RATE	DATE OF ACCUMULATION OF INITIAL RATE	DIVIDEND PAYMENT DATE FOR INITIAL DIVIDEND PERIOD	S	P
-----	-----	-----	-----		
Series M....					
Series T....					
Series W....					
Series TH...					
Series F....					

Asset Maintenance..... The Fund's Certificate, attached as Appendix B to the SAI, establishes and fixes the rights and preferences of the Preferred Shares. The Certificate provides that the Fund must maintain:

- asset coverage of the Preferred Shares as



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required by the rating agency or agencies rating the Preferred Shares, and

- asset coverage of the Preferred Shares as required by the 1940 Act (which currently requires asset coverage of at least 200%).

Based on the Fund's assets and liabilities as of December 31, 2003, the asset coverage of the Preferred Shares as measured pursuant to the 1940 Act would be approximately 310% if the Fund were to issue all of the Preferred Shares offered in this Prospectus and apply the proceeds as set forth under "Use of Proceeds" below.

In addition, under the commercial paper program, the Fund may not permit the Fund's asset coverage ratio (as defined separately by related credit agreements) to fall below 300% at any time without causing an event of default under the credit agreements.

Redemption..... Although the Fund ordinarily does not expect to redeem Preferred Shares, it may be required to redeem Preferred Shares if, for example, the Fund does not correct a failure to meet an asset coverage ratio required by law or a rating agency guideline in a timely manner. The Fund may also voluntarily redeem Preferred Shares under certain conditions. See "Description of Preferred Shares -- Redemption."

Liquidation Preference..... The liquidation preference (that is, the amount the Fund must pay to Preferred Shareholders if the Fund is liquidated) for Preferred Shares will be \$25,000 per share plus accumulated but unpaid dividends, if any, whether or not earned or declared. See "Description of Preferred Shares -- Liquidation Preference."

Voting Rights..... The 1940 Act requires that the Preferred Shareholders, and the holders of any other series of preferred shares of the Fund, voting as a separate class, have the right to:

- elect at least two trustees at all times, and
- elect a majority of the trustees at any time when dividends on any series of the Preferred Shares, or any other series of preferred shares of the Fund, are unpaid for two full years, and they

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will continue to be so represented until all dividends in arrears shall have been paid or otherwise provided for.

The holders of common shares will elect the remaining trustees. The Preferred Shareholders, and the holders of any other series of preferred shares of the Fund, will vote as a separate class or series on other matters as required under the Fund's Agreement and Declaration of Trust, as amended (the "Declaration of Trust"), the Certificate, the 1940 Act and Massachusetts law. Each common share, each Preferred Share and each share of any other series of preferred shares of the Fund is entitled to one vote per share. See "Description of Preferred Shares -- Voting Rights."

Secondary Market Trading... The Preferred Shares are not listed on an exchange. Instead, you may buy or sell Preferred Shares at an auction that is normally held every

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7 days by submitting orders to a broker-dealer that has entered into an agreement with the auction agent and the Fund (a "Broker-Dealer") or to a broker-dealer that has entered into a separate agreement with a Broker-Dealer. Broker-dealers may, but are not obligated to, maintain a secondary market in Preferred Shares outside of auctions. There can be no assurance that a secondary market will develop or, if it does develop, that it will provide owners with liquidity of investment. Preferred Shares may be transferred outside of auctions only to or through a broker-dealer.

Federal Income Taxes..... The distributions with respect to Preferred Shares (other than distributions in redemption of Preferred Shares subject to Section 302(b) of the Internal Revenue Code of 1986, as amended (the "Code")) will constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to holders. Because the Fund's portfolio income will consist principally of interest income, corporate investors in the Preferred Shares generally will not be entitled to the dividends received deduction and individual investors generally will not be entitled to the reduced rates of taxation available for "qualified dividend income." Distributions to holders of net capital gain (the excess of net long-term capital

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gain over net short-term capital loss) that are designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of such holders. The Internal Revenue Service currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains). Accordingly, the Fund intends to designate distributions of net capital gain made with respect to Preferred Shares as capital gain dividends in proportion to the Preferred Shares' share of total dividends paid during the year.

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FINANCIAL HIGHLIGHTS

The table below sets forth selected financial information for a single common share of beneficial interest of the Fund outstanding throughout the periods presented. The financial highlights for the fiscal years ended July 31, 2003, 2002, 2001 and 2000 have been audited by Deloitte & Touche LLP, independent auditors, whose report, along with the Fund's most recent financial statements, are included in the SAI. The information for the fiscal year ended July 31, 1999 and for the fiscal period ended July 31, 1998 was audited by the Fund's former independent auditors.

	YEAR ENDED JULY 31,				
	2003	2002 (E)	2001	2000	1999
Net Asset Value, Beginning of the Period(a).....	\$ 7.94	\$ 8.51	\$ 9.65	\$ 10.08	\$ 10.07
Net Investment Income.....	.46	.49	.79	.81	.77
Net Realized and Unrealized Gain/Loss.....	.14	(.55)	(1.10)	(.42)	-0-
Total from Investment Operations.....	.60	(.06)	(.31)	.39	.77
Less:					
Distributions from Net Investment Income.....	.44	.51	.83	.81	.76
Distributions from Net Realized Gain.....	-0-	-0-	-0-	.01	-0-
Total Distributions.....	.44	.51	.83	.82	.76
Net Asset Value, End of the Period.....	\$ 8.10	\$ 7.94	\$ 8.51	\$ 9.65	\$ 10.08
Common Share Market Price at End of the Period.....	\$ 7.84	\$ 6.67	\$ 7.79	\$ 8.75	\$ 9.56

