Guggenheim Build America Bonds Managed Duration Trust
Form 497
October 27, 2010

PROSPECTUS

17,000,000 Shares
Guggenheim Build America Bonds Managed Duration Trust

Common Shares
$20.00 per Share

Investment Objectives. Guggenheim Build America Bonds Managed Duration Trust (the “Trust”) is a newly-organized, diversified, closed-end management investment company. The Trust’s primary investment objective is to provide current income with a secondary objective of long-term capital appreciation. The Trust cannot ensure investors that it will achieve its investment objectives.

Investment Strategy and Policies. The Trust seeks to achieve its investment objectives by investing primarily in a diversified portfolio of taxable municipal securities known as “Build America Bonds” (or “BABs”), as described further in this prospectus. Under normal market conditions, the Trust will invest at least 80% of its Managed Assets (as defined in this prospectus) in BABs, and may invest up to 20% of its Managed Assets in securities other than BABs, including taxable municipal securities that do not qualify for subsidy payments, tax-exempt municipal securities, asset-backed securities (“ABS”), senior loans and other income producing securities. Under normal market conditions, at least 80% of the Trust’s Managed Assets will be invested in securities that, at the time of investment, are investment grade quality. The Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are below investment grade quality. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as “junk” bonds.

(continued on following page)

Investing in the Trust’s common shares involves certain risks. See “Risks” beginning on page 53 of this prospectus. Certain of these risks are summarized in “Prospectus Summary—Special Risk Considerations” beginning on page 14 of this prospectus.

	Per Share	Total(3)
Public offering price	$20.00	$340,000,000
Sales load(1)	$.90	$15,300,000
Proceeds, before expenses, to the Trust(2)	$19.10	$324,700,000

(1) Guggenheim Funds Investment Advisors, LLC (the “Adviser”) and Guggenheim Partners Asset Management, LLC (the “Sub-

Adviser”) have agreed to pay from their own assets additional compensation to Merrill Lynch, Pierce, Fenner & Smith Incorporated and a structuring fee to each of Citigroup Global Markets Inc., Morgan Stanley & Co. Incorporated, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. Also, as described in footnote (2) below, up to .15% of the public offering price of the securities sold in this offering may be paid by the Trust to Guggenheim Funds Distributors, Inc., an affiliate of the Adviser and the Sub-Adviser, as reimbursement for the distribution services it provides to the Trust. The compensation to Guggenheim Funds Distributors, Inc. will be subject to the offering expense limitation described in footnote (2) below. See “Underwriting.”

(2) Offering expenses payable by the Trust will be deducted from the Proceeds to the Trust. Total offering expenses (other than sales load) are estimated to be $940,000, of which $680,000 will be paid by the Trust (up to the $.04 per common share limit described below). The Trust has agreed to pay the underwriters $113,390 ($.00667 per common share) as partial reimbursement of expenses incurred in connection with this offering. The Adviser has agreed to pay (i) all of the Trust’s organizational costs and (ii) offering expenses of the Trust (other than sales load, but inclusive of the partial reimbursement of expenses of the underwriters) that exceed $.04 per common share sold in the offering, including pursuant to the overallotment option. The Trust has agreed to pay up to .15% of the public offering price of the securities sold in this offering to Guggenheim Funds Distributors, Inc., an affiliate of the Adviser and the Sub-Adviser, as reimbursement for the distribution services it provides to the Trust. Such reimbursement is subject to the offering expense limitation of $.04 described above and will not be paid to the extent it would cause the offering expenses of the Trust to exceed $.04. See “Underwriting.”

(3) The Trust has granted the underwriters an option to purchase up to an additional 2,283,398 common shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover overallotments, if any. If such option is exercised in full, the public offering price, sales load, estimated offering expenses and proceeds, before expenses, to the Trust will be $385,667,960, $17,355,058 and $368,312,902, respectively. If such option is exercised in full, total offering expenses (other than sales load) payable by the Trust will be $771,336. See “Underwriting.”

Neither the Securities and Exchange Commission (“SEC”) 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 expect to deliver the common shares to purchasers on or about October 29, 2010 .

BofA Merrill Lynch
Citi
Morgan Stanley
Wells Fargo Securities
Raymond James

BB&T Capital Markets	Guggenheim Funds Distributors, Inc.		J.J.B. Hilliard, W.L. Lyons, LLC
Janney Montgomery Scott	Ladenburg Thalmann & Co. Inc.	Maxim Group LLC	RBC Capital Markets
Stifel Nicolaus Weisel	Wedbush Securities Inc.		Wunderlich Securities

The date of this prospectus is October 26, 2010.

(continued from previous page)

Build America Bonds. BABs are taxable municipal securities that include bonds issued by state and local governments to finance capital projects such as public schools, roads, transportation infrastructure, bridges, ports and public buildings, pursuant to the American Recovery and Reinvestment Act of 2009 (the "Act"). As described more fully herein, the Act authorizes state and local governments to sell new BABs issues without limitation through December 31, 2010. Unlike investments in most other municipal securities, interest received on BABs is subject to federal income tax and may be subject to state income tax. Issuers of Direct Payment BABs (as defined in this prospectus) are eligible to receive a subsidy from the U.S. Treasury of up to 35% of the interest paid on the bonds, which may allow such issuers to issue BABs that pay interest rates that are expected to be competitive with the rates typically paid by private bond issuers in the taxable fixed-income market. Although the U.S. Treasury subsidizes an issuer's payments of interest on BABs, it does not guarantee the issuer will be able to make principal or interest payments. See "Investment Objectives and Policies—Build America Bonds."

No Prior History. Because the Trust is newly organized, its common shares have no history of public trading. Common shares of closed-end funds frequently trade at a discount from their net asset value. The risk of loss due to this discount may be greater for initial investors expecting to sell their shares in a relatively short period after the completion of the public offering.

Listing. The Trust's common shares have been approved for listing on the New York Stock Exchange under the symbol "GBAB," subject to notice of issuance.

Adviser and Sub-Adviser. Guggenheim Funds Investment Advisors, LLC (the "Adviser") serves as the Trust's investment adviser and is responsible for the management of the Trust. Guggenheim Partners Asset Management, LLC (the "Sub-Adviser") serves as the Trust's investment sub-adviser and will be responsible for the management of the Trust's portfolio of securities. Each of the Adviser and the Sub-Adviser is an affiliate of Guggenheim Partners, LLC ("Guggenheim"). Guggenheim is a diversified financial services firm with wealth management, capital markets, investment management and proprietary investing businesses, whose clients are an elite mix of individuals, family offices, endowments, foundations, insurance companies and other institutions that have entrusted Guggenheim with the supervision of more than $100 billion of assets as of June 30, 2010. Guggenheim is headquartered in Chicago and New York with a global network of offices throughout the United States, Europe and Asia.

