

Edgar Filing: Pioneer Floating Rate Trust - Form N-2

Pioneer Floating Rate Trust  
Form N-2  
January 10, 2005

As filed with the Securities and Exchange Commission on January 10, 2005

1933 Act File No. 333-\_\_\_\_\_  
1940 Act File No. 811-21654

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]

Pre-Effective Amendment No. [ ] [ ]  
Post-Effective Amendment No. [ ] [ ]

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 [X]

Amendment No. 4 [X]

PIONEER FLOATING RATE TRUST  
Exact Name of Registrant as Specified in Charter

60 State Street, Boston, Massachusetts 02109  
Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(617) 742-7825  
Registrant's Telephone Number, including Area Code

Dorothy E. Bourassa, Pioneer Investment Management, Inc.,  
60 State Street, Boston, Massachusetts 02109  
Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copy to: David C. Phelan, Esq.  
Wilmer Cutler Pickering Hale and Dorr LLP  
60 State Street  
Boston, Massachusetts 02109

Approximate Date of Proposed Public Offering: As soon as practicable 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, as amended, 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

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Regi
Preferred Shares (par value \$0.0001)	40 shares	\$25,000.00	\$1,000,000.00	

(1) Transmitted prior to the filing to the designated lockbox of the Securities and Exchange Commission at Mellon Bank in Pittsburgh, Pennsylvania.

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 or until the Registration Statement shall be effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

### PIONEER FLOATING RATE TRUST

#### CROSS-REFERENCE SHEET

#### PART A--PROSPECTUS

ITEMS IN PART A OF FORM N-2 -----	LOCATION IN PROSPECTUS -----
Item 1. Outside Front Cover	Cover Page
Item 2. Cover Pages; Other Offering Information	Cover Page
Item 3. Fee Table and Synopsis	Not applicable
Item 4. Financial Highlights	Financial Highlights (unaudited)
Item 5. Plan of Distribution	Cover Page; Prospectus Summary; The Underwriting
Item 6. Selling Shareholders	Not applicable
Item 7. Use of Proceeds	Use of Proceeds
Item 8. General Description of the Registrant	Cover Page; Prospectus Summary; The Objectives and Principal Investment Leverage; Risk Factors; Net Asset Value; Provisions of the Agreement and Declaration of Trust and By-Laws
Item 9. Management	Prospectus Summary; Management of the Trust and of Preferred Shares

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Item 10. Capital Stock, Long-Term Debt, and Other Securities	Description of Preferred Shares; Federal Matters
Item 11. Default and Arrears On Senior Securities	Not applicable
Item 12. Legal Proceedings	Not applicable
Item 13. Table of Contents of the Statement of Additional Information	Table of Contents of the Statement of Information

### PART B--STATEMENT OF ADDITIONAL INFORMATION

ITEMS IN PART B OF FORM N-2 -----	LOCATION IN STATEMENT OF ADDITIONAL -----
Item 14. Cover Page	Cover Page
Item 15. Table of Contents	Cover Page
Item 16. General Information and History	Not applicable
Item 17. Investment Objective and Policies	Investment Objectives and Policies; Restrictions; Appendix A - Description
Item 18. Management	Management of the Fund
Item 19. Control Persons and Principal Holders of Securities	Management of the Fund - Control Persons and Holders of Securities
Item 20. Investment Advisory and Other Services	Management of the Fund
Item 21. Brokerage Allocation and Other Practices	Portfolio Transactions
Item 22. Tax Status	Federal Income Tax Matters
Item 23. Financial Statements	Independent Registered Public Accountants' Financial Statements and Report of Independent Registered Public Accounting Firm

### PART C - OTHER INFORMATION

Items 24-33 have been answered in Part C of this Registration Statement.

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 IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION

# Edgar Filing: Pioneer Floating Rate Trust - Form N-2

PRELIMINARY PROSPECTUS DATED JANUARY 10, 2005

PROSPECTUS

(PIONEER LOGO)

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## PIONEER FLOATING RATE TRUST

### AUCTION MARKET PREFERRED SHARES ("PREFERRED SHARES")

[ ] SHARES, SERIES [ ]

[ ] SHARES, SERIES [ ]

[ ] SHARES, SERIES [ ]

LIQUIDATION PREFERENCE \$25,000 PER SHARE

-----  
Pioneer Floating Rate Trust (the "Fund") is offering [ ] Series [ ] Auction Market Preferred Shares, [ ] Series [ ] Auction Market Preferred Shares, and [ ] Series [ ] Auction Market Preferred Shares. The shares are referred to in this prospectus as "Preferred Shares." The Fund is a recently organized, non-diversified, closed-end management investment company. The Preferred Shares are subject to mandatory redemption in certain circumstances. Any series of Preferred Shares may be redeemed, in whole or in part, at the option of the Fund at any time, subject to certain circumstances. Dividends on the Preferred Shares will be cumulative from the date the shares are issued.

**Investment Objectives.** The Fund's primary investment objective is to provide a high level of current income. As a secondary investment objective, the Fund seeks preservation of capital to the extent consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

**Portfolio Contents.** Under normal market conditions, the Fund seeks to achieve its investment objectives by investing at least 80% of its assets (net assets plus borrowings for investment purposes) in senior floating rate loans ("Senior Loans"). Senior Loans are made to corporations, partnerships and other business entities that operate in various industries and geographical regions, including non-U.S. borrowers. Senior Loans pay interest at rates that are redetermined periodically on the basis of a floating base lending rate plus a premium. The Fund also may invest in other floating and variable rate instruments, including second lien loans, and in high yield corporate bonds. The Fund may invest in Senior Loans and other securities of any credit quality, including Senior Loans and other investments that are rated below investment grade, or are unrated but are determined by the investment subadviser to be of equivalent credit quality, commonly referred to as "junk bonds." The Fund may invest all or any portion of its assets in securities of issuers that are in default or that are in bankruptcy. The Fund does not have a policy of maintaining a specific average credit quality of its portfolio or a minimum portion of its portfolio that must be rated investment grade. The Fund may invest up to 10% of its total assets in Senior Loans and other securities of non-U.S. issuers, including emerging market issuers, and may engage in certain hedging transactions.

(continued on following page)

INVESTING IN THE PREFERRED SHARES INVOLVES RISKS THAT ARE DESCRIBED IN THE "RISK FACTORS" SECTION BEGINNING ON PAGE OF THIS PROSPECTUS. THE MINIMUM PURCHASE AMOUNT OF THE PREFERRED SHARES IS \$25,000.

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	PER SHARE	TOTAL
	-----	-----
Public offering price.....	\$25,000	\$
Sales load.....	\$ 250	\$
Estimated offering expenses.....	\$	\$
Proceeds, after expenses, to the Fund (1).....	\$	\$

(1) Plus accumulated dividends, if any, from the date the Preferred Shares are issued.