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Total Return(b) .....	25.06%	-8.05%	-1.42%	.61%	2.98%
Net Assets at End of the Period (In millions).....	\$1,458.6	\$1,430.0	\$1,532.7	\$1,736.5	\$1,815.1
Ratio of Operating Expenses to Average Net Assets excluding Borrowings*.....	1.59%	1.48%	1.63%	1.75%	1.66%
Ratio of Interest Expense to Average Net Assets excluding Borrowings.....	.62%	.53%	2.15%	2.49%	2.37%
Ratio of Gross Expense to Average Net Assets excluding Borrowings*.....	2.21%	2.01%	3.78%	4.24%	4.03%
Ratio of Net Investment Income to Average Net Assets excluding Borrowings*.....	5.98%	6.02%	8.90%	8.19%	7.72%
Portfolio Turnover(c).....	78%	65%	55%	57%	28%
Supplemental Ratios:					
Ratio of Operating Expenses to Average Net Assets including Borrowings*.....	1.19%	1.22%	1.20%	1.24%	1.18%
Ratio of Interest Expense to Average Net Assets including Borrowings.....	.46%	.44%	1.58%	1.77%	1.67%
Ratio of Gross Expense to Average Net Assets including Borrowings*.....	1.65%	1.66%	2.78%	3.01%	2.85%
Ratio of Net Investment Income to Average Net Assets including Borrowings*.....	4.47%	4.95%	6.55%	5.83%	5.46%
Senior Indebtedness:					
Total Borrowing Outstanding (In thousands).....	\$401,000	\$370,159	\$375,000	\$700,000	\$800,000
Asset Coverage Per \$1,000 Unit of Senior Indebtedness(d).....	4,637	4,863	5,087	3,481	3,269

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\* If certain expenses had not been voluntarily assumed by the Adviser, total return would have been lower and the Ratio of Operating Expenses to Average Net Assets and the Ratio of Net Investment Income to Average Net Assets would have been 1.21% and 6.90% for the period ended July 31, 1998.

\*\* Non-Annualized

(a) Net asset value on June 24, 1998 of \$10.00 is adjusted for common share offering costs of \$.013.

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

(c) Calculation includes the proceeds from principal repayments and sales of

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variable rate senior loan interest.

- (d) Calculated by subtracting the Fund's total liabilities (not including the Borrowings) from the Fund's total assets and dividing by the total number of senior indebtedness units, where one unit equals \$1,000 of senior indebtedness.
- (e) As required, effective August 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on fixed income securities. The effect of this change for the year ended July 31, 2002 was to decrease the ratio of net investment income to average net asset applicable to common shares by .01%. Net investment income per share and net realized and unrealized gains and losses per share were unaffected by the adjustments. Per share, ratios and supplemental data for the periods prior to July 31, 2002 have not been restated to reflect this change in presentation.

NA--Not Applicable

### SENIOR SECURITIES

FISCAL YEAR ENDED	AMOUNT OF DEBT OUTSTANDING AT END OF YEAR	AVERAGE DAILY BALANCE OF DEBT OUTSTANDING DURING YEAR	ASSET COVERAGE PER \$1,000 OF INDEBTEDNESS	AVERAGE DAILY BALANCE OF SHARES OUTSTANDING DURING YEAR	AVERAGE DAILY BALANCE OF SHARES OUTSTANDING DURING YEAR
-----	-----	-----	-----	-----	-----
	(IN THOUSANDS)	(IN THOUSANDS)		(IN THOUSANDS)	
July 31, 2000.....	\$737,000	\$718,075	\$3,481	180,010	
July 31, 2001.....	375,000	578,000	5,087	180,010	
July 31, 2002.....	370,159	334,000	4,863	180,010	
July 31, 2003.....	401,000	472,687	4,637	180,010	

### THE FUND

The Fund is a non-diversified, closed-end management investment company. The Fund was organized as a Massachusetts business trust on April 8, 1998, and is registered under the 1940 Act. The Fund commenced investment operations on June 23, 1998 upon the closing of an initial public offering of its common shares of beneficial interest. As of December 31, 2003, the Fund had total assets of approximately \$1.5 billion and net assets of approximately \$2.2 billion. On December 31, 2003, the Fund had outstanding 180,010,000 common shares. The Fund's principal office is located at 1 Parkview Plaza, PO Box 5555, Oakbrook Terrace, Illinois 60181-5555, and its telephone number is (630) 684-6000.

### USE OF PROCEEDS

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The estimated net proceeds of this offering will be \$693,150,000 after payment of offering expenses and the sales load. The Fund will use all of the net proceeds of the offering to (i) pay down amounts borrowed by the Fund under its commercial paper program by approximately \$640 million and (ii) invest the remaining proceeds in accordance with the Fund's investment objective and policies as soon as practicable, but in no event, under normal market conditions, later than three months after the receipt thereof. Pending such investment, the proceeds may be invested in high-quality, short-term securities.

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### CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of December 31, 2003, and as adjusted to give effect to the issuance of the Preferred Shares offered hereby and repayments of the commercial paper program (including estimated offering expenses and sales load of \$6,850,000).

	AS OF DECEMBER 31, 2003	
	ACTUAL	AS ADJUSTED
Shareholders' equity		
Preferred Shares, par value \$0.01 per share (no shares issued; shares issued, as adjusted, at \$25,000 per share liquidation preference).....	\$ --	\$ 700,000,000
Common shares, par value \$0.01 per share, 180,010,000 shares outstanding.....	\$ 1,800,100	\$ 1,800,100
Capital in excess of par value.....	\$1,795,669,290	\$1,788,819,290
Undistributed net investment income.....	\$ 3,177,328	\$ 3,177,328
Net accumulated realized gain (loss) from investment transactions.....	\$ (253,937,719)	\$ (253,937,719)
Net unrealized depreciation of investments.....	\$ (24,602,696)	\$ (24,602,696)
Total net assets less liquidation value of Preferred Shares.....	\$1,522,106,303	\$1,515,256,303

### PORTFOLIO COMPOSITION

The following tables set forth the unaudited portfolio characteristics, top ten Senior Loan industries as a percentage of assets, the top ten Senior Loans as a percentage of assets and the ratings of Senior Loans held by the Fund, in each case as of December 31, 2003.

#### PORTFOLIO CHARACTERISTICS

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Net assets.....	\$1,522,106,303
Total assets.....	\$2,190,055,917
Assets invested in Senior Loans and other loans.....	\$2,026,119,717
Average amount outstanding per loan.....	\$ 6,720,000
Total number of industries.....	46
Weighted average days to next interest rate reset.....	56.9
Assets invested in other debt obligations.....	\$ 29,967,375

### TOP 10 SENIOR LOAN INDUSTRIES AS A PERCENTAGE OF ASSETS ON DECEMBER 31, 2003

	DECEMBER 31, 2003
	-----
Beverage, Food and Tobacco.....	7.88%
Printing and Publishing.....	7.81%
Medical Products/Supplies.....	6.44%
Broadcasting -- Cable.....	6.39%
Hotel/Motel/Inn/Gaming.....	5.19%
Health Care Providers.....	4.64%
Chemicals, Plastics & Rubber.....	4.58%
Automotive.....	3.64%
Leisure and Entertainment.....	3.56%
Telecommunications-Wireless.....	3.53%

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### TOP 10 SENIOR LOANS AS A PERCENTAGE OF ASSETS ON DECEMBER 31, 2003

Allied Waste North America.....	2.4%
Rite Aid Corporation.....	2.0
Charter Communications.....	1.9
Community Health Systems.....	1.7
Davita, Inc.....	1.6
Aladdin Gaming LLC.....	1.5
Federal-Mogul Corporation.....	1.4
Ispat Inland, L.P.....	1.3
Dex Media West LLC.....	1.2
Aurora Foods, Inc.....	1.2

### SECURITIES RATINGS

The table below reflects the ratings of Senior Loans only, representing

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approximately 90% of the Fund's total assets as of December 31, 2003.