Duration Management Strategy. "Duration" is a measure of the price volatility of a security as a result of changes in market rates of interest, based on the weighted average timing of a security's expected principal and interest payments. There is no limit on the remaining maturity or duration of any individual security in which the Trust may invest, nor will the Trust's portfolio be managed to any duration benchmark prior to taking into account the duration management strategy discussed herein. The Trust intends to employ investment and trading strategies to seek to reduce the leverage-adjusted portfolio duration to generally less than ten (10) years. The Sub-Adviser may seek to manage the duration of the Trust's portfolio through the use of derivative instruments, including U.S. treasury swaps, credit default swaps, total return swaps and futures contracts to reduce the overall volatility of the Trust's portfolio to changes in market interest rates. In addition, the Trust may invest up to 20% of its Managed Assets in securities other than BABs, which may consist of short-duration fixed-income securities, which may help to decrease the overall duration of the Trust's portfolio while also potentially adding incremental yield. The Sub-Adviser may seek to manage the Trust's duration in a flexible and opportunistic manner based primarily on then current market conditions and interest rate levels. The Trust may incur costs in implementing the duration management strategy, but such strategy will seek to reduce the volatility of the Trust's portfolio. There can be no assurance that the Sub-Adviser's duration management strategy will be successful at any given time in managing the duration of the Trust's portfolio or helping the Trust to achieve its investment objectives. See "Investment Objectives and Policies—Duration Management Strategy."

Financial Leverage. The Trust may employ leverage through (i) the issuance of senior securities representing indebtedness, including through borrowing from financial institutions or issuance of debt securities, including notes or commercial paper (collectively, "Indebtedness"), (ii) engaging in reverse repurchase agreements, dollar rolls and economically similar transactions, (iii) investments in inverse floating rate securities, which have the economic effect of leverage and (iv) the issuance of preferred shares ("Preferred Shares") (collectively "Financial Leverage"). The Trust has no current intention to issue Preferred Shares. The Trust may utilize Financial Leverage up to the limits imposed by the 1940 Act. Under current market conditions, the Trust initially expects to utilize Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements, such that the aggregate amount of Financial Leverage is not expected to exceed 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage). The Adviser and the Sub-Adviser anticipate that the use of Financial Leverage will result in higher income to holders of common shares ("Common Shareholders") over time. Use of Financial Leverage creates an opportunity for increased income and capital appreciation but, at the same time, creates special risks. The rights of Common Shareholders will be subordinate to any Financial Leverage of the Trust. The costs associated with the issuance and use of Financial Leverage will be borne by Common Shareholders, which will result in a reduction of net asset value of the common shares. In addition, the Trust may engage in certain derivative transactions, including swaps, that have characteristics similar to leverage. To the extent the terms of such transactions obligate the Trust to make payments, the Trust intends to earmark or segregate cash or liquid securities in an amount at least equal to the current value of the amount then payable by the Trust under the terms of such transactions or otherwise cover such transactions in accordance with applicable interpretations of the Staff of the SEC. Such segregation or cover will ensure that the Trust has liquid assets available to satisfy its obligations under such transactions. As a result of such segregation or cover, the Trust's obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act, or included in calculating the aggregate amount of the Trust's Financial Leverage. There can be no assurance that a leveraging strategy will be utilized or, if utilized, will be successful. See "Use of Financial Leverage."

Continuation of BABs Program. Currently, bonds issued after December 31, 2010 will not qualify as BABs unless the relevant provisions of the Act are extended or similar legislation is enacted that provides for municipal issuers to elect to issue taxable municipal securities and receive from the U.S. Treasury federal subsidies to offset a portion of the interest costs incurred over the full term of such taxable municipal securities. The Obama administration and Congress are considering a variety of proposals to extend or modify the BABs program. In particular, a bill approved by the House of Representatives would (1) extend the BABs program to March 31, 2013, (2) reduce the amount of the direct pay subsidy for bonds issued after 2010, and (3) apply the BABs program to certain bonds issued to refinance BABs. A similar proposal in the Senate would extend the BABs program only to December 31, 2011. No assurance can be given as to whether these proposals or other changes in the BABs program will be enacted, nor can it be predicted whether such proposals or changes, if enacted, will have a positive or negative effect on the Trust. If the BABs program is not extended and there cease to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board of Trustees intends to evaluate potential actions with respect to the Trust. In such event the Board of Trustees may consider, among other things, changes to the non-fundamental investment policies of the Trust to permit the Trust to broaden its investment focus, for example to taxable municipal securities generally, merger of the Trust into another fund or termination of the Trust. If the Trust were to be terminated, the Trust would distribute all of its net assets to shareholders of record as of the date of termination after providing for all obligations of the Trust. The Trust's investment objectives and policies are not designed to seek to return the initial offering price of the common shares in the offering on any future termination date. Investors who purchase common shares may receive more or less than their original investment upon any termination of the Trust.

You should read this prospectus, which contains important information about the Trust that you should know before deciding whether to invest, and retain it for future reference. A Statement of Additional Information, dated October 26, 2010, containing additional information about the Trust, has been filed with the SEC and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 81 of this prospectus, annual and semi-annual reports to shareholders, when available, and other information about the Trust, and make shareholder inquiries, by calling (800) 345-7999 or by writing to the Adviser at 2455 Corporate West Drive, Lisle, Illinois 60532, or you may obtain a copy (and other information regarding the Trust) from the SEC's web site (http://www.sec.gov). Free copies of the Trust's reports and its Statement of Additional Information will also be available from the Trust's web site at http://www.guggenheimfunds.com.

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

This prospectus contains or incorporates by reference forward-looking statements, within the meaning of the federal securities laws, that involve risks and uncertainties. These statements describe the Trust's plans, strategies, and goals and the Trust's beliefs and assumptions concerning future economic and other conditions and the outlook for the Trust, based on currently available information. In this prospectus, words such as "anticipates," "believes," "expects," "objectives," "goals," "future," "intends," "seeks," "will," "may," "could," "should," and similar expressions are used in an effort to identify forward-looking statements, although some forward-looking statements may be expressed differently. The Trust is not entitled to the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended.

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus. The Trust 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 Trust 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. You should assume that the information in this prospectus is accurate only as of the date of this prospectus. The Trust's business, financial condition and prospects may have changed since that date. The Trust will amend this prospectus if, during the period that this prospectus is required to be delivered, there are any subsequent material changes.

PROSPECTUS SUMMARY

This is only a summary of information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in the Trust's common shares. You should carefully read the more detailed information contained elsewhere in this prospectus and the Statement of Additional Information, dated October 26, 2010 (the "SAI") prior to making an investment in the Trust, especially the information set forth under the headings "Investment Objectives and Policies" and "Risks."