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

The underwriters are offering the Preferred Shares subject to various conditions. The Preferred Shares will be ready for delivery, in book-entry form only, through the facilities of The Depository Trust Company on or about , 2005.

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The date of this prospectus is , 2005.

(continued from previous page)

Non-investment grade securities, commonly referred to as junk bonds, are obligations that are rated below investment grade by the national rating agencies that cover the obligations (i.e., Ba and below by Moody's Investors Service, Inc. ("Moody's") or BB and below by Standard & Poor's Ratings Group ("S&P")), or if unrated, are determined by the Fund's investment subadviser, Highland Capital Management, L.P. (the "Subadviser"), to be of comparable quality. Investment in securities of below investment grade quality involves substantial risk of loss. "Junk bonds" are considered predominantly speculative with respect to the issuer's ability to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. Because Senior Loans are senior in a borrower's capital structure and often are secured by specific collateral, the Subadviser believes, based on its experience, that Senior Loans generally have more favorable loss recovery rates compared to most other types of below investment grade obligations. However, there can be no assurance that the Fund's actual loss recovery experience will be consistent with the Subadviser's prior experience or that the Senior Loans will achieve any specific loan recovery rate.

Investment Adviser. Pioneer Investment Management, Inc. is the Fund's investment adviser (the "Adviser"). As of December 31, 2004, the Adviser had approximately \$ billion in assets under management. The Adviser has engaged Highland Capital Management, L.P. to act as the Fund's investment subadviser and manage the Fund's investments. As of December 31, 2004, the Subadviser had approximately \$ billion in assets under management. See "Management of the Fund."

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the Preferred Shares, and retain it for future reference. A Statement of Additional Information, dated , 2005, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page [ ] of this

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prospectus. You may request a free copy of the Statement of Additional Information by calling (800) 225-6292 or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>). The Fund's registration number under the Investment Company Act of 1940, as amended (the "1940 Act"), is 811-21654. You may also email requests for these documents to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or make a request in writing to the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102.

The public offering price per share will be increased by the amount of dividends, if any, that have accumulated from the date the Preferred Shares are first issued.

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.

The Fund is offering [ ] Series [ ] Preferred Shares, [ ] Series [ ] Preferred Shares, and [ ] Series [ ] Preferred Shares. The Preferred Shares have a liquidation preference of \$25,000 per share, plus any accumulated, unpaid dividends. The Preferred Shares also have priority over the Fund's common shares as to distribution of assets, as described in this prospectus. It is a condition of closing this offering that the Preferred Shares be assigned a rating of Aaa by Moody's and AAA by Fitch, Inc. ("Fitch").

The dividend rate for the initial dividend period will be [ ]% for Series [ ] Preferred Shares, [ ]% for Series [ ] Preferred Shares, and [ ]% for Series [ ] Preferred Shares. The initial dividend period for Series [ ] Preferred Shares is from the date of issuance through , 2005. The initial dividend period for Series [ ] Preferred Shares is from the date of issuance through , 2005. The initial dividend period for Series [ ] Preferred Shares is from the date of issuance through , 2005. For subsequent periods, Preferred Shares will pay dividends based on

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a rate set at auction, usually held every [ ] days in the case of Series [ ] Preferred Shares, every [ ] days in the case of Series [ ] Preferred Shares, and every [ ] days in the case of Series [ ] Preferred Shares. Prospective purchasers should carefully review the auction procedures described in this prospectus and should note: (1) a buy order (called a "bid order") or sell order is a commitment to buy or sell Preferred Shares based on the results of an auction; and (2) purchases and sales will be settled on the next business day after the auction.

THE PREFERRED SHARES WILL NOT BE LISTED ON AN EXCHANGE. YOU MAY ONLY BUY OR SELL PREFERRED SHARES THROUGH AN ORDER PLACED AT AN AUCTION WITH OR THROUGH CERTAIN BROKER-DEALERS OR IN A SECONDARY MARKET MAINTAINED BY CERTAIN BROKER-DEALERS. THESE BROKER-DEALERS ARE NOT REQUIRED TO MAINTAIN THIS MARKET, AND IT MAY NOT PROVIDE YOU WITH LIQUIDITY.

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You should rely only on the information contained in or incorporated by reference into this prospectus. The Fund has not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information appearing in this prospectus is given as of the date of this prospectus. The Fund's business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

### PRIVACY PRINCIPLES OF THE FUND

The Fund is committed to maintaining the privacy of its shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Fund collects, how the Fund protects that information and why, in certain cases, the Fund may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third-party administrator).

The Fund restricts access to non-public personal information about its shareholders to employees of the Fund's investment adviser and its affiliates with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders. For more information about the Fund's privacy policies, please visit <http://www.pioneerfunds.com>.

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### PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's Preferred Shares, especially the information set forth under the heading "Risk Factors." You should review the more detailed information contained in this prospectus, the Statement of Additional Information and the Fund's Statement of Preferences of Auction Market Preferred Shares (the "Statement") attached as Appendix C to the Statement of Additional Information.

THE FUND..... The Pioneer Floating Rate Trust (the "Fund") is a recently organized, non-diversified, closed-end management investment company. The Fund closed an initial public offering of 22,500,000 common shares of beneficial interest, no par value, and commenced investment operations on December 28, 2004. The Fund's common shares are traded on the New York Stock Exchange under the symbol "PHD." As of [ ], 2005 the Fund had [ ] common shares outstanding and had net assets of [ ]. Pioneer Investment Management, Inc. is the Fund's investment adviser. The Adviser has engaged Highland Capital Management, L.P. to act as the Fund's investment subadviser to manage the Fund's investments. The Fund's principal offices are located at 60 State Street, Boston, Massachusetts 02109. See "The Fund."

THE OFFERING..... The Fund is offering an aggregate of [ ] shares of Series [ ] Preferred Shares, [ ] shares of Series [ ] Preferred Shares and [ ] shares of Series [ ] Preferred Shares, each at a purchase price of \$25,000 per share plus dividends, if any, that have accumulated from the date the Fund first issues the Preferred Shares. The Preferred Shares are being offered by the underwriters listed under "Underwriting."

The Preferred Shares entitle their holders to receive cash dividends at an annual rate that may vary for successive dividend periods. In general, except as described under "Dividends and Dividend Periods" below and "Description of Preferred Shares -- Dividends and Dividend Periods," the dividend period for Series [ ] Preferred Shares will be [ ] days, the dividend period for Series [ ] Preferred Shares will be [ ] days, and the dividend period for Series [ ] Preferred Shares will be [ ] days. Deutsche Bank Trust Company Americas (the "Auction Agent") will determine the dividend rate for any dividend period by an auction conducted on the business day immediately prior to the start of that dividend period. See "The Auction."

The Preferred Shares are not listed on an exchange. Instead, investors may buy or sell Preferred Shares at an auction by submitting orders to broker-dealers ("Broker-Dealers") that have entered into an agreement with the Auction Agent (a "Broker-Dealer Agreement") or to



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broker-dealers that have entered into separate agreements with a Broker-Dealer.