S&P*	MOODY'S*	NUMBER OF ISSUES	VALUE  (IN THOUSANDS)	PERCENTAGE OF TOTAL ASSETS
----	-----	-----	-----	-----
AAA	Aaa	0	\$ 0	0%
AA	Aa	0	0	0
A	A	0	0	0
BBB	Baa	11	71,880	3.5
BB	Ba	139	846,777	41.2
B	B	134	639,294	31.1
CCC	Caa	13	30,551	1.5
Unrated		110	467,585	22.7
		---	-----	-----
Total		407	\$2,056,087	100.0%

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\* Ratings: Using the higher of S&P's or Moody's ratings. S&P rating categories may be modified further by a plus (+) or minus (-) in the AA, A, BBB, BB, B and CCC ratings. Moody's rating categories may be modified further by a 1, 2, or 3 in the Aa, A, Baa, Ba, B and Caa ratings.

+ Senior Loans that are not rated by S&P or Moody's. Such Senior Loans may be rated by nationally recognized statistical rating organizations other than S&P or Moody's, or may not be rated by any such organization. With respect to the percentage of the Fund's assets invested in such Senior Loans, the Adviser believes that these are of comparable quality to rated Senior Loans in which the Fund may invest. This determination is based on the Adviser's own internal evaluation and does not necessarily reflect how such Senior Loans would be rated by S&P or Moody's if either were to rate the securities.

### INVESTMENT OBJECTIVE AND INVESTMENT POLICIES

#### INVESTMENT OBJECTIVE

The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital.

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#### INVESTMENT POLICIES

The Fund seeks to achieve its objective by investing primarily in a professionally managed portfolio of Senior Loans to Borrowers which operate in a variety of industries and geographical regions (including domestic and foreign entities). Although the Fund's net asset value per common share ("NAV") will



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vary, the Fund's policy of acquiring interests in floating or variable rate Senior Loans is expected to minimize fluctuations in the Fund's NAV as a result of changes in interest rates. No assurance can be given that the Fund will achieve its investment objective.

Senior Loans generally are arranged through private negotiations between a Borrower and Lenders represented in each case by one or more such Lenders acting as Agent of the several Lenders. On behalf of the several Lenders, the Agent, which is frequently the commercial bank or other entity that originates the Senior Loan and the person that invites other parties to join the lending syndicate, will be primarily responsible for negotiating the Loan Agreement(s) that establish the relative terms, conditions and rights of the Borrower and the several Lenders. In larger transactions it is common to have several Agents; however, generally only one such Agent has primary responsibility for documentation and administration of the Senior Loan. Agents are typically paid a fee or fees by the Borrower for their services.

The Fund may invest in Participations in Senior Loans, may purchase Assignments of portions of Senior Loans from third parties and may act as one of the group of Original Lenders. Under normal market conditions, at least 80% of the Fund's total assets are invested in Senior Loans (either as an Original Lender or as a purchaser of an Assignment or Participation) of domestic Borrowers or foreign Borrowers (so long as Senior Loans to foreign Borrowers are U.S. dollar denominated and payments of interest and repayments of principal pursuant to such Senior Loans are required to be made in U.S. dollars).

It is anticipated that the proceeds of the Senior Loans in which the Fund will acquire interests primarily will be used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, and, to a lesser extent, to finance internal growth and for other corporate purposes of Borrowers. Senior Loans have the most senior position in a Borrower's capital structure, although some Senior Loans may hold an equal ranking with other senior securities of the Borrower. The capital structure of a Borrower may include Senior Loans, senior and junior subordinated debt (which may include "junk bonds"), preferred stock and common stock issued by the Borrower, typically in descending order of seniority with respect to claims on the Borrower's assets. Senior Loans generally are secured by specific collateral, which may include guarantees. Such guaranteed Senior Loans may be guaranteed by, or fully secured by assets of, shareholders, owners or affiliated entities of the Borrower, even if the Senior Loans are not otherwise collateralized by assets of the Borrower. The Fund may invest up to 20% of its total assets in Senior Loans which are not secured by any collateral. Senior Loans that are not secured by specific collateral generally pose a greater risk of non-payment of interest or loss of principal than do collateralized Senior Loans.

As discussed below, the Fund may also acquire warrants, equity securities and junior debt securities issued by a Borrower or its affiliates as part of a package of investments in the Borrower or its affiliates. Warrants, equity securities and junior debt securities will not be treated as Senior Loans and thus assets invested in such securities will not count toward the 80% of the Fund's total assets that normally will be invested in Senior Loans. The Fund will acquire such interests in warrants, equity securities and junior debt securities only as an incident to the intended purchase of interests in Senior Loans. In order to borrow money pursuant to collateralized Senior Loans, a Borrower will frequently, for the term of the Senior Loan, pledge as collateral assets, including but not limited to trademarks, accounts receivable, inventory,

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buildings, real estate, franchises and common and preferred stock in its subsidiaries. In addition, in the case of some Senior Loans, there may be additional collateral pledged in the form of guarantees or other credit support by and/or securities of affiliates of the Borrowers. In certain instances, a collateralized Senior Loan may be secured only by stock in the Borrower or its subsidiaries. Collateral may consist of assets that may not be readily liquidated, and there is no assurance that the liquidation of such assets would satisfy fully a Borrower's obligations under a Senior Loan.

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Loan Agreements may include various restrictive covenants designed to limit the activities of the Borrower in an effort to protect the right of the Lenders to receive timely payments of interest on and repayment of principal of the Senior Loans. Restrictive covenants may include mandatory prepayment provisions arising from excess cash flows and typically include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. Breach of such covenants, if not waived by the Lenders, is generally an event of default under the applicable Loan Agreement and may give the Lenders the right to accelerate principal and interest payments. The Adviser will consider the terms of such restrictive covenants in deciding whether to invest in Senior Loans for the Fund's portfolio. When the Fund holds a Participation in a Senior Loan, it may not have the right to vote to waive enforcement of any restrictive covenant breached by a Borrower. Lenders voting in connection with a potential waiver of a restrictive covenant may have interests different from those of the Fund, and such Lenders may not consider the interests of the Fund in connection with their votes.