The Trust	Guggenheim Build America Bonds Managed Duration Trust (the "Trust") is a newly-organized, diversified, closed-end management investment company. Guggenheim Funds Investment Advisors, LLC (the "Adviser") serves as the Trust's investment adviser and is responsible for the management of the Trust. Guggenheim Partners Asset Management, LLC ("GPAM" or the "Sub-Adviser") serves as the Trust's investment sub-adviser and will be responsible for the management of the Trust's portfolio of investments. Each of the Adviser and the Sub-Adviser is an affiliate of Guggenheim Partners, LLC ("Guggenheim"). Guggenheim is headquartered in Chicago and New York with a global network of offices throughout the United States, Europe and Asia.
The Offering	The Trust is offering common shares of beneficial interest, par value $.01 per share, through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. Incorporated, Wells Fargo Securities, LLC and Raymond James & Associates, Inc. The initial public offering price is $20.00 per common share. The Trust's common shares of beneficial interest are called "Common Shares" in this prospectus. You must purchase at least 100 Common Shares ($2,000) in order to participate in the offering. The Trust has given the underwriters an option to purchase up to an additional 2,283,398 Common Shares to cover orders in excess of Common Shares. The Adviser has agreed to pay (i) all of the Trust's organizational costs and (ii) offerings costs of the Trust (other than sales load, but inclusive of the partial reimbursement of expenses of the underwriters) that exceed $.04 per Common Share sold in the offering, including pursuant to the overallotment option. See "Underwriting."
Investment Objectives and Strategy	The Trust's primary investment objective is to provide current income with a secondary objective of long-term capital appreciation. The Trust cannot ensure investors that it will achieve its investment objectives. The Trust's investment objectives are considered fundamental and may

	not be changed without the approval of the holders of the Common Shares (the "Common Shareholders"). The Trust seeks to achieve its investment objectives by investing primarily in a diversified portfolio of taxable municipal securities known as "Build America Bonds" (or "BABs").
Build America Bonds	BABs are taxable municipal securities issued by state and local governments, pursuant to the American Recovery and Reinvestment Act of 2009 (the "Act"). Enacted in February 2009, the Act was intended in part to assist state and local governments in financing capital projects at lower net borrowing costs through direct subsidies

6

designed to stimulate state and local infrastructure projects, create jobs and attract non-traditional municipal security investors. BABs are issued by state and local governments to finance capital projects such as public schools, roads, transportation infrastructure, bridges, ports and public buildings. Municipal securities include, among other things, bonds, notes, leases and certificates of participation. Municipal securities may be structured as callable or non-callable, may have payment forms that include fixed-coupon, variable rate and zero coupon, and may include capital appreciation bonds, floating rate securities, inverse floating rate securities (including residual interest municipal tender option bonds), inflation-linked securities and other derivative instruments that replicate investment exposure to such securities. BABs, as municipal securities, may be structured in any of the foregoing ways, except that under current law BABs may not be structured as zero coupon bonds, and new versions of BABs may be offered in the future. The Trust may invest in any of these types of BABs.

BABs offer an alternative form of financing for state and local government entities whose primary means for accessing the capital markets traditionally has been through the issuance of tax-exempt municipal securities. Unlike investments in most other municipal securities, interest received on BABs is subject to federal income tax and may be subject to state income tax. BABs issuers may elect either (i) to receive payments from the U.S. Treasury equal to a specified percentage of their interest payments ("Direct Payment BABs") or (ii) to cause investors in the bonds to receive federal tax credits ("Tax Credit BABs").

Under the terms of the Act, issuers of Direct Payment BABs are entitled to receive reimbursement from the U.S. Treasury currently equal to 35% (or 45% in the case of Recovery Zone Economic Development Bonds, a new type of taxable governmental bond similar to BABs) of the interest paid on the bonds, which continues for the life of the bond. Such subsidies may allow such issuers to issue BABs that pay interest rates that are expected to be competitive with the rates typically paid by private bond issuers in the taxable fixed-income market. Tax Credit BABs provide a 35% interest subsidy (net of the tax credit) to investors that results in a federal subsidy to the issuer equal to approximately 25% of the total return to the investor (interest and tax credit). Based on current market conditions, the Trust anticipates initially investing primarily in Direct Payment BABs and does not anticipate investing in Tax Credit BABs.

Currently, bonds issued after December 31, 2010 (referred to as the "sunset") will not qualify as BABs unless the relevant provisions of the Act are extended or similar legislation is enacted that provides for municipal issuers to elect to issue taxable municipal securities and receive from the U.S. Treasury federal subsidies to offset a portion of the interest costs incurred over the full term of such taxable municipal securities. As currently enacted, the Act contains no budgetary limit on issuances through the program until the sunset. However, under the Act, BABs cannot be used to finance private, non-municipal activities, and can only be used to fund capital expenditures. The proceeds of

BABs issuances are used for public benefit and generally support facilities that meet such essential needs as water, electricity, transportation, and education. As currently enacted, the Act does not permit refunding issuances, private activity bond issuances, or deficit fund issuances. Many BABs are general obligation bonds, which are backed by the full faith and taxing powers of the state and local governments issuing them. Although the U.S. Treasury subsidizes an issuer's payments of interest on BABs, it does not guarantee the issuer will be able to make principal or interest payments.

The Obama administration and Congress are considering a variety of proposals to extend or modify the BABs program. In particular, a bill approved by the House of Representatives would (1) extend the BABs program to March 31, 2013, (2) reduce the amount of the direct pay subsidy for bonds issued after 2010, and (3) apply the BABs program to certain bonds issued to refinance BABs. A similar proposal in the Senate would extend the BABs program only to December 31, 2011.
No assurance can be given as to whether these proposals or other changes in the BABs program will be enacted, nor can it be predicted whether such proposals or changes, if enacted, will have a positive or negative effect on the Trust. If the BABs program is not extended and there cease to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board of Trustees intends to evaluate potential actions with respect to the Trust. See "Risks—Build America Bonds Risk—Continuation of BABs Program."

Investment Rationale

The Sub-Adviser believes that BABs represent a compelling asset
class that addresses investors' need for liquidity, diversification, enhanced credit and yield.

Liquidity. Between the launch of the BABs program on April 3, 2009 and August 31, 2010 approximately $130 billion of BABs have
been issued.

Diversification. Municipal issuers in 49 states and the District of Columbia have utilized the BABs program since its inception.

Enhanced Credit. Investment-grade municipal issuers have lower historical default rates than investment-grade corporate issuers.

Yield. BABs may offer higher yield-to-maturity than similarly-rated
corporate bonds and greater call protection than similarly-rated tax-
exempt municipal bonds.

The Sub-Adviser considers itself to be at the forefront of the structuring and development of the BABs and Qualified School Construction Bonds ("QSCBs") markets, with $4.3 billion in municipal assets under management, including $1.5 billion in BABs
and $1.3 billion in QSCBs as of June 30, 2010.

The Trust seeks to maximize the benefits to investors of this asset class while seeking to mitigate interest-rate risk and overall portfolio volatility.

Investment Policies

Under normal market conditions:

- The Trust will invest at least 80% of its Managed Assets in BABs.
- The Trust may invest up to 20% of its Managed Assets in securities other than BABs, including taxable municipal securities that do not qualify for federal subsidy payments under the Act, municipal securities the interest income from which is exempt from regular federal income tax (sometimes referred to as "tax-exempt municipal securities"), asset-backed securities ("ABS"), senior loans and other income producing securities.
- The Trust will not invest more than 25% of its Managed Assets in municipal securities in any one state of origin.
- The Trust will not invest more than 15% of its Managed Assets in municipal securities that, at the time of investment, are illiquid.