Generally, investors in the Preferred Shares will not receive certificates representing ownership of their shares. The Depositary

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Trust Company or any successor (the "Securities Depositary") or its nominee for the account of the investor's Broker-Dealer will maintain record ownership of 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.

### INVESTMENT OBJECTIVES AND PRINCIPAL INVESTMENT

#### STRATEGIES.....

Investment Objectives. The Fund's primary investment objective is to provide a high level of current income. As a secondary investment objective, the Fund seeks preservation of capital to the extent consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

Principal Investment Strategies. Under normal market conditions, the Fund seeks to achieve its investment objectives by investing at least 80% of its assets (net assets plus borrowings for investment purposes) in senior floating rate loans ("Senior Loans"). The Fund also may invest in other floating and variable rate instruments, including second lien loans, and high yield, high risk corporate bonds, investment grade fixed-income debt securities, preferred stocks (many of which have fixed maturities), convertible securities, securities that make "in-kind" interest payments, bonds not paying current income, bonds that do not make regular interest payments and money market instruments. The Fund may invest up to 10% of its total assets in Senior Loans and other securities of non-U.S. issuers, including emerging market issuers, and may engage in certain hedging transactions.

The Subadviser uses a fundamental research approach in selecting the Fund's investments and seeks to invest in those sectors, industries and companies that provide value on a relative basis. The Subadviser seeks to identify those companies that are dominant players in their industries and generally does not invest in securities of issuers that it believes cannot be adequately researched. The Subadviser's process focuses on those issuers that generate positive cash flow momentum, exhibit stable or improving debt coverage, have an experienced management team and demonstrate net tangible asset protection.

The Subadviser's investment philosophy is based on the belief that fundamental research and a disciplined asset acquisition/disposition process will produce superior long-term results. The Subadviser's investment process combines an economic and industry overlay with a disciplined securities selection process. The Subadviser's economic and industry overlay utilizes a variety of macro and economic variables to identify broad market sectors that the Subadviser believes have positive fundamentals. Within these broad sectors, the Subadviser targets specific industries that appear to have, in the Subadviser's view, the most promising prospects under current market conditions. Within a targeted industry, the Subadviser

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engages in a disciplined securities selection process. In this process, the Subadviser conducts an extensive analysis of issuers within the targeted industry to identify issuers that appear to have the most favorable prospects for improving financial condition. The Subadviser also reviews the terms of the agreements documenting the Senior Loans to seek to identify those Senior Loans that have the most favorable risk and return characteristics. Based on this analysis, the Subadviser constructs and actively manages a portfolio of Senior Loans. The Subadviser's goal is to achieve the highest potential level of current income with the lowest potential volatility over long periods of time.

Duration Management. The Subadviser expects that the average effective duration of the Fund's portfolio of Senior Loans will normally be between zero and 1.5 years, reflecting the Fund's focus on floating rate instruments. As a measure of a fixed-income security's cash flow, duration is an alternative to the concept of "term to maturity" in assessing the price volatility associated with changes in interest rates. Generally, the longer the duration, the more volatility an investor should expect. For example, the market price of a fixed-income security with a duration of three years would be expected to decline 3% if interest rates rose 1%. Conversely, the market price of the same security would be expected to increase 3% if interest rates fell 1%. The market price of a fixed-income security with a duration of six years would be expected to increase or decline twice as much as the market price of a security with a three-year duration. Duration is a way of measuring a security's maturity in terms of the average time required to receive the present value of all interest and principal payments as opposed to its term to maturity. The maturity of a security measures only the time until final

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payment is due; it does not take account of the pattern of a security's cash flows over time, which would include how cash flow is affected by prepayments and by changes in interest rates. Because the interest rate on Senior Loans held by the Fund will reset at short-term intervals, the duration of Senior Loans will be shorter than a fixed income security with a comparable term to maturity. The Subadviser can manage the duration of the portfolio by selecting Senior Loans with different interest rate reset periods and final maturity dates. Incorporating a security's yield, coupon interest payments, final maturity and option features into one measure, duration is computed by determining the weighted average maturity of a fixed-income security's cash flows, where the present values of the cash flows serve as weights. In computing the duration of the Fund's portfolio of Senior Loans, the Subadviser will estimate the duration of obligations that are subject to features such as prepayment or redemption by the issuer, put options retained by the investor or other imbedded options, taking into account the influence of interest rates on prepayments and coupon flows.

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Credit Management. The Fund may invest in Senior Loans and other securities of any credit quality, including Senior Loans and other investments that are rated below investment grade or are unrated but determined by the Subadviser to be of equivalent credit quality. The Fund does not have a policy of maintaining a specific average credit quality of its portfolio nor a minimum portion of its portfolio that must be rated investment grade. The Subadviser's staff monitors the credit quality and price of Senior Loans and other securities held by the Fund, as well as other securities that are available to the Fund. Although the Subadviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on ratings assigned by rating services. In evaluating the attractiveness of a particular Senior Loan or other security, whether rated or unrated, the Subadviser generally gives equal weight to the security's yield and the issuer's creditworthiness and will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the availability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects.

PORTFOLIO CONTENTS..... Senior Loans. Senior Loans hold the most senior position in the capital structure of a business entity, are typically secured with specific

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collateral and have a claim on the general assets of the borrower that is senior to that held by subordinated debtholders and stockholders of the borrower. The proceeds of Senior Loans frequently are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases and, to a lesser extent, to finance internal growth and for other corporate purposes. Senior Loans typically have rates of interest which are redetermined either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium. These base lending rates generally are the London Interbank Offered Rate ("LIBOR"), the prime rate offered by one or more major United States banks (Prime Rate) or the certificate of deposit (CD) rate or other base lending rates used by commercial lenders.

The Fund may purchase obligations issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code. While these investments are not a primary focus of the Fund, the Fund does not have a policy limiting such investments to a specific percentage of the Fund's assets.

The Fund may invest up to 10% of its total assets in Senior Loans and other securities of non-U.S. issuers, including emerging market issuers, and may engage in certain hedging transactions.

Senior Loans and other corporate debt obligations are subject to the risk of non-payment of scheduled installments of interest or principal. Such non-payment would result in a reduction of income

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to the Fund, a reduction in the value of the investment and a potential decrease in the net asset value of the Fund. There can be no assurance that the liquidation of any collateral securing a Senior Loan would satisfy a borrower's obligation in the event of non-payment of scheduled installments of interest or principal, or that such collateral could be readily liquidated. In the event of bankruptcy of a borrower, the Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. 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 a borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate Senior Loans to presently existing or future indebtedness of the borrower or take other action detrimental to the holders of Senior Loans including, in certain

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circumstances, invalidating Senior Loans or causing interest previously paid to be refunded to the borrower. If interest were required to be refunded, it could result in a loss to the Fund negatively affecting the Fund's performance.