Senior Loans in which the Fund invests generally pay interest at rates which are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates generally are the Prime Rate, LIBOR, the CD rate or other base lending rates used by commercial lenders. The Prime Rate quoted by a major U.S. bank is generally the interest rate at which such bank is willing to lend U.S. dollars to its most creditworthy borrowers, although it may not be the bank's lowest available rate. LIBOR, as provided for in Loan Agreements, is generally an average of the interest rates quoted by several designated banks as the rates at which such banks would offer to pay interest to major financial institutional depositors in the London interbank market on U.S. dollar denominated deposits for a specified period of time. The CD rate, as provided for in Loan Agreements, is generally the average rate paid on large certificates of deposit traded in the secondary market.

The Fund may invest in the Senior Loans of non-U.S. issuers. Investment in the Senior Loans of non-U.S. issuers involves special risks, including that non-U.S. issuers may be subject to less rigorous accounting and reporting requirements than U.S. issuers, less rigorous regulatory requirements, differing legal systems and laws relating to creditors' rights, the potential inability to enforce legal judgments and foreclose on collateral, possible restrictions on expatriation and repatriation of capital and the potential for political, social and economic adversity.

The Fund is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio. The Fund's assets invested in Senior Loans

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generally consist of Senior Loans with stated maturities of between three and ten years, and with rates of interest which are redetermined either daily, monthly, quarterly or semi-annually; provided, however, that the Fund may invest up to 5% of its total assets in Senior Loans which permit the Borrower to select an interest rate redetermination period of up to one year. Investment in Senior Loans with longer interest rate redetermination periods may increase fluctuations in the Fund's NAV as a result of changes in interest rates. The Senior Loans in the Fund's portfolio will at all times have a dollar-weighted average time until the next interest rate redetermination of 90 days or less. As a result, as short-term interest rates increase, interest payable to the Fund from its investments in Senior Loans should increase, and as short-term interest rates decrease, interest payable to the Fund from its investments in Senior Loans should decrease. The amount of time required to pass before the Fund will realize the effects of changing short-term market interest rates on its portfolio will vary with the dollar-weighted average time until the next interest rate redetermination on the Senior Loans in the Fund's portfolio. The Fund may utilize certain investment practices to, among other things, shorten the effective interest rate redetermination period of Senior Loans in its portfolio. In such event, the Fund will consider such shortened period to be the interest rate redetermination period of the Senior Loan; provided, however, that the Fund will not invest in Senior Loans which permit the Borrower to select an interest rate redetermination period in excess of one year. Because most Senior Loans in the Fund's portfolio will be subject to mandatory and/or optional prepayment and there may be significant economic incentives for a Borrower to prepay its loans, prepayments of Senior Loans in the Fund's portfolio may occur. Accordingly, the actual remaining maturity of the Fund's portfolio invested in Senior Loans may vary substantially from the average stated maturity of the Senior Loans held in the Fund's portfolio. As a result of expected prepayments from time to time of Senior Loans in the Fund's portfolio, the Fund

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estimates that the actual maturities of Senior Loans held in its portfolio generally range between 18 and 24 months.

When interest rates decline, the value of a portfolio invested in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a portfolio invested in fixed-rate obligations can be expected to decline. Although the Fund's NAV will vary, the Fund's management expects the Fund's policy of acquiring interests in floating or variable rate Senior Loans to minimize fluctuations in NAV as a result of changes in interest rates. Accordingly, the Fund's management expects the value of the Fund's portfolio to fluctuate less than a portfolio of fixed-rate, longer term obligations as a result of interest rate changes. However, changes in prevailing interest rates can be expected to cause some fluctuation in the Fund's NAV. In addition to changes in interest rates, changes in the credit quality of Borrowers will also affect the Fund's NAV. Further, a serious deterioration in the credit quality of a Borrower could cause a prolonged or permanent decrease in the Fund's NAV. Fluctuations in NAV may be magnified as a result of the Fund's use of leverage.

The Fund may purchase and retain in its portfolio Senior Loan interests in Borrowers which have filed for protection under the federal bankruptcy laws or have had an involuntary bankruptcy petition filed against them by their creditors. The values of such Senior Loan interests, if any, will reflect, among other things, of the likelihood that the Fund ultimately will receive full repayment of the principal amount of such Senior Loan interests, the likely

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duration, if any, of a lapse in the scheduled repayment of principal and prevailing interest rates. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Fund may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan interest. Depending upon, among other things, the Adviser's evaluation of the potential value of such securities in relation to the price that could be obtained by the Fund at any given time upon sale thereof, the Fund may determine to hold such securities in its portfolio. Any equity securities and junior debt securities held by the Fund will not be treated as Senior Loans and thus will not count toward the 80% of the Fund's total assets that normally will be invested in Senior Loans.

Senior Loans historically have not been rated by nationally recognized statistical rating organizations. Because of the senior capital structure position of Senior Loans and the collateralized or guaranteed nature of most Senior Loans, the Fund and the Adviser believe that ratings of other securities issued by a Borrower do not necessarily reflect adequately the relative quality of a Borrower's Senior Loans. Therefore, although the Adviser may consider such ratings in determining whether to invest in a particular Senior Loan, the Adviser is not required to consider such ratings and such ratings will not be the determinative factor in the Adviser's analysis. The Fund may invest a substantial portion of its assets in Senior Loans, the Borrowers with respect to which have outstanding debt securities which are rated below investment grade by a nationally recognized statistical rating organization or are unrated but determined by the Adviser to be of comparable quality to such securities. Debt securities rated below investment grade or unrated but of comparable quality commonly are referred to as "junk bonds." The Fund will invest only in those Senior Loans with respect to which the Borrower, in the opinion of the Adviser, demonstrates one or more of the following characteristics: sufficient cash flow to service debt; adequate liquidity; successful operating history; strong competitive position; experienced management; and, with respect to collateralized Senior Loans, collateral coverage that equals or exceeds the outstanding principal amount of the Senior Loan. In addition, the Adviser will consider, and may rely in part, on the analyses performed by the Agent and other Lenders, including such persons' determinations with respect to collateral securing a Senior Loan.