Credit Quality. Under normal market conditions, the Trust will invest at least 80% of its Managed Assets in securities that, at the time of investment, are investment grade quality. A security is considered investment grade quality if, at the time of investment, it is rated within the four highest letter grades by at least one of the nationally recognized statistical rating organizations ("NRSROs") (that is Baa or better by Moody's Investors Service, Inc. ("Moody's") or BBB or better by Standard & Poor's Ratings Services ("S&P") or Fitch Ratings ("Fitch")) that rate such security, even if it is rated lower by another, or if it is unrated by any NRSRO but judged to be of comparable quality by the Sub-Adviser.

Under normal market conditions, the Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are rated below investment grade (that is below Baa3- by Moody's or below BBB- by S&P or Fitch) or are unrated by any NRSRO but judged to be of comparable quality by the Sub-Adviser. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "junk bonds." See "Risks—Below Investment Grade Securities Risk."

Duration Management Strategy. "Duration" is a measure of the price volatility of a security as a result of changes in market rates of interest, based on the weighted average timing of a security's expected principal and interest payments. There is no limit on the remaining maturity or duration of any individual security in which the Trust may invest, nor will the Trust's portfolio be managed to any duration benchmark prior to taking into account the duration management strategy discussed herein.

The Trust intends to employ investment and trading strategies to seek to reduce the leverage-adjusted portfolio duration to generally less than ten (10) years. The Sub-Adviser may seek to manage the duration of the Trust's portfolio through the use of derivative instruments, including U.S. treasury swaps, credit default swaps, total return swaps and futures contracts to reduce the overall volatility of the Trust's portfolio to changes in market interest rates. For example, the Sub-Adviser may seek to manage the overall duration through the combination of the sale of interest-rate swaps on the long end of the yield curve (for example a transaction in which the Trust would pay a fixed interest rate on a 30 year swap transaction) with the purchase of an interest-rate swap on the intermediate portion of the yield curve (for example a transaction in which the Trust would receive a fixed interest rate on a ten year swap transaction). In addition, the Trust may invest up to 20% of its Managed Assets in securities other than BABs, which may consist of short-duration fixed-income securities, which may help to decrease the overall duration of the Trust's portfolio while also potentially adding incremental yield. Initially, the Sub-Adviser anticipates focusing such investments in ABS, senior loans and high-yield fixed-income securities, although the types of short-duration fixed-income securities in which the Trust may invest may vary significantly over time. The Sub-Adviser may seek to manage the Trust's duration in a flexible and opportunistic manner based primarily on then current market conditions and interest rate levels. The Trust may incur costs in implementing the duration management strategy, but such strategy will seek to reduce the volatility of the Trust's portfolio. There can be no assurance that the Sub-Adviser's duration management strategy will be successful at any given time in managing the duration of the Trust's portfolio or helping the Trust to achieve its investment objectives.

Investment Funds. As an alternative to holding investments directly, the Trust may also obtain investment exposure to securities in which it may invest directly by investing up to 20% of its Managed Assets in other investment companies, including U.S. registered investment companies and/or other U.S. or foreign pooled investment vehicles (collectively, "Investment Funds"). Investment Funds do not include structured finance investments, such as asset-backed securities. To the extent that the Trust invests in Investment Funds that invest at least 80% of their total assets in BABs, such investment will be counted for purposes of the Trust's policy of investing at least 80% of its Managed Assets in BABs. Investments in other Investment Funds involve operating expenses and fees at the Investment Funds level that are in addition to the expenses and fees borne by the Trust and are borne indirectly by Common Shareholders.

Synthetic Investments. As an alternative to holding investments directly, the Trust may also obtain investment exposure to investments in which the Trust may invest directly through the use of derivative instruments (including swaps, options, forwards, notional principal contracts or customized derivative or financial instruments) to replicate, modify or replace the economic attributes associated with an investment in which the Trust may invest directly. The Trust may be exposed to certain additional risks should the Sub-Adviser use derivatives as a means to synthetically implement the Trust's investment strategies, including counterparty risk, lack of liquidity in such derivative instruments and additional expenses associated with using such derivative instruments. To the extent that the Trust obtains indirect investment exposure to BABs through the use of the foregoing

10

derivative instruments with economic chacteristics similar to BABs, such investments will be counted for purposes of the Trust's policy of investing at least 80% of its Managed Assets in BABs. The Trust has not adopted any percentage limitation with respect to the overall percentage of investment exposure to BABs that the Trust may obtain through the use of derivative instruments.

Strategic Transactions. In addition to those derivatives transactions utilized in connection with the Trust's duration management strategy, the Trust may, but is not required to, use various portfolio strategies, including derivatives transactions involving interest rate and foreign currency transactions, swaps, options and futures ("Strategic Transactions"), to earn income, facilitate portfolio management and mitigate risks. In the course of pursuing Strategic Transactions, the Trust may purchase and sell exchange-listed and over-the-counter put and call options on securities, instruments or equity and fixed-income indices, purchase and sell futures contracts and options thereon, and enter into swap, cap, floor or collar transactions. In addition, Strategic Transactions may also include new techniques, instruments or strategies that are developed or permitted as regulatory changes occur. Successful use of Strategic Transactions depends on the Sub-Adviser's ability to predict correctly market movements, which cannot be assured. Losses on Strategic Transactions may reduce the Trust's net asset value and its ability to pay distributions if they are not offset by gains on portfolio positions being hedged. See "Investment Objectives and Policies—Strategic Transactions" in this Prospectus and

"Investment Objectives and Policies—Derivative Instruments" in the SAI.

Other Investment Practices. The Trust may engage in certain other investment transactions, including entering into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis, in excess of customary settlement periods for the type of security involved, lending portfolio securities to securities broker-dealers or financial institutions and entering into repurchase agreements. See "Investment Objectives and Policies—Certain Other Investment Practices."

These policies may be changed by the Board of Trustees of the Trust (the "Board of Trustees"), but no change is anticipated. If the Trust's policy with respect to investing at least 80% of its Managed Assets in BABs changes, the Trust will provide shareholders at least 60 days' prior notice before implementation of the change.

Special Tax Considerations

The Trust primarily invests in taxable municipal securities whose income is subject to U.S. Federal income tax. Thus, dividends with respect to the Common Shares will be taxable as ordinary income for U.S. Federal income tax purposes (except in the case of capital gain dividends). See "Tax Matters."

Financial Leverage

The Trust may employ leverage through (i) the issuance of senior securities representing indebtedness, including through borrowing from financial institutions or issuance of debt securities, including notes or commercial paper (collectively, "Indebtedness"), (ii) engaging in reverse repurchase agreements, dollar rolls and economically similar transactions, (iii) investments in inverse floating

rate securities, which have the economic effect of leverage, and (iv) the issuance of preferred shares ("Preferred Shares") (collectively "Financial Leverage"). Under current market conditions, the Trust initially expects to utilize Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements, such that the aggregate amount of Financial Leverage is not expected to exceed 331/3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage).