Many loans in which the Fund will invest may not be rated by a rating agency, will not be registered with the Securities and Exchange Commission or any state securities commission and will not be listed on any national securities exchange. The amount of public information available with respect to issuers of Senior Loans will generally be less extensive than that available for issuers of registered or exchange listed securities. In evaluating the creditworthiness of borrowers, the Subadviser will consider, and may rely in part, on analyses performed by others. The Subadviser does not view ratings as the determinative factor in its investment decisions and relies more upon its credit analysis abilities than upon ratings. Borrowers may have outstanding debt obligations that are rated below investment grade by a rating agency. A high percentage of Senior Loans held by the Fund may be rated below investment grade by independent rating agencies. In the event Senior Loans are not rated, they are likely to be the equivalent of below investment grade quality. Debt securities which are unsecured and rated below investment grade (i.e., Ba and below by Moody's or BB and below by S&P) and comparable unrated bonds, are viewed by the rating agencies as having speculative characteristics and are commonly known as "junk bonds." A description of the ratings of corporate bonds by Moody's and S&P is included as Appendix A to the Statement of Additional Information. Because Senior Loans are senior to subordinated creditors and stockholders in a borrower's capital structure and are often secured by specific collateral, the Subadviser believes, based on its experience, that Senior Loans have more favorable loss recovery rates as compared to most other types of below investment grade obligations. However, there can be no assurance that the Fund's actual loss recovery experience will be

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consistent with the Subadviser's prior experience or that the Senior Loans will achieve any specific loan recovery rate.

The Fund may hold securities that are unrated or in the lowest ratings categories (rated C by Moody's or D by S&P). Debt securities rated C by Moody's are regarded as having extremely poor prospects of ever attaining any real investment standing. Debt securities rated D by S&P are in payment default or a bankruptcy petition has been

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filed and debt service payments are jeopardized. In order to enforce its rights with defaulted securities, the Fund may be required to retain legal counsel and/or a financial adviser. The Fund may have to pursue legal remedies, the results of which are uncertain and expensive. This may increase operating expenses and adversely affect net asset value. The credit quality of most securities held by the Fund reflects a greater possibility that adverse changes in the financial condition of an issuer, or in general economic conditions, or both, may impair the ability of the issuer to make payments of interest or principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of such securities more volatile and could limit the Fund's ability to sell securities at favorable prices. In the absence of a liquid trading market for securities held by it, the Fund may have difficulties determining the fair market value of such securities. Because of the greater number of investment considerations involved in investing in high yield, high risk Senior Loans and bonds, the achievement of the Fund's objectives depends more on the Subadviser's judgment and analytical abilities than would be the case if invested primarily in securities in the higher ratings categories.

No active trading market may exist for many Senior Loans, and some Senior Loans may be subject to restrictions on resale. The Fund is not limited in the percentage of its assets that may be invested in Senior Loans and other securities deemed to be illiquid. Any secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability of the Fund to realize full value on the disposition of an illiquid Senior Loan and cause a material decline in the Fund's net asset value.

Investing in Senior Loans involves investment risk. Some borrowers default on their Senior Loan payments. The Fund attempts to manage this credit risk through portfolio diversification and ongoing analysis and monitoring of borrowers. The Fund also is subject to market, liquidity, interest rate and other risks. See "Risk Factors."

Other Fixed Income Securities. The Fund also may purchase unsecured loans, other floating rate debt securities such as notes, bonds and asset-backed securities (such as securities issued by special purpose funds investing in bank loans), investment grade and below investment grade fixed income debt obligations and money market instruments, such as commercial paper. The high

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yield securities in which the Fund may invest are rated Ba or lower by Moody's or BB or lower by S&P or are unrated but determined by the Subadviser to be of comparable quality. Debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. Below investment grade debt securities involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated debt securities. The Fund's fixed-income securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment in kind and auction rate features. The Fund may invest in fixed-income securities with a broad range of maturities.

The Fund may invest in zero coupon bonds, deferred interest bonds and bonds or preferred stocks on which the interest is payable in-kind (PIK bonds). To the extent the Fund invests in such instruments, they will not contribute to the Fund's primary goal of current income. Zero coupon and deferred interest bonds are debt obligations which are issued at a significant discount from face value. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds provide for a period of delay before the regular payment of interest begins. PIK bonds are debt obligations that provide that the issuer thereof may, at its option, pay interest on such bonds in cash or in the form of additional debt obligations. Such investments may experience greater volatility in market value due to changes in interest rates. The Fund may be required to accrue income on these investments for federal income tax purposes and is required to distribute its net income each year in order to qualify for the favorable federal income tax treatment potentially available to regulated investment companies. The Fund may be required to sell securities to obtain cash needed for income distributions at times and at prices that the Adviser believes do not reflect the intrinsic value of such securities.

OTHER INVESTMENTS..... Normally, the Fund will invest substantially all of its assets to meet its investment objectives. The Fund may invest the remainder of its assets in securities with remaining maturities of less than one year or cash equivalents, or it may hold cash. For temporary defensive purposes, the Fund may depart from its principal investment strategies and invest part or all of its assets in securities with remaining maturities of less than one year or cash equivalents, or it may hold cash. During such periods, the Fund may not be able to achieve its

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investment objectives.

### HEDGING AND INTEREST RATE

TRANSACTIONS..... The Fund may, but is not required to, use various hedging and interest rate transactions to earn income, facilitate portfolio management and mitigate risks. The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter

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put and call options on securities, fixed income and interest rate indices and other financial instruments; purchase and sell financial futures contracts and options thereon; and enter into various interest rate transactions such as swaps, caps, floors or collars or credit transactions and credit default swaps. The Fund also may purchase derivative instruments that combine features of these instruments. The Fund generally seeks to use these instruments and transactions as a portfolio management or hedging technique that seeks to protect against possible adverse changes in the market value of Senior Loans or other securities held in or to be purchased for the Fund's portfolio, to facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, manage the effective maturity or duration of the Fund's portfolio or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities.

### USE OF LEVERAGE BY THE

FUND..... The Fund expects to utilize financial leverage on an ongoing basis for investment purposes, such as through the issuance of the Preferred Shares. After completion of the offering of the Preferred Shares, the Fund anticipates its total leverage from the issuance of Preferred Shares will be approximately 33 1/3% of the Fund's total assets. This amount may change but the Fund will not incur additional leverage if the total leverage would exceed 50% of the Fund's total assets. Although the Fund may in the future offer other preferred shares or incur indebtedness, which would further leverage the Fund, the Fund does not currently intend to offer preferred shares other than the Preferred Shares offered hereby. The Fund may also invest in derivative instruments, each of which may amplify the effects of leverage in the Fund's portfolio.