The Fund may invest up to 100% of its assets in Participations. The selling Lenders and other persons interpositioned between such Lenders and the Fund with respect to such Participations will likely conduct their principal business activities in the banking, finance and financial services industries. Although, as discussed below, the Fund has taken measures which it believes reduce its exposure to any risks incident to such policy, the Fund may be more susceptible than an investment company without such a policy to any single economic, political or regulatory occurrence affecting such industries. Persons engaged in such industries may be more susceptible than are persons engaged in some other industry to, among other

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things, fluctuations in interest rates, changes in the Federal Open Market Committee's monetary policy, governmental regulations concerning such industries and concerning capital raising activities generally and fluctuations in the financial markets generally.

Participations by the Fund in a Lender's portion of a Senior Loan typically will result in the Fund having a contractual relationship only with such Lender,

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not with the Borrower. As a result, the Fund may have the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon receipt by such Lender of such payments from the Borrower. In connection with purchasing Participations, the Fund generally will have no right to enforce compliance by the Borrower with the terms of the Loan Agreement, nor any rights with respect to any funds acquired by other Lenders through set-off against the Borrower, and the Fund may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the Participation. As a result, the Fund may assume the credit risk of both the Borrower and the Lender selling the Participation. In the event of the insolvency of the Lender selling a Participation, the Fund may be treated as a general creditor of such Lender. The Fund has taken the following measures in an effort to minimize such risks. The Fund will only acquire Participations if the Lender selling the Participation, and any other persons interpositioned between the Fund and the Lender, (i) at the time of investment has outstanding debt or deposit obligations rated investment grade (BBB or A-3 or higher by S&P or Baa or P-3 or higher by Moody's) or determined by the Adviser to be of comparable quality and (ii) has entered into an agreement which provides for the holding of assets in safekeeping for, or the prompt disbursement of assets to, the Fund. Long-term debt rated BBB by S&P is regarded by S&P as having adequate capacity to pay interest and repay principal, and debt rated Baa by Moody's is regarded by Moody's as a medium grade obligation, i.e., it is neither highly protected nor poorly secured. Commercial paper rated A-3 by S&P indicates that S&P believes such obligations exhibit adequate protection parameters but that 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, and issues of commercial paper rated P-3 by Moody's are considered by Moody's to have an acceptable ability for repayment of short-term debt obligations but the effect of industry characteristics and market compositions may be more pronounced. The Fund ordinarily will purchase a Participation only if, at the time of such purchase, the Fund believes that the party from whom it is purchasing such Participation is retaining an interest in the underlying Senior Loan. In the event that the Fund does not so believe, it will only purchase such a Participation if, in addition to the requirements set forth above, the party from whom the Fund is purchasing such Participation (i) is a bank, a member of a national securities exchange or other entity designated in the 1940 Act, as qualified to serve as a custodian for a registered investment company and (ii) has been approved as a custodian by the Board of Trustees of the Fund (a "Designated Custodian").

The Fund may also purchase Assignments from Lenders. The purchaser of an Assignment typically succeeds to all the rights and obligations under the Loan Agreement of the assigning Lender and becomes a Lender under the Loan Agreement with the same rights and obligations as the assigning Lender. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an Assignment may differ from, and be more limited than, those held by the assigning Lender.

When the Fund is an Original Lender originating a Senior Loan it may share in a fee paid to the Original Lenders. The Fund will never act as the Agent or principal negotiator or administrator of a Senior Loan. When the Fund is a Lender, it will have a direct contractual relationship with the Borrower, may enforce compliance by the Borrower with the terms of the Loan Agreement and may have rights with respect to any funds acquired by other Lenders through set-off. Lenders also have full voting and consent rights under the applicable Loan Agreement. Action subject to Lender vote or consent generally requires the vote or consent of the holders of some specified percentage of the outstanding principal amount of the Senior Loan. Certain decisions, such as reducing the amount or increasing the time for payment of interest on or repayment of principal of a Senior Loan, or releasing collateral therefor, frequently require

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the unanimous vote or consent of all Lenders affected.

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The Fund will purchase an Assignment or act as a Lender with respect to a syndicated Senior Loan only where the Agent with respect to such Senior Loan at the time of investment has outstanding debt or deposit obligations rated investment grade (BBB or A-3 or higher by S&P or Baa or P-3 or higher by Moody's) or determined by the Adviser to be of comparable quality. Further, the Fund will not purchase interests in Senior Loans unless such Agent, Lender or interpositioned person has entered into an agreement which provides for the holding of assets in safekeeping for, or the prompt disbursement of assets to, the Fund.

Loan Agreements typically provide for the termination of the Agent's agency status in the event that it fails to act as required under the relevant Loan Agreement, becomes insolvent, enters Federal Deposit Insurance Corporation ("FDIC") receivership or, if not FDIC insured, enters into bankruptcy. Should such an Agent, Lender or assignor with respect to an Assignment interpositioned between the Fund and the Borrower become insolvent or enter FDIC receivership or bankruptcy, any interest in the Senior Loan of such person and any loan payment held by such person for the benefit of the Fund should not be included in such person's estate. If, however, any such amount were included in such person's estate, the Fund would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In such event, the Fund could experience a decrease in NAV.

The Fund may be required to pay and may receive various fees and commissions in connection with purchasing, selling and holding interests in Senior Loans. The fees normally paid by Borrowers may include three types: facility fees, commitment fees and prepayment penalties. Facility fees are paid to Lenders upon origination of a Senior Loan. Commitment fees are paid to Lenders on an ongoing basis based upon the undrawn portion committed by the Lenders of the underlying Senior Loan. Lenders may receive prepayment penalties when a Borrower prepays all or part of a Senior Loan. The Fund will receive these fees directly from the Borrower if the Fund is an Original Lender, or, in the case of commitment fees and prepayment penalties, if the Fund acquires an interest in a Senior Loan by way of Assignment. Whether or not the Fund receives a facility fee from the Lender in the case of an Assignment, or any fees in the case of a Participation, depends upon negotiations between the Fund and the Lender selling such interests. When the Fund is an assignee, it may be required to pay a fee, or forgo a portion of interest and any fees payable to it, to the Lender selling the Assignment. Occasionally, the assignor will pay a fee to the assignee based on the portion of the principal amount of the Senior Loan which is being assigned. A Lender selling a Participation to the Fund may deduct a portion of the interest and any fees payable to the Fund as an administrative fee prior to payment thereof to the Fund. The Fund may be required to pay over or pass along to a purchaser of an interest in a Senior Loan from the Fund a portion of any fees that the Fund would otherwise be entitled to.