The Trust may utilize Financial Leverage up to the limits imposed by the 1940 Act. Under the 1940 Act, the Trust may utilize Financial Leverage in the form of Indebtedness in an aggregate amount up to 331/ 3% of the Trust's Managed Assets (including the proceeds of such Financial Leverage) immediately after such Indebtedness. Under the 1940 Act, the Trust may utilize Financial Leverage in the form of Preferred Shares in an aggregate amount of up to 50% of the Trust's total assets (including the proceeds of such Financial Leverage) immediately after such issuance. The Trust has no current intention to issue Preferred Shares.

With respect to Financial Leverage incurred through investments in inverse floating rate securities and/or reverse repurchase agreements, the Trust intends to earmark or segregate cash or liquid securities in accordance with applicable interpretations of the Staff of the Securities and Exchange Commission (the "SEC"). As a result of such segregation, the Trust's obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act. Therefore, the Trust's ability to utilize Financial Leverage through such transactions will not be limited by the 1940 Act, but will be limited by the Trust's maximum overall leverage levels approved by the Board of Trustees (currently 331/ 3% of the Trust's Managed Assets) and may be limited by the availability of cash or liquid securities to earmark or segregate in connection with such transactions.

The Adviser and the Sub-Adviser anticipate that the use of Financial Leverage will result in higher total return to Common Shareholders over time. Use of Financial Leverage creates an opportunity for increased income and capital appreciation but, at the same time, creates special risks. The costs associated with the issuance of Financial Leverage will be borne by Common Shareholders, which will result in a reduction of net asset value of the Common Shares. There can be no assurance that a leveraging strategy will be utilized or will be successful. The fee paid to the Adviser and the Sub-Adviser will be calculated on the basis of the Trust's Managed Assets, including proceeds from the issuance of Indebtedness, Preferred Shares or any other form of Financial Leverage, so the fees paid to the

Adviser and the Sub-Adviser will be higher when Financial Leverage is utilized. Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of Financial Leverage, which means that Common Shareholders effectively bear the entire advisory fee. The maximum level of and types of Financial Leverage used by the Trust must be approved by the Board of Trustees.

In addition, the Trust may engage in certain derivative transactions, including swaps, that have characteristics similar to leverage. To the extent the terms of such transactions obligate the Trust to make payments, the Trust intends to earmark or segregate cash or liquid securities in an amount at least equal to the current value of the amount then payable by the Trust under the terms of such transactions or otherwise cover such transactions in accordance with applicable interpretations of the Staff of the SEC. Such segregation or cover will ensure that the Trust has liquid assets available to satisfy its obligations under such transactions. As a result of such segregation or cover, the Trust's obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act, or included in calculating the aggregate amount of the Trust's Financial Leverage. To the extent that the Trust's obligations under such transactions are not so segregated or covered, such obligations may be considered "senior securities representing indebtedness" under the 1940 Act and therefore subject to the 300% asset coverage requirement. There can be no assurance that a leveraging strategy will be utilized or, if utilized, will be successful. See "Risks—Financial Leverage Risk" and "Risks—Volatility Risk."

Temporary Defensive Investments

At any time when a temporary defensive posture is believed by the Sub-Adviser to be warranted (a "temporary defensive period"), the Trust may, without limitation, hold cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The Trust may not achieve its investment objectives during a temporary defensive period or be able to sustain its historical distribution levels. See "Investment Objectives and Policies—

Temporary Defensive Investments."

Management of the Trust

Guggenheim Funds Investment Advisors, LLC acts as the Trust's investment adviser pursuant to an investment advisory agreement with the Trust (the "Advisory Agreement"). Pursuant to the Advisory Agreement, the Adviser is responsible for the management of the Trust and administers the affairs of the Trust to the extent requested by the Board of Trustees. As compensation for its services, the Trust pays the Adviser a fee, payable monthly, in an annual amount equal to .60% of the Trust's average daily Managed Assets. "Managed Assets" means the total assets of the Trust, including the assets attributable to the proceeds of any Financial Leverage (whether or nor these assets are reflected in the Trust's financial statements for purposes of generally accepted accounting principals), minus liabilities, other than liabilities related to any Financial Leverage. Managed Assets shall include assets attributable to Financial Leverage of any form, including Indebtedness, engaging in reverse repurchase agreements, dollar rolls and economically similar transactions, investments in inverse floating rate securities, and Preferred Shares.

Guggenheim Partners Asset Management, LLC, an affiliate of Guggenheim and of the Adviser, acts as the Trust's investment sub-adviser pursuant to an investment sub-advisory agreement with the Trust and the Adviser (the "Sub-Advisory Agreement"). Pursuant to the Sub-Advisory Agreement, the Sub-Adviser is responsible for the

	management of the Trust's portfolio of investments. As compensation for its services, the Adviser pays the Sub-Adviser a fee, payable monthly, in an annual amount equal to .30% of the Trust's average daily Managed Assets.
Distributions	The Trust intends to pay substantially all of its net investment income to Common Shareholders through monthly distributions. In addition, the Trust intends to distribute any net long-term capital gains to Common Shareholders at least annually. The Trust expects that dividends paid on the Common Shares will consist primarily of (i) investment company taxable income, which includes, among other things, ordinary income, net short-term capital gain and income from certain hedging and interest rate transactions, and (ii) net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). The Trust cannot assure you as to what percentage of the dividends paid on the Common Shares will consist of net capital gain, which is taxed at reduced rates for non-corporate investors. The Trust does not expect that a significant portion of its distributions will consist of qualified dividend income. Initial distributions to Common Shareholders are expected to be declared approximately 60 to 90 days after completion of the Common Share offering, and paid approximately 90 to 120 days after the completion of the Common Share offering, depending upon market conditions. See "Distributions." The Trust reserves the right to change its distribution policy and the basis for establishing the rate of distributions at any time and may do so without prior notice to Common Shareholders. If you hold your Common Shares in your own name or if you hold your Common Shares with a brokerage firm that participates in the Trust's Dividend Reinvestment Plan (the "Plan"), unless you elect to receive cash, all dividends and distributions that are declared by the Trust will be automatically reinvested in additional Common Shares of the Trust pursuant to the Plan. If you hold your Common Shares with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above. Consult your financial adviser for more information. See "Dividend Reinvestment Plan."
Listing and Symbol	The Trust's Common Shares have been approved for listing on the New York Stock Exchange under the symbol "GBAB," subject to notice of issuance.
Special Risk Considerations	Investment in the Trust involves special risk considerations, which are

summarized below. The Trust is designed for long-term investment and not as a trading vehicle. The Trust is not intended to be a complete investment program. The Trust's performance and the value of its investments will vary in response to changes in interest rates, inflation, the financial condition of a municipal security and other market factors. See "Risks" for a more complete discussion of the special risk considerations or an investment in the Trust.

No Operating History. The Trust is a newly-organized, diversified, closed-end management investment company with no operating history.

Not a Complete Investment Program. An investment in the Common Shares of the Trust should not be considered a complete investment program. The Trust is intended for long-term investors seeking current income and capital appreciation. The Trust is not meant to provide a vehicle for those who wish to play short-term swings in the stock market. Each Common Shareholder should take into account the Trust's investment objectives as well as the Common Shareholder's other investments when considering an investment in the Trust.