The Fund generally will not utilize leverage if the Adviser anticipates that leverage would result in a lower return to holders of the common shares over time. Use of financial leverage creates an opportunity for increased income for the holders of the common shares but, at the same time, creates the possibility for greater loss



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(including the likelihood of greater volatility of net asset value and market price of the common shares and of dividends), and there can be no assurance that a leveraging strategy will be successful during any period in which it is employed. Because the fees paid to the Adviser will be calculated on the basis of the Fund's managed assets, the fees will be higher when leverage (including the Preferred Shares) is utilized, giving the Adviser an incentive to utilize leverage.

### SPECIAL RISK

#### CONSIDERATIONS.....

The following is a summary of the principal risks of investing in the Preferred Shares. You should read the fuller discussion in this prospectus under "Risk Factors" beginning on page [ ].

Risks of Investing in Preferred Shares. The primary risks of investing in Preferred Shares are:

- If an auction fails you may not be able to sell some or all of your shares.

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- Because of the nature of the market for Preferred Shares, you may receive less than the price you paid for your Preferred Shares if you sell them outside of the auction, especially when market interest rates are rising.
- A rating agency could, at any time, downgrade or withdraw its rating assigned to the Preferred Shares without prior notice to the Fund or shareholders. Any downgrading or withdrawal of rating could affect the liquidity of the Preferred Shares in an auction.
- The Fund may be forced to redeem Preferred Shares to meet regulatory or rating agency requirements or may voluntarily redeem your shares in certain circumstances.
- In certain circumstances, the Fund may not earn sufficient income from its investments to pay dividends on the Preferred Shares.
- If interest rates rise, the value of the Fund's investment portfolio will decline, reducing the asset coverage for Preferred Shares.

Leverage Risk. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective and policies. These include the possibility of higher volatility of the net asset value of the Fund and the value of assets serving as asset coverage for the Preferred Shares.

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Interest Rate Risk. The Preferred Shares pay dividends based on shorter-term interest rates. The Fund may invest the proceeds from the issuance of the Preferred Shares in Senior Loans. The interest rates on Senior Loans are typically, although not always, higher than shorter-term interest rates of securities with a AAA/Aaa credit rating, which is the credit rating the Fund anticipates receiving from Moody's and Fitch on the Preferred Shares. Shorter-term rates, including the floating rates paid on the Fund's portfolio of Senior Loans, can be expected to fluctuate. If shorter-term interest rates rise, dividend rates on the Preferred Shares may rise so that the amount of dividends to be paid to holders of Preferred Shares exceeds the income from the Senior Loans purchased by the Fund with the proceeds from the sale of the Preferred Shares. Similarly, the anticipated differential on the rate anticipated to be paid on the Preferred Shares and the Fund's portfolio of Senior Loans would decline or be eliminated if, in the future, the rating agencies lower the rating assigned to the Preferred Shares. Because income from the Fund's entire investment portfolio (not just the portion of the portfolio purchased with the proceeds of the Preferred Shares offering) is available to pay dividends on the Preferred Shares, however, dividend rates on the Preferred Shares would need to exceed the rate of return on the Fund's investment portfolio by a wide margin before the Fund's ability to pay dividends on the Preferred Shares would be jeopardized.

Auction Risk. The dividend rate for the Preferred Shares normally is set through an auction process. In the auction, holders of

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Preferred Shares may indicate the dividend rate at which they would be willing to hold or sell their Preferred Shares or purchase additional Preferred Shares. The auction also provides liquidity for the sale of Preferred Shares. An auction fails if there are more Preferred Shares offered for sale than there are buyers. You may not be able to sell your Preferred Shares at an auction if the auction fails. Also, if you place bid orders (orders to retain Preferred Shares) at an auction only at a specified dividend rate, and that rate exceeds the rate set at the auction, you will not retain your Preferred Shares. Additionally, if you buy Preferred Shares or elect to retain Preferred Shares without specifying a dividend rate below which you would not wish to buy or continue to hold those Preferred Shares, you could receive a lower rate of return on your Preferred Shares than the market rate. Finally, the dividend periods for the Preferred Shares may be changed by the Fund, subject to certain conditions and with notice to

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the holders of Preferred Shares, which could also affect the liquidity of your investment.

**Secondary Market Risk.** If you try to sell your Preferred Shares between auctions you may not be able to sell any or all of your Preferred Shares or you may not be able to sell them for \$25,000 per share or \$25,000 per share plus accumulated but unpaid dividends. If the Fund has designated a special dividend period, changes in interest rates could affect the price you would receive if you sold your Preferred Shares in the secondary market. You may transfer Preferred Shares outside of auctions only to or through a Broker-Dealer that has entered into a Broker-Dealer Agreement, or other person as the Fund permits.

**Ratings and Asset Coverage Risk.** While it is expected that Moody's will assign a rating of Aaa to the Preferred Shares and Fitch will assign a rating of AAA to the Preferred Shares, such ratings do not eliminate or necessarily mitigate the risks of investing in Preferred Shares. Moody's or Fitch could downgrade its rating of the Preferred Shares or withdraw its rating of the Preferred Shares at any time, which may make your shares less liquid at an auction or in the secondary market. If the Fund fails to satisfy the asset coverage ratios discussed under "Description of Preferred Shares -- Rating Agency Guidelines and Asset Coverage," the Fund will be required to redeem a sufficient number of Preferred Shares in order to return to compliance with the asset coverage ratios.

**Restrictions on Dividends and Other Distributions.** Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's common shares and Preferred Shares, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes.

**GENERAL RISKS OF INVESTING IN THE FUND.** The Fund is not a complete investment program and should only be considered as an

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addition to an investor's existing diversified portfolio of investments. Due to uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objectives.

**Limited Operating History.** The Fund is a recently organized, non-diversified, closed-end management investment company and has a limited operating history and a limited history of public trading.

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Non-Diversified Status Risk. The Fund is classified as "non-diversified" under the 1940 Act. As a result, it can invest a greater portion of its assets in obligations of a single issuer than a "diversified" fund. The Fund will therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. The Fund intends to diversify its investments to the extent necessary to qualify, and maintain its status, as a regulated investment company under U.S. federal income tax laws. See "Risks Factors -- Non-Diversified Status Risk" and "Federal Income Tax Matters."

Interest Rate Risk. The Fund's net asset value will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate securities already held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of existing fixed-rate portfolio securities can be expected to decline. Because market interest rates are currently near their lowest levels in many years, there is a greater than normal risk that the Fund's portfolio will decline in value due to rising interest rates. The Fund will primarily invest in floating rate obligations, including Senior Loans, the rate on which periodically adjusts with changes in interest rates.

Until the interest rates on the floating rate obligations in its portfolio reset, the Fund's income also would likely be affected adversely when prevailing short term interest rates increase and the Fund is using leverage.

To the extent that changes in market rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate, which is payable on loans of the type and quality in which the Fund invests, the Fund's net asset value could be adversely affected. This is because the value of a Senior Loan is partially a function of whether the Senior Loan is paying what the market perceives to be a market rate of interest, given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is generally only a temporary lag before the portfolio reflects those changes, changes in a Senior Loan's value based on changes in the market spread on Senior Loans in the Fund's portfolio may be of longer duration.