Pursuant to the relevant Loan Agreement, a Borrower may be required in certain circumstances, and may have the option at any time, to prepay the principal amount of a Senior Loan, often without incurring a prepayment penalty. Because the interest rates on Senior Loans are periodically redetermined at relatively short intervals, the Fund and the Adviser believe that the prepayment of, and subsequent reinvestment by the Fund in, Senior Loans will not have a materially adverse impact on the yield on the Fund's portfolio and may have a beneficial impact on income due to receipt of prepayment penalties, if any, and any facility fees earned in connection with reinvestment.

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A Lender may have certain obligations pursuant to a Loan Agreement, which may include the obligation to make additional loans in certain circumstances. The Fund currently intends to reserve against such contingent obligations by segregating cash, liquid securities and/or liquid Senior Loans sufficient to cover such commitments. The Fund will not purchase interests in Senior Loans that would require the Fund to make any such additional loans if such additional loan commitments in the aggregate would exceed 20% of the Fund's total assets or would cause the Fund to fail to meet the diversification requirements set forth under the heading "Investment Restrictions" in the SAI.

Under normal market conditions, the Fund may invest up to 20% of its total assets (including assets maintained by the Fund as a reserve against any additional loan commitments) in (i) high quality, short-term debt securities with remaining maturities of one year or less and (ii) warrants, equity securities and

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junior debt securities acquired in connection with the Fund's investments in Senior Loans. Such high quality, short-term securities may include commercial paper rated at least in the top two rating categories of either S&P or Moody's, or unrated commercial paper considered by the Adviser to be of similar quality, interests in short-term loans of Borrowers having short-term debt obligations rated or a short-term credit rating at least in such top two rating categories or having no such rating but determined by the Adviser to be of comparable quality, certificates of deposit and bankers' acceptances and securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Such high quality, short-term securities may pay interest at rates which are periodically redetermined or may pay interest at fixed rates. If the Adviser determines that market conditions temporarily warrant a defensive investment policy, the Fund may invest, subject to its ability to liquidate its relatively illiquid portfolio of Senior Loans, up to 100% of its assets in cash and such high quality, short-term debt securities. The Fund will acquire such warrants, equity and junior debt securities only as an incident to the purchase or intended purchase of interests in collateralized Senior Loans. Although the Fund generally will acquire interests in warrants, equity and junior debt securities only when the Adviser believes that the relative value being given by the Fund in exchange for such interests is substantially outweighed by the potential value of such instruments, investment in warrants, equity and junior debt securities entail certain risks in addition to those associated with investments in Senior Loans. Warrants and equity securities have a subordinate claim on a Borrower's assets as compared with debt securities, and junior debt securities have a subordinate claim on such assets as compared with Senior Loans. As such, the values of warrants and equity securities generally are more dependent on the financial condition of the Borrower and less dependent on fluctuations in interest rates than are the values of many debt securities. The values of warrants, equity securities and junior debt securities may be more volatile than those of Senior Loans.

The Fund also may invest up to 5% of its total assets in structured notes with rates of return determined by reference to the total rate of return on one or more loans referenced in such notes. The rate of return on the structured note may be determined by applying a multiplier to the rate of total return on the referenced loan or loans. Application of a multiplier is comparable to the

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use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss; as a result, a relatively small decline in the value of a referenced note could result in a relatively large loss in the value of a structured note. Structured notes will be treated as Senior Loans for purposes of the Fund's policy of normally investing at least 80% of its assets in Senior Loans.

### USE OF LEVERAGE

The Fund uses financial leverage for investment purposes. The Fund has authority to do so through borrowings, including the issuance of debt securities, or the issuance of preferred shares, or through the use of certain other transactions which have the effect of financial leverage.

Including the proceeds of the offering of the Preferred Shares, it is currently anticipated that the amount of leverage will represent approximately 32% (and in no event will it exceed 50%) of the Fund's total assets. In addition to issuing Preferred Shares, the Fund borrows money through a commercial paper program. The Fund's obligations under the commercial paper program are senior to the Preferred Shares. Payments to Preferred Shareholders in liquidation or otherwise will be subject to the prior payment of all outstanding indebtedness, including the Fund's obligations under the commercial paper program. There can be no assurance that the commercial paper will remain outstanding or that the Fund will continue such borrowing.

The Fund currently has a fundamental investment restriction that the Fund may not issue senior securities (including borrowing money or entering into reverse repurchase agreements) in excess of 33 1/3% of its total assets (including the amount of senior securities issued but excluding any liabilities and indebtedness not constituting senior securities), except that the Fund may borrow up to an additional 5% of its total assets for temporary purposes, or pledge its assets other than to secure such issuance or in connection with hedging transactions, when-issued and delayed delivery transactions and similar investment strategies. The Fund has filed a proxy statement seeking a shareholder vote to amend the aforementioned

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investment restriction regarding the Fund's use of financial leverage to allow the Fund to utilize financial leverage to the maximum extent allowable under the 1940 Act (see the 1940 Act limitations described below). Until the Fund receives shareholder approval to amend its fundamental investment restriction regarding the use of financial leverage, the Fund may issue senior securities (which includes the Preferred Shares and any borrowing under its existing commercial paper program) up to the current limitation (i.e. 33% of its total assets) and, upon receiving such approval, may increase its use of senior securities (by maintaining the Preferred Shares and increasing borrowing under the commercial paper program) up to the leverage limitations under the 1940 Act. See "Description of Commercial Paper Program." The Fund expects to hold a shareholder meeting to vote on this proposal on April 8, 2004.

Under the 1940 Act, the Fund is not permitted to incur indebtedness unless



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immediately after such incurrence the Fund has an asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness (i.e., such indebtedness may not exceed 33 1/3% of the Fund's total assets). Additionally, under the 1940 Act, the Fund may not declare any dividend or other distribution upon any class of its capital shares, or purchase any such capital shares, unless the aggregate indebtedness of the Fund has, at the time of the declaration of any such dividend or distribution or at the time of any such purchase, an asset coverage of at least 300% after deducting the amount of such dividend, distribution, or purchase price, as the case may be. Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the net asset value of the Fund's portfolio is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the Fund's total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the net asset value of the Fund's portfolio (determined after deducting the amount of such dividend or other distribution) is at least 200% of such liquidation value.