Investment and Market Risk. An investment in Common Shares of the Trust is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in the Common Shares of the Trust represents an indirect investment in the securities owned by the Trust, including municipal securities, which generally trade in the over-the-counter markets. The value of those securities may fluctuate, sometimes rapidly and unpredictably. The value of the securities owned by the Trust will affect the value of the Common Shares. At any point in time, your Common Shares may be worth less than your original investment, including the reinvestment of Trust dividends and distributions.

Management Risk. The Trust is subject to management risk because it has an actively managed portfolio. The Sub-Adviser will apply investment techniques and risk analysis in making investment decisions for the Trust, but there can be no guarantee that these will produce the desired results. The Trust will invest in securities that the Sub-Adviser believes are undervalued or mispriced as a result of recent economic events, such as market dislocations, the inability of other investors to evaluate risk and forced selling. If the Sub-Adviser's perception of the value of a security is incorrect, your investment in the Trust may lose value.

Build America Bonds Risk. The BABs market is smaller and less diverse than the broader municipal securities market. In addition, because BABs are a new form of municipal financing and because bonds issued after December 31, 2010 currently will not qualify as BABs unless the relevant provisions of the Act are extended, it is impossible to predict the extent to which a market for such bonds will develop, meaning that BABs may experience less liquidity than other types of municipal securities. If the ability to issue BABs is not extended beyond December 31, 2010, the number of BABs available in the market will be limited and there can be no assurance that BABs will be actively traded. Reduced liquidity may negatively affect the value of the BABs.

Because issuers of Direct Payment BABs held in the Trust's portfolio receive reimbursement from the U.S. Treasury with respect to interest payment on bonds, there is a risk that those municipal issuers will not receive timely payment from the U.S. Treasury and may remain obligated to pay the full interest due on Direct Payment BABs held by the Trust. Furthermore, it is possible that a municipal issuer may fail to comply with the requirements to receive the direct pay subsidy or that a future Congress may terminate the subsidy altogether. In addition, the Internal Revenue Code of 1986, as amended (the "Code") contains a general offset rule (the “IRS Offset Rule”) which allows for the possibility that subsidy payments received by issuers of BABs may be subject to offset against amounts owed by them to the federal government. Moreover, the Internal Revenue Service (the “IRS”) may audit the agencies issuing BABs and such audits may, among other things, examine the price at which BABs are initially sold to investors. If the IRS concludes that a BAB was mis-priced based on its audit, it could disallow all or a portion of the interest subsidy received by the issuer of the BAB. The IRS Offset Rule and the disallowance of any interest subsidy as a result of an IRS audit could potentially adversely affect a BABs issuer’s credit rating, and adversely affect the issuer’s ability to repay or refinance BABs. This, in turn, could adversely affect the ratings and value of the BABs held by the Trust and the Trust’s net asset value. In this regard, the State of Florida recently announced that it suspended the new issuance of BABs as a result of its uncertainty relating to the IRS Offset Rule and, in May 2010, the IRS withheld subsidies from several states and municipalities, including Austin, Texas and the State of Maryland.

Because the BABs program is new, certain aspects of the BABs program may be subject to additional federal or state level guidance or subsequent legislation. For example, the IRS or U.S. Treasury could impose restrictions or limitations on the payments received. Aspects of the BABs program for which the IRS and the U.S. Treasury have solicited public comment include, but have not been limited to, methods for making direct payments to issuers, the tax procedural framework for such payments, and compliance safeguards. It is not known what additional procedures will be implemented with respect to Direct Payment BABs, if any, nor is it known what effect such possible procedures would have on the BABs market. Legislation extending the relevant provisions of the Act, if any, may also modify the characteristics of BABs issued after December 31, 2010, including the amount of subsidy paid to issuers.

The Trust intends to invest primarily in BABs and therefore the Trust’s net asset value may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. Because BABs currently do not include certain industries or types of municipal bonds (e.g., tobacco bonds or private activity bonds), there may be less diversification than with a broader pool of municipal securities.

Continuation of BABs Program. Currently, bonds issued after December 31, 2010 will not qualify as BABs unless the relevant provisions of the Act are extended or similar legislation is enacted that provides for municipal issuers to elect to issue taxable municipal securities and receive from the U.S. Treasury federal subsidies to offset a portion of the interest costs incurred over the full term of such taxable municipal securities. The Obama administration and Congress are considering a variety of proposals to extend or modify the BABs program. In particular, a bill approved by the House of Representatives would (1) extend the BABs program to March 31, 2013, (2) reduce the amount of the direct pay subsidy for bonds issued after 2010, and (3) apply the BABs program to certain bonds issued to refinance BABs. A

16

similar proposal in the Senate would extend the BABs program only to December 31, 2011. No assurance can be given as to whether these proposals or other changes in the BABs program will be enacted, nor can it be predicted whether such proposals or changes, if enacted, will have a positive or negative effect on the Trust. If the BABs program is not extended and there cease to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board of Trustees intends to evaluate potential actions with respect to the Trust. In such event the Board of Trustees may consider, among other things, changes to the non-fundamental investment policies of the Trust to permit the Trust to broaden its investment focus, for example to taxable municipal securities generally, merger of the Trust into another fund or termination of the Trust. If the Trust were to be terminated, the Trust would distribute all of its net assets to shareholders of record as of the date of termination after providing for all obligations of the Trust. The Trust's investment objectives and policies are not designed to seek to return the initial offering price of the Common Shares in the offering on any future termination date. Investors who purchase Common Shares may receive more or less than their original investment upon any termination of the Trust.

General Municipal Securities Market Risk. Investing in the municipal securities market involves certain risks. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital was severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal bonds. Certain municipal securities may not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about municipal securities is generally less than for corporate equities or bonds, and the Trust's investment performance may therefore be more dependent on the Sub-Adviser's analytical abilities.

The secondary market for municipal securities, particularly the below investment grade bonds in which the Trust may invest, also tends to be less developed or liquid than many other securities markets, which may adversely affect the Trust's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Trust currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

Many state and municipal governments are currently under significant economic and financial stress and may not be able to satisfy their obligations. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. The taxing powers of any governmental entity may be limited by provisions of state constitutions or laws and an entity's credit will depend on many factors, including

17

the entity's tax base, the extent to which the entity relies on federal or state aid, and other factors which are beyond the entity's control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes.