Reinvestment Risk. Income from the Fund's portfolio will decline if the Fund invests the proceeds, repayment or sale of Senior Loans or other obligations into lower yielding instruments or Senior Loans with a lower spread over the base lending rate. A decline in income

could affect the common shares' distribution rate and their overall return.

Senior Loans Risk. The risks associated with Senior Loans are similar to the risks of junk bonds, although Senior Loans are typically senior and secured in contrast to below investment grade debt securities, commonly referred to as "junk bonds," which are often subordinated and unsecured.

The Fund's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. Moreover, any specific collateral used to secure a loan may decline in value or lose all its value or become illiquid, which would adversely affect the loan's value. Economic and other events, whether real or perceived, can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Fund's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted.

Senior Loans and other debt securities are also subject to the risk of price declines and to increases in prevailing interest rates. Conversely, the floating rate feature of Senior Loans means the Senior Loans will not generally experience capital appreciation in a declining interest rate environment. Declines in interest rates may also increase prepayments of debt obligations and require the Fund to invest assets at lower yields. No active trading market may exist for certain Senior Loans, which may impair the ability of the Fund to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded Senior Loans.

Credit Risk and Junk Bond Risk. Credit risk is the risk that an issuer of a Senior Loan or other debt security will become unable to meet its obligation to make interest and principal payments.

The Fund may invest all or a substantial portion of its assets in Senior Loans and other debt securities that are rated below investment grade (commonly referred to as "junk bonds" or "high yield securities"), that is, rated Ba or below by Moody's or BB or below by S&P, or unrated securities determined by the Subadviser to be of comparable credit quality. Investment in Senior Loans and other fixed income securities of below-investment grade quality involves substantial risk of loss. "Junk bonds" are

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considered predominantly speculative with respect to the issuer's ability to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for fixed income securities of below-investment grade quality tend to be more volatile, and these securities are less liquid, than investment grade debt securities. For

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these reasons, an investment in the Fund is subject to the following specific risks:

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

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

**Issuer Risk.** The value of corporate income-producing securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

**Inflation Risk.** Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the common shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of preferred shares would likely increase, which would tend to further reduce returns to common

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shareholders.

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

**Foreign Securities Risk.** The Fund's investments in non-U.S. issuers may involve unique risks compared to investing in securities

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of U.S. issuers. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investment in one region or in the securities of emerging market issuers. These risks may include

- Less information about non-U.S. issuers or markets may be available due to less rigorous disclosure, accounting standards or regulatory practices.
- Many non-U.S. markets are smaller, less liquid and more volatile. In a changing market, the Subadviser may not be able to sell the Fund's portfolio securities at times, in amounts and at prices it considers reasonable.
- Currency exchange rates or controls may adversely affect the value of the Fund's investments.
- The economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession.
- Withholdings and other non-U.S. taxes may decrease the Fund's return.

**Currency Risk.** A portion of the Fund's assets may be quoted or denominated in non-U.S. currencies. These securities may be adversely affected by fluctuations in relative currency exchange rates and by exchange control regulations. The Fund's investment performance may be negatively affected

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by a devaluation of a currency in which the Fund's investments are quoted or denominated. Further, the Fund's investment performance may be significantly affected, either positively or negatively, by currency exchange rates because the U.S. dollar value of securities quoted or denominated in another currency will increase or decrease in response to changes in the value of such currency in relation to the U.S. dollar.

**Liquidity Risk.** Some Senior Loans are not readily marketable and may be subject to restrictions on resale. Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for some of the Senior Loans in which the Fund will invest. Where a secondary market exists, such market for some Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Senior Loans that are illiquid may be more difficult to value or may impair the Fund's ability to realize the full value of its assets in the event of a voluntary or involuntary liquidation of such assets and thus may cause a decline in the Fund's net asset value. The Fund has no limitation on the amount of its assets that may be invested in securities which are not readily marketable or are subject to restrictions on resale. In certain situations, the Fund could find it more difficult to sell such securities at desirable times and/or prices. Most Senior Loans are valued by an independent pricing service that uses market quotations of investors and traders in Senior Loans. In other cases,

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Senior Loans are valued at their fair value in accordance with procedures approved by the Board of Trustees.

**Derivatives Risk.** Even a small investment in derivatives can have a significant impact on the Fund's exposure to interest rates. If changes in a derivative's value do not correspond to changes in the value of the Fund's other investments, the Fund may not fully benefit from or could lose money on the derivative position. In addition, some derivatives involve risk of loss if the party that entered into the derivative contract defaults on its obligation. Certain derivatives, such as over-the-counter options, may be less liquid and more difficult to value than exchange traded options and futures.

**Regulatory Risk.** To the extent that legislation or federal regulators that regulate certain financial institutions impose additional requirements or restrictions with respect to the ability of such institutions to make loans,



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particularly in connection with highly leveraged transactions, the availability of Senior Loans for investment may be adversely affected. In addition, such legislation could depress the market value of Senior Loans.

Market Disruption Risk. The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets. The Fund cannot predict the effects of similar events in the future on the U.S. economy. These terrorist attacks and related events, including the war in Iraq, its aftermath, and continuing occupation of Iraq by coalition forces, have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the common shares. In particular, below investment grade securities tend to be more volatile than higher rated fixed income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of junk bonds and Senior Loans than on higher rated fixed income securities.

Anti-Takeover Provisions Risk. The Fund's Agreement and Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions include staggered terms of office for the Trustees, advance notice requirements for shareholder proposals, super-majority voting requirements for certain transactions with affiliates, open-ending the Fund and a merger, liquidation, asset sale or similar transaction.

INVESTMENT ADVISER..... Pioneer Investment Management, Inc. is the Fund's investment adviser. The Adviser has engaged Highland Capital Management, L.P. to act as investment subadviser to the Fund to manage the

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Fund's portfolio. The Subadviser is responsible on a day-to-day basis for investment of the Fund's portfolio in accordance with its investment objectives and principal investment strategies. The Subadviser makes all investment decisions for the Fund and places purchase and sale orders for the Fund's portfolio securities.

The Adviser or its predecessors have been managing

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investment companies since 1928. The Adviser is an indirect, wholly-owned subsidiary of UniCredito Italiano S.p.A. ("UniCredito"), one of the leading banking groups in Italy. As of December 31, 2004, assets under management by the Adviser and its affiliates were approximately \$\_\_\_\_ billion worldwide, including over \$\_\_\_\_ billion in assets under management by the Adviser. The Adviser supervises the Subadviser's investments on behalf of the Fund, supervises the Fund's compliance program and provides for the general management of the business affairs of the Fund.

The Fund pays the Adviser a fee for its investment advisory services equal on an annual basis to .70% of the Fund's average daily managed assets.