The use of financial leverage creates the opportunity for increased net income and NAV appreciation for the Fund's common shares. The concept of leveraging is based on the premise that the return on the underlying portfolio assets (including assets obtained from the leverage) will exceed the costs related to such leverage. As the difference between the return on the underlying assets and costs of leverage narrow, the return provided by leverage is reduced and a decline in the value of portfolio assets may completely offset any benefits of leverage. Leverage creates risks for common shareholders, including the likelihood of greater volatility of NAV and market price of the common shares and the possibility that fluctuations in interest rates on borrowings and short-term debt or in the dividend rates on any preferred shares may affect the return to common shareholders. To the extent the income or capital growth derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return will be greater than if leverage had not been used. Conversely, if the income or capital growth from the securities purchased with such funds is not sufficient to cover the cost of leverage, the Fund's return will be less than if leverage had not been used, and therefore the amount available for distribution to common shareholders as dividends and other distributions will be reduced. The Fund generally will not utilize financial leverage if it anticipates that it would result in a lower return to common shareholders over time. As discussed under "Management of the Fund," the fees paid to the Adviser and the Administrator are calculated on the basis of the Fund's average daily managed assets, including proceeds from borrowings for leverage and the issuance of preferred shares, and thus those fees will be higher when leverage is utilized.

Certain types of borrowings, including borrowings under the Fund's commercial paper program, may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage and portfolio composition requirements. The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies which may issue ratings for corporate debt securities or any additional series of preferred shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Adviser from managing the Fund's portfolio in accordance with the Fund's investment objective and policies. See "Description of Commercial Paper Program" and "Description of Preferred Shares."

The Fund's willingness to borrow money and issue new securities for investment purposes, and the amount the Fund will borrow or issue, will depend on many factors, the most important of which are investment outlook, market conditions and interest rates. Successful use of a leveraging strategy depends on the Adviser's ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

The amount of outstanding leverage may vary with prevailing market or economic conditions.

#### OTHER INVESTMENT PRACTICES

In connection with the investment objective and policies described above, the Fund may engage in interest rate and other hedging transactions, lend portfolio holdings, purchase and sell interests in Senior Loans and other portfolio debt securities on a "when issued" or "delayed delivery" basis and enter into repurchase and reverse repurchase agreements. These investment practices involve certain special risk considerations. The Adviser may use some or all of the following investment practices when, in the opinion of the Adviser, their use is appropriate. Although the Adviser believes that these investment practices may further the Fund's investment objective, no assurance can be given that these investment practices will achieve this result.

Interest Rate and Other Hedging Transactions. The Fund may enter into various interest rate hedging and risk management transactions. Certain of these interest rate hedging and risk management transactions may be considered to involve derivative instruments. A derivative is a financial instrument whose performance is derived at least in part from the performance of an underlying index, security or asset. The values of certain derivatives can be affected dramatically by even small market movements, sometimes in ways that are difficult to predict. There are many different types of derivatives, with many different uses. The Fund expects to enter into these transactions primarily to seek to preserve a return on a particular investment or portion of its portfolio, and may also enter into such transactions to seek to protect against decreases in the anticipated rate of return on floating or variable rate financial instruments the Fund owns or anticipates purchasing at a later date, or for other risk management strategies such as managing the effective dollar-weighted average duration of the Fund's portfolio. In addition, the Fund may also engage in hedging transactions to seek to protect the value of its portfolio against declines in NAV resulting from changes in interest rates or other market changes. The Fund does not intend to engage in such transactions to enhance the yield on its portfolio or to increase income available for distributions. Market conditions will determine whether and in what circumstances the Fund would employ any of the hedging and risk management techniques described below. The Fund will not engage in any of the transactions for speculative purposes and will use them only as a means to hedge or manage the risks associated with assets held in, or anticipated to be purchased for, the Fund's portfolio or obligations incurred by the Fund. The successful utilization of hedging and risk management transactions requires skills different from those needed in the selection of the Fund's portfolio securities. The Fund believes that the Adviser possesses the skills necessary for the successful utilization of hedging and risk management transactions. The Fund

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will incur brokerage and other costs in connection with its hedging transactions.

The Fund may enter into interest rate swaps or purchase or sell interest rate caps or floors. The Fund will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by the Fund with another party of their respective obligations to pay or receive interest, e.g., an exchange of an obligation to make floating rate payments for an obligation to make fixed rate payments. For example, the Fund may seek to shorten the effective interest rate redetermination period of a Senior Loan in its portfolio the Borrower of which has selected an interest rate redetermination period of one year. The Fund could exchange the Borrower's obligation to make fixed rate payments for one year for an obligation to make payments that readjust monthly. In such event, the Fund would consider the interest rate redetermination period of such Senior Loan to be the shorter period.

The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest at the difference of the index and the predetermined rate on a notional principal amount (the reference amount with respect to which

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interest obligations are determined although no actual exchange of principal occurs) from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest at the difference of the index and the predetermined rate on a notional principal amount from the party selling such interest rate floor. The Fund will not enter into swaps, caps or floors if, on a net basis, the aggregate notional principal amount with respect to such agreements exceeds the net assets of the Fund.

In circumstances in which the Adviser anticipates that interest rates will decline, the Fund might, for example, enter into an interest rate swap as the floating rate payor or, alternatively, purchase an interest rate floor. In the case of purchasing an interest rate floor, if interest rates declined below the floor rate, the Fund would receive payments from its counterparty which would wholly or partially offset the decrease in the payments it would receive in respect of the portfolio assets being hedged. In the case where the Fund purchases an interest rate swap, if the floating rate payments fell below the level of the fixed rate payment set in the swap agreement, the Fund's counterparty would pay the Fund amounts equal to interest computed at the difference between the fixed and floating rates over the notional principal amount. Such payments would offset or partially offset the decrease in the payments the Fund would receive in respect of floating rate portfolio assets being hedged.

The successful use of swaps, caps and floors to preserve the rate of return on a portfolio of financial instruments depends on the Adviser's ability to predict correctly the direction and extent of movements in interest rates. Although the Fund believes that use of the hedging and risk management techniques described above will benefit the Fund, if the Adviser's judgment about the direction or extent of the movement in interest rates is incorrect, the Fund's overall performance would be worse than if it had not entered into any such transactions. For example, if the Fund had purchased an interest rate swap or an interest rate floor to hedge against its expectation that interest rates would decline but instead interest rates rose, the Fund would lose part or all of the benefit of the increased payments it would receive as a result of the

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rising interest rates because it would have to pay amounts to its counterparty under the swap agreement or would have paid the purchase price of the interest rate floor.