Issuers of municipal securities might seek protection under Chapter 9 of the U.S. Bankruptcy Code. Although similar to other bankruptcy proceedings in some respects, municipal bankruptcy is significantly different in that there is no provision in the law for liquidation of the assets of the municipality and distribution of the proceeds to creditors. Municipal bankruptcy is available to issuers in certain states. In states in which municipal bankruptcy is not presently available, new legislation would be required to permit a municipal issuer in such state to file for bankruptcy. Municipalities must voluntarily seek protection under the Bankruptcy Code; municipal bankruptcy proceedings cannot be commenced by creditors. Due to the severe limitations placed upon the power of the bankruptcy court in Chapter 9 cases, the bankruptcy court generally is not as active in managing a municipal bankruptcy case as it is in corporate reorganizations. The bankruptcy court cannot appoint a trustee nor interfere with the municipality's political or governmental powers or with its properties or revenues, for example by ordering reductions in expenditures, increases in taxes, or sales of property, without the municipality's consent. In addition, the municipality can continue to borrow in the ordinary course without bankruptcy court approval if it is able to do so without affecting the rights of existing creditors. Neither creditors nor courts may control the affairs of the municipality indirectly by proposing a readjustment plan that would effectively determine the municipality's future tax and spending decisions, so the Trust's influence over any bankruptcy proceedings would be very limited. In the event of bankruptcy of a municipal issuer, the Trust could experience delays in collecting principal and interest, and the Trust may not be able to collect all principal and interest to which it is entitled. There is no provision in municipal bankruptcy proceedings for liquidation of municipal assets in order to distribute proceeds to creditors such as the Trust.

Credit Risk. Credit risk is the risk that one or more securities in the Trust's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the obligation experiences a decline in its financial status.

Interest Rate Risk. Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the debt securities in the Trust's portfolio will decline in value because of increases in market interest rates. As interest rates decline, issuers of municipal securities may prepay principal earlier than scheduled, forcing the Trust to reinvest in lower-yielding securities and potentially reducing the Trust's income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Trust's value. In typical market interest rate environments, the prices of longer-term debt securities generally fluctuate more than the prices

18

of shorter-term debt securities as interest rates change. These risks may be greater because certain interest rates are near or at historically low levels. To the extent the Trust invests in debt securities that may be prepaid at the option of the obligor, the sensitivity of such securities to changes in interest rates may increase (to the detriment of the Trust) when interest rates rise. Moreover, because rates on certain floating rate debt securities in which the Trust may invest typically reset only periodically, changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuations in the Trust's net asset value. See "Risks—Interest Rate Risk."

Duration Management Risk. In connection with the Trust's duration management strategy, the Trust may utilize certain strategies, including interest rate swaps, in order to manage the duration of the Trust's portfolio to reduce the interest rate sensitivity of the Trust's debt securities and decrease the Trust's exposure to interest rate risk. Certain aspects of the Trust's duration management strategy may not be implemented until after the full investment of the proceeds of this offering. Until the duration management strategy is fully implemented, the Trust may be more subject to interest rate risk. There can be no assurance that the Sub-Adviser's duration management strategy will be successful at any given time in managing the duration of the Trust's portfolio or helping the Trust to achieve its investment objectives.

Financial Leverage Risk. The Trust initially expects to employ Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements. The Adviser and the Sub-Adviser anticipate that the use of Financial Leverage will result in higher income to Common Shareholders over time. Use of Financial Leverage creates an opportunity for increased income and capital appreciation but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be utilized or will be successful.

Financial Leverage is a speculative technique that exposes the Trust to greater risk and increased costs than if it were not implemented. Increases and decreases in the value of the Trust's portfolio will be magnified when the Trust uses Financial Leverage. As a result, Financial Leverage may cause greater changes in the Trust's net asset value and returns than if Financial Leverage had not been used. The Trust will also have to pay interest on its Indebtedness, if any, which may reduce the Trust's return. This interest expense may be greater than the Trust's return on the underlying investment, which would negatively affect the performance of the Trust.

Certain types of Indebtedness subject the Trust to covenants in credit agreements relating to asset coverage and portfolio composition requirements. Certain Indebtedness issued by the Trust also may subject the Trust to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for such Indebtedness. Such guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Sub-Adviser from managing

19

the Trust's portfolio in accordance with the Trust's investment objectives and policies.

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

Dollar roll transactions involve the risk that the market value of the securities the Trust is required to purchase may decline below the agreed upon repurchase price of those securities. If the broker/dealer to whom the Trust sells securities becomes insolvent, the Trust's right to purchase or repurchase securities may be restricted. Successful use of dollar rolls may depend upon the Sub-Adviser's ability to correctly predict interest rates and prepayments. There is no assurance that dollar rolls can be successfully employed.

Inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a "tender option bond trust") formed by a third party sponsor for the purpose of holding municipal bonds. Investing in such securities may expose the Trust to certain risks. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Trust to the risks of reduced or eliminated interest payments and losses of principal.

During the time in which the Trust is utilizing Financial Leverage, the amount of the fees paid to the Adviser and the Sub-Adviser for investment advisory services will be higher than if the Trust did not utilize Financial Leverage because the fees paid will be calculated based on the Trust's Managed Assets, including proceeds of Financial Leverage. This may create a conflict of interest between the Adviser and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand. Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of Financial Leverage, which means that Common Shareholders effectively bear the entire advisory fee. In order to manage this conflict of interest, the maximum level of and types of Financial Leverage used by the Trust must be approved by the Board of Trustees, and the Board of Trustees will receive regular reports from the Adviser and the Sub-Adviser regarding the Trust's use of Financial

Leverage and the effect of Financial Leverage on the management of the Trust's portfolio and the performance of the Trust.

In addition the Trust may engage in certain derivative transactions, including swaps, that have characteristics similar to leverage. To the extent the terms of any such transaction obligate the Trust to make payments, the Trust intends to earmark or segregate cash or liquid securities in an amount at least equal to the current value of the amount then payable by the Trust under the terms of such transaction in accordance with applicable interpretations of the Staff of the SEC. To the extent the terms of any such transaction obligate the Trust to deliver particular securities to extinguish the Trust's obligations under such transactions, the Trust may "cover" its obligations under such transaction by either (i) owning the securities or collateral underlying such transactions or (ii) having an absolute and immediate right to acquire such securities or collateral without additional cash consideration (or, if additional cash consideration is required, having earmarked or segregated cash or liquid securities). Securities so segregated or designated as "cover" will be unavailable for sale by the Sub-Adviser (unless replaced by other securities qualifying for segregation or cover requirements), which may adversely effect the ability of the Trust to pursue its investment objectives. See "Risks—Financial Leverage Risk."

Reinvestment Risk. Reinvestment risk is the risk that income from the Trust's portfolio will decline if and when the Trust invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio's current earnings rate. A decline in income could affect the Common Shares' market price or investors' overall returns. See "Risks—Reinvestment Risk."

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

Insurance Risk. The Trust may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of these securities. To date, BABs have been sold largely without insurance; however, as the BABs market continues to develop and evolve, insured BABs offerings may become more prevalent. Many significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and the insurance may not add any value. As concern has increased about the balance sheets of insurers, prices on insured bonds—especially those bonds issued by weaker underlying credits—declined. Most insured bonds are currently being valued according to their fundamentals as if they were uninsured. The insurance feature of a municipal security normally provides that it guarantees the full payment of principal and interest when due through the life of an insured obligation, but does not guarantee the market value of the insured obligation or the net asset value of the Common Shares attributable to such insured obligation.