"Managed assets" means the total assets of the Fund (including any assets attributable to any financial leverage that may be outstanding) minus the sum of accrued liabilities (other than liabilities representing financial leverage). The liquidation preference on any preferred shares, including the Preferred Shares, is not a liability. The fee is accrued daily and payable monthly. Because the Adviser's fee is based upon managed assets, the Adviser may have an incentive to leverage the Fund, including through the issuance of the Preferred Shares.

The Adviser has agreed for the first three years of the Fund's investment operations to limit the Fund's total annual expenses (excluding offering costs for common and preferred shares, interest expense, the cost of defending or prosecuting any claim or litigation to which the Fund is a party (together with any amount in judgment or settlements), indemnification expenses or taxes incurred due to the failure of the Fund to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"), or any other nonrecurring or non-operating expenses) to .95% of the Fund's average daily managed assets.

Highland Capital Management, L.P. serves as the investment subadviser to the Fund. In this capacity, the Subadviser is responsible for the selection and on-going monitoring of the assets in the Fund's investment portfolio. The Subadviser is a Delaware limited partnership founded in 1993. The principal office of the Subadviser is located at 13455 Noel Road, Suite 1300, Dallas, Texas 75240. The Subadviser also maintains an office at 245 Park Avenue, 39th Floor, New York, New York 10167. The Subadviser's expertise in managing portfolios of Senior Loans and structured finance assets is particularly suited to the Fund's focus on Senior Loans. As of December 31, 2004, the Subadviser had approximately \$\_\_\_\_ billion in assets under management.

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The Adviser, and not the Fund, will pay a portion of the fees it receives from the Fund to the Subadviser in return for the Subadviser's services.

TRADING MARKET..... The Preferred Shares will not be listed on an exchange. Instead, you may buy or sell Preferred Shares at an auction that normally is held every [ ] days in the case of Series [ ] Preferred Shares, every [ ] days in the case of Series [ ] Preferred Shares, and every [ ] days in the case of Series [ ] Preferred Shares, by submitting orders to a Broker-Dealer or to a broker-dealer that has entered into a separate agreement with a Broker-Dealer. In addition to the auctions, Broker-Dealers and other broker-dealers may maintain a secondary trading market in Preferred Shares outside of auctions but may discontinue this activity at any time. There is no assurance that a secondary market will provide holders of Preferred Shares with liquidity. You may transfer Preferred Shares outside of auctions only to or through a Broker-Dealer or a broker-dealer that has entered into a separate agreement with a Broker-Dealer.

DIVIDENDS AND  
DIVIDEND PERIODS..... The "dividend period," with respect to shares of a series of Preferred Shares, is the period from and including the date of original issue of shares of such series to but excluding the initial dividend payment date for shares of such series, and for any dividend period thereafter from and including the dividend payment date for shares of such series to but excluding the next succeeding dividend payment date for shares of such series. Subject to certain conditions, the Fund may elect a "special dividend period," which is a dividend period of more than [ ] days in the case of Series [ ] Preferred Shares, more than [ ] days in the case of [ ] Preferred Shares, and more than [ ] days in the case of Series [ ] Preferred Shares. A special dividend period is a "short-term dividend period" if it consists of a specified number of days, evenly divisible by seven (other than [ ] days, in the case of Series [ ] Preferred Shares, other than [ ] days, in the case of Series [ ] Preferred Shares, and other than [ ] days, in the case of Series [ ] Preferred Shares) and not more than 364, or a "long-term dividend period" if it consists of a specific period of one whole year or more but not greater than five years. The "dividend payment date" for each series of Preferred Shares, (i) with respect to any [ ] day dividend period, any [ ] day dividend period or any short-term dividend period of [ ] or fewer days, is the business day next succeeding the last day of that dividend period and (ii) with respect to any short-term dividend period of more than [ ] days

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and with respect to any long-term dividend period, is the first business day of each month and the business day next succeeding the last day of such dividend period. A "business day" is a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in New York city are authorized or obligated by law to close.

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The Preferred Shares will entitle their holders to receive cash dividends at a rate per annum that may vary for the successive dividend periods for such shares. The applicable rate for a particular dividend period will be determined by an auction conducted on the business day immediately preceding the start of such dividend period.

The table below shows the dividend rate, the dividend payment date and the number of days for the initial dividend period of the Preferred Shares offered in this prospectus.

SERIES	INITIAL DIVIDEND RATE	DIVIDEND PAYMENT DATE FOR INITIAL DIVIDEND PERIOD	SUBSEQUENT DIVIDEND PAYMENT DAY	NUMBER OF INITIAL PERIODS
[ ]	[ ]%		Every [ ] Days	
[ ]	[ ]%		Every [ ] Days	
[ ]	[ ]%		Every [ ] Days	

After the initial dividend period, each subsequent dividend period for Series [ ] Preferred Shares will generally consist of [ ] days, each subsequent dividend period for Series [ ] Preferred Shares will generally consist of [ ] days, and each subsequent dividend period for Series [ ] Preferred Shares will generally consist of [ ] days; provided, however, that prior to any auction, the Fund may elect, subject to certain limitations and upon notice to holders of Preferred Shares of the applicable series, a special dividend period for any or all series. In most instances, dividends are payable on the first business day following the end of the dividend period. The rate set at auction may not exceed the maximum applicable rate. See "Description of Preferred Shares -- Dividends and Dividend Periods." Dividends on the Preferred Shares will be cumulative from the date the shares are first issued and will be paid out of legally available funds.

Determination of Maximum Applicable Rate. Generally, the applicable rate for any regular dividend period for Preferred Shares will

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not be more than the maximum applicable rate attributable to such shares. The maximum applicable rate for each series of Preferred Shares will depend on the credit rating assigned to such shares and on the duration of the dividend period. The maximum applicable rate will be the higher of the applicable percentage of the reference rate or the applicable spread plus the reference rate. The reference rate (the "Reference Rate") is the applicable LIBOR Rate (as defined in "Description of Preferred Shares -- Dividends and Dividend Periods -- Determination of Maximum Applicable Rate") for a dividend period of fewer than 365 days or the applicable Treasury Index Rate (as defined in "Description of Preferred Shares -- Dividends and Dividend Periods -- Determination of Maximum Applicable Rate") for a dividend period of 365 days or more. The applicable percentage or applicable spread as so determined is further subject to upward but not downward adjustment in the discretion of the Fund's Board of

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Trustees after consultation with [ ]. In the case of a special dividend period, the maximum applicable rate will be specified by the Fund in the notice of the special dividend period for such special dividend payment period.

The applicable percentage and spread are as follows:

APPLICABLE PERCENTAGE PAYMENT TABLE

CREDIT RATINGS		APPLICABLE PERCENTAGE	APPLICABLE SPR
MOODY'S	FITCH		
Aaa	AAA	125%	1.25%
Aa3 to Aa1	AA- to AA+	150%	1.50%
A3 to A1	A- to A+	200%	2.00%
Baa3 to Baa1	BBB- to BBB+	250%	2.50%
Ba1 and lower	BB+ and lower	300%	3.00%

There is no minimum applicable rate in respect of any dividend period. See "Description of Preferred Shares -- Dividends and Dividend Periods."