Inasmuch as these hedging transactions are entered into for good-faith risk management purposes, the Adviser and the Fund believe such obligations do not constitute senior securities. The Fund will usually enter into interest rate swaps on a net basis, i.e., where the two parties make net payments with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The net amount of the excess, if any, of the Fund's obligations over its entitlements with respect to each interest rate swap will be accrued and the Fund will segregate an amount of cash or liquid assets having an aggregate NAV at least equal to the accrued excess. If the Fund enters into a swap on other than a net basis, the Fund will segregate an amount of cash or liquid assets equal to the full amount of the Fund's obligations under such swap. Accordingly, the Fund does not treat swaps as senior securities. The Fund may enter into swaps, caps and floors with member banks of the Federal Reserve System, members of the NYSE or other entities determined by the Adviser, pursuant to procedures adopted and reviewed on an ongoing basis by the Board of Trustees, to be creditworthy. If a default occurs by the other party to such transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction, but such remedies may be subject to bankruptcy and insolvency laws which could affect the Fund's rights as a creditor. The swap market has grown substantially in recent years with a large number of banks and financial services firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps and floors are more recent innovations and they are less liquid than swaps. There can be no assurance, however, that the Fund will be able to enter into interest rate swaps or to purchase interest rate caps or floors at prices or on terms the Adviser believes are advantageous to the Fund. In addition, although the terms of interest rate swaps, caps and floors may provide for termination, there can be no assurance that the Fund will be able to terminate an interest rate swap or to sell or offset interest rate caps or floors that it has purchased.

New financial products continue to be developed and the Fund may invest in any such products as may be developed to the extent consistent with its investment objective and the regulatory and federal tax requirements applicable to investment companies.

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**Lending of Portfolio Holdings.** The Fund may seek to increase its income by lending financial instruments in its portfolio in accordance with present regulatory policies, including those of the Board of Governors of the Federal Reserve System and the SEC. Such loans may be made, without limit, to brokers, dealers, banks or other recognized institutional borrowers of financial instruments and would be required to be secured continuously by collateral, including cash, cash equivalents or U.S. Treasury bills maintained on a current basis at an amount at least equal to the market value of the financial instruments loaned. The Fund would have the right to call a loan and obtain the financial instruments loaned at any time on five days' notice. For the duration of a loan, the Fund would continue to receive the equivalent of the interest paid by the issuer on the financial instruments loaned and also may receive compensation from the investment of the collateral.

The Fund would not have the right to vote any financial instruments having voting rights during the existence of the loan, but the Fund could call the loan in anticipation of an important vote to be taken among holders of the financial instruments or in anticipation of the giving or withholding of their consent on

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a material matter affecting the financial instruments. As with other extensions of credit, risks of delay in recovery or even loss of rights in the collateral exist should the borrower of the financial instruments fail financially. However, the loans would be made only to firms deemed by the Adviser to be of good standing and when, in the judgment of the Adviser, the consideration which can be earned currently from loans of this type justifies the attendant risk. The creditworthiness of firms to which the Fund lends its portfolio holdings will be monitored on an ongoing basis by the Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Board of Trustees of the Fund. No specific limitation exists as to the percentage of the Fund's assets which the Fund may lend.

"When Issued" and "Delayed Delivery" Transactions. The Fund may also purchase and sell interests in Senior Loans and other portfolio securities on a "when issued" and "delayed delivery" basis. No income accrues to the Fund on such interests or securities in connection with such purchase transactions prior to the date the Fund actually takes delivery of such interests or securities. These transactions are subject to market fluctuation; the value of the interests in Senior Loans and other portfolio debt securities at delivery may be more or less than their purchase price, and yields generally available on such interests or securities when delivery occurs may be higher or lower than yields on the interests or securities obtained pursuant to such transactions. Because the Fund relies on the buyer or seller, as the case may be, to consummate the transaction, failure by the other party to complete the transaction may result in the Fund missing the opportunity of obtaining a price or yield considered to be advantageous. When the Fund is the buyer in such a transaction, however, it will segregate cash and/or liquid assets having an aggregate value equal to the amount of such purchase commitments until payment is made. The Fund will make commitments to purchase such interests or securities on such basis only with the intention of actually acquiring these interests or securities, but the Fund may sell such interests or securities prior to the settlement date if such sale is considered to be advisable. To the extent the Fund engages in "when issued" and "delayed delivery" transactions, it will do so for the purpose of acquiring interests or securities for the Fund's portfolio consistent with the Fund's investment objective and policies and not for the purpose of investment leverage. No specific limitation exists as to the percentage of the Fund's assets which may be used to acquire securities on a "when issued" or "delayed delivery" basis.

Repurchase Agreements. The Fund may enter into repurchase agreements (a purchase of, and a simultaneous commitment to resell, a financial instrument at an agreed upon price on an agreed upon date) only with member banks of the Federal Reserve System and member firms of the NYSE. When participating in repurchase agreements, the Fund buys securities from a vendor, e.g., a bank or brokerage firm, with the agreement that the vendor will repurchase the securities at a higher price at a later date. Such transactions afford an opportunity for the Fund to earn a return on available cash at minimal market risk, although the Fund may be subject to various delays and risks of loss if the vendor is unable to meet its obligation to repurchase. Under the 1940 Act, repurchase agreements are deemed to be collateralized loans of money by the Fund to the seller. In evaluating whether to enter into a repurchase agreement, the Adviser will consider carefully the creditworthiness of the vendor. If the member bank or member firm that is the party to the repurchase agreement petitions for bankruptcy or otherwise becomes subject to the

U.S. Bankruptcy Code, the law regarding the rights of the Fund is unsettled. The securities underlying a repurchase agreement will be marked to market every

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business day so that the value of the collateral is at least equal to the value of the loan, including the accrued interest thereon, and the Adviser will monitor the value of the collateral. No specific limitation exists as to the percentage of the Fund's assets which may be used to participate in repurchase agreements.

Reverse Repurchase Agreements. The Fund may enter into reverse repurchase agreements with respect to debt obligations which could otherwise be sold by the Fund. A reverse repurchase agreement is an instrument under which the Fund may sell an underlying debt instrument and simultaneously obtain the commitment of the purchaser (a commercial bank or a broker or dealer) to sell the security back to the Fund at an agreed upon price on an agreed upon date. The Fund will segregate an amount of cash or liquid assets at least equal to its obligations with re