Assuming the Fund maintains a Aaa/AAA rating on the Preferred Shares, the practical effect of the different methods used to calculate the maximum applicable rate is shown in the table below:

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REFERENCE RATE	MAXIMUM APPLICABLE RATE USING THE APPLICABLE PERCENTAGE	MAXIMUM APPLICABLE RATE USING THE APPLICABLE SPREAD	METHOD DETERMINED BY THE APPLICABLE PERCENTAGE
1%	1.25%	2.25%	Sp
2%	2.50%	3.25%	Sp
3%	3.75%	4.25%	Sp
4%	5.00%	5.25%	Sp
5%	6.25%	6.25%	Ei
6%	7.50%	7.25%	Perc

Prior to each dividend payment date, the Fund is required to deposit with the Auction Agent sufficient funds for the payment of declared dividends. The failure to make such a deposit will result in the cancellation of any auction and the dividend rate will be the maximum applicable rate until such failure to deposit is cured or, if not timely cured, a non-payment rate of 300% of the Reference Rate. The Fund does not intend to establish any reserves for the payment of dividends.

RATINGS..... The Preferred Shares are expected to receive a rating of Aaa from Moody's and AAA from Fitch. These ratings are an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings are not a recommendation to purchase, hold or sell those shares inasmuch as the rating does not comment as to market price or suitability for a particular investor. The ratings also do not address the likelihood that an owner of Preferred Shares will be able to sell such shares in an auction or otherwise. The ratings are based on information obtained from the Fund and other

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sources. The ratings may be changed, suspended, or withdrawn in the rating agencies' discretion as a result of changes in, or the unavailability of, such information. See "Description of Preferred Shares -- Rating Agency Guidelines and Asset Coverage."

REDEMPTION..... The Fund is required to redeem Preferred Shares if the Fund does not meet the asset coverage ratio required by the 1940 Act, or to correct a failure to meet a rating agency guideline in a timely manner. The Fund may voluntarily redeem Preferred Shares, in whole or in part, subject to certain conditions. See "Description of Preferred Shares -- Redemption" and "Description of Preferred Shares -- Rating Agency Guidelines and Asset Coverage."

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ASSET MAINTENANCE..... Under the Statement, which establishes and fixes the rights and preferences of the shares of each series of Preferred Shares, the Fund must maintain asset coverage of the Preferred Shares as required by the rating agency or agencies rating the Preferred Shares (the "Preferred Shares Basic Maintenance Amount"). The Preferred Shares Basic Maintenance Amount is the sum of (a) the aggregate liquidation preference of the Preferred Shares then outstanding, together with the aggregate liquidation preference on any other series of preferred shares (plus redemption premium, if any), and (b) certain accrued and projected dividend and other payment obligations of the Fund. Moody's and Fitch have each established separate guidelines for calculating discounted value of the Fund's assets for purposes of this asset coverage test. To the extent any particular portfolio holding does not satisfy a rating agency's guidelines, all or a portion of the holding's value will not be included in the rating agency's calculation of discounted value. The Moody's and Fitch guidelines also impose certain diversification requirements on the Fund's portfolio.

As required by the 1940 Act, the Fund must also maintain asset coverage of at least 200% with respect to outstanding senior securities that are preferred stock, including the Preferred Shares (the "1940 Act Preferred Share Asset Coverage").

In the event that the Fund does not satisfy these coverage tests, some or all of the Preferred Shares will be subject to mandatory redemption. See "Description of Preferred Shares -- Redemption."

Based on the composition of the Fund's portfolio as of [ ], 2005, the asset coverage of the Preferred Shares, as measured pursuant to the 1940 Act, would be approximately [ ]% if the Fund were to issue Preferred Shares representing approximately 33.3% of the Fund's managed assets.

MANDATORY REDEMPTION..... If the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Share Asset Coverage is not maintained or restored as specified herein, the Preferred Shares will be subject to mandatory redemption, out of funds legally available therefore, at the mandatory redemption price of \$25,000 per share plus an amount equal to dividends thereon (whether or not earned or

declared) accumulated but unpaid to the date fixed for redemption. Any such redemption will be limited to the minimum number of Preferred Shares necessary to restore the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Share

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Asset Coverage, as the case may be. The Fund's ability to make such a mandatory redemption may be restricted by the provisions of the 1940 Act.

OPTIONAL REDEMPTION..... The Preferred Shares are redeemable at the option of the Fund, as a whole or in part, on any dividend payment date (except on an initial dividend payment date or a special dividend period with respect to which the Fund has agreed not to redeem Preferred Shares voluntarily (a "Non-Call Period")) at the optional redemption price of \$25,000 per share, plus an amount equal to dividends thereon (whether or not earned or declared) accumulated but unpaid to the date fixed for redemption plus the premium, if any, resulting from the designation of a Premium Call Period. A "Premium Call Period" is a period during which Preferred Shares are only redeemable at the option of the Fund at a price per share equal to \$25,000 plus accumulated but unpaid dividends, plus a premium.

LIQUIDATION PREFERENCE..... The liquidation preference for shares of Preferred Shares will be \$25,000 per share plus accumulated but unpaid dividends, if any, whether or not declared. See "Description of Preferred Shares -- Liquidation."

VOTING RIGHTS..... The holders of preferred shares, including the Preferred Shares, voting as a separate class, have the right to elect at least two Trustees of the Fund at all times. Such holders also have the right to elect a majority of the Trustees in the event that two years' dividends on such preferred shares are unpaid. In each case, the remaining Trustees will be elected by holders of common shares and preferred shares, including the Preferred Shares, voting together as a single class. The holders of preferred shares, including the Preferred Shares, will vote as a separate class or classes on certain other matters required under the Statement, the 1940 Act and Delaware law. See "Description of Preferred Shares -- Voting Rights," and "Certain Provisions of the Agreement and Declaration of Trust and By-Laws."

AUCTION PROCEDURES..... Separate auctions will be conducted for each series of Preferred Shares. Unless otherwise permitted by the Fund, investors may only participate in auctions through their Broker-Dealers. The process for determining the applicable rate on the Preferred Shares described in this section is referred to as the "Auction Procedures" and each setting of the applicable rate is referred to as an "auction."

Prior to the submission deadline on each auction date for shares of a series of Preferred Shares, each customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a beneficial



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owner of such shares may submit

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the following types of orders with respect to shares to that Broker-Dealer:

1. Hold Order -- indicating its desire to hold shares of such series without regard to the applicable rate for the next dividend period.
2. Bid -- indicating its desire to purchase or hold the indicated number of shares of such series at \$25,000 per share if the applicable rate for shares of such series for the next dividend period is not less than the rate specified in th