Below Investment Grade Securities Risk. Under normal market conditions, the Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are below investment grade quality, which are commonly referred to as “junk” bonds and are regarded as predominately speculative with respect to the issuer’s capacity to pay interest and repay principal. Below investment grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that for higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust’s net asset value. Because of the substantial risks associated with investments in lower grade securities, you could lose money on your investment in Common Shares of the Trust, both in the short-term and the long-term. See “Risks—Volatility Risk” and “Risks—Recent Market Developments Risks.”

Sector Risk. The Trust may invest a significant portion of its Managed Assets in certain sectors of the municipal securities market, such as hospitals and other health care facilities, charter schools and other private educational facilities, special taxing districts and start-up utility districts, and private activity bonds including industrial development bonds on behalf of transportation companies such as airline companies, whose credit quality and performance may be more susceptible to economic, business, political and regulatory developments than other sectors of municipal issuers. If the Trust invests a significant portion of its Managed Assets in the sectors noted above, the Trust's performance may be subject to additional risk and variability. To the extent that the Trust focuses its Managed Assets in the hospital and healthcare facilities sector, for example, the Trust will be subject to risks associated with such sector, including adverse government regulation and reduction in reimbursement rates, as well as government approval of products and services and intense competition. Securities issued with respect to special taxing districts will be subject to various risks, including real-estate development related risks and taxpayer concentration risk. Further, the fees, special taxes or tax allocations and other revenues established to secure the obligations of securities issued with respect to special taxing districts are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. Charter schools and other private educational facilities are subject to various risks, including the reversal of legislation authorizing or funding charter schools, the failure to renew or secure a charter, the failure of a funding entity to appropriate necessary funds and competition from alternatives such as voucher programs. Issuers of municipal utility securities can be significantly affected by government regulation, financing difficulties, supply and demand of services or fuel and natural resource conservation. The transportation sector, including airports, airlines, ports and other transportation facilities, can be significantly affected by changes in the economy, fuel prices, maintenance, labor relations, insurance costs and government regulation.

Special Risks Related to Certain Municipal Securities. The Trust may invest in municipal leases and certificates of participation in such leases. Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the governmental issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover the Trust's original investment. In the event of non-appropriation, the issuer would be in default and taking ownership of the assets may be a remedy available to the Trust, although the Trust does not anticipate that such a remedy would normally be pursued. To the extent that the Trust invests in unrated municipal leases or participates in such leases, the credit quality and risk of cancellation of such unrated leases will be monitored on an ongoing basis. Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Trust may be dependent upon the municipal authority issuing the certificates of participation to exercise remedies with respect to the underlying securities. Certificates of participation entail a risk of default or bankruptcy not only of the issuer of the underlying lease but also of the municipal agency issuing the certificate of participation.

Asset-Backed Securities Risk. Investing in asset-backed securities (“ABS”) entails various risks, including credit risks, liquidity risks, interest rate risks, market risks and legal risks. ABS are subject to significant credit risks because of the credit risks inherent in the underlying collateral and because issuers are primarily private entities. The structure of ABS and the terms of the investors’ interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all ABS are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such ABS, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including the maturity of the ABS itself) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such ABS. The Trust may invest in ABS that are subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the transactions in which such securities are issued have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss. See “Risks—Asset-Backed Securities Risk.”

Senior Loan Risk. Senior Loans hold the most senior position in the capital structure of a business entity, are typically secured with specific collateral and have a claim on the assets and/or stock of the borrower that is senior to that held by subordinated debt holders and stockholders of the borrower. Senior Loans are usually rated below investment grade. As a result, the risks associated with Senior Loans are similar to the risks of below investment grade securities, although Senior Loans are typically senior and secured in contrast to other below investment grade securities, which are often subordinated and unsecured. Senior Loans’ higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization.

In addition, because their interest rates are typically adjusted for changes in short-term interest rates, Senior Loans generally are subject to less interest rate risk than other below investment grade securities, which are typically fixed rate.

There is less readily available, reliable information about most Senior Loans than is the case for many other types of securities. In addition, there is no minimum rating or other independent evaluation of a borrower or its securities limiting the Trust's investments, and the

Sub-Adviser relies primarily on its own evaluation of a borrower's credit quality rather than on any available independent sources. As a result, the Trust is particularly dependent on the analytical abilities of the Sub-Adviser.

The Trust may invest in Senior Loans rated below investment grade, which are considered speculative because of the credit risk of their issuers. The companies issuing such Senior Loans are more likely to default on their payments of interest and principal owed to the Trust, and such defaults could reduce the Trust's net asset value and income distributions. An economic downturn generally leads to a higher non-payment rate, and a Senior Loan may lose significant value before a default occurs. Moreover, any specific collateral used to secure a Senior Loan may decline in value or become illiquid, which would adversely affect the Senior Loan's value. No active trading market may exist for certain Senior Loans, which may impair the ability of the Trust to realize full value in the event of the need to sell a Senior Loan and which may make it difficult to value Senior Loans. Adverse market conditions may impair the liquidity of some actively traded Senior Loans, meaning that the Trust may not be able to sell them quickly at a desirable price. To the extent that a secondary market does exist for certain Senior Loans, the market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Illiquid securities are also difficult to value. See "Risks—Below Investment Grade Securities Risk."

Although the Senior Loans in which the Trust will invest generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal or that such collateral could be readily liquidated. In the event of the bankruptcy of a borrower, the Trust could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. If the terms of a Senior Loan do not require the borrower to pledge additional collateral in the event of a decline in the value of the already pledged collateral, the Trust will be exposed to the risk that the value of the collateral will not at all times equal or exceed the amount of the borrower's obligations under the Senior Loans. To the extent that a Senior Loan is collateralized by stock in the borrower or its subsidiaries, such stock may lose all of its value in the event of the bankruptcy of the borrower. Such Senior Loans involve a greater risk of loss. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate the Senior Loans to presently existing or future indebtedness of the borrower or take other action detrimental to lenders, including the Trust. Such court action could under certain circumstances include invalidation of Senior Loans.

The Trust may purchase Senior Loans on a direct assignment basis from a participant in the original syndicate of lenders or from subsequent assignees of such interests. Investments in Senior Loans on a direct assignment basis may involve additional risks to the Trust. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, the purchaser's rights can be more restricted than those of the assigning institution, and, in any event, the Trust may not be able to unilaterally enforce all rights and remedies under the loan and with regard to any associated collateral. If such loan is foreclosed, the Trust could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. The Trust may also purchase, without limitation, participations in Senior Loans. The participation by the Trust in a lender's portion of a Senior Loan typically will result in the Trust having a contractual relationship only with such lender, not with the Borrower. As a result, the Trust 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 payments from the Borrower. Such indebtedness may be secured or unsecured. In purchasing participations, the Trust generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and the Trust may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. When purchasing loan participations, the Trust assumes the credit risk associated with the Borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Trust may invest may not be rated by any NRSRO.

Liquidity Risk. The Trust may invest up to 15% of its Managed Assets in municipal securities that are, at the time of investment, illiquid and certain other securities in which the Trust may invest may be illiquid. Illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value that the Trust values the securities. Illiquid securities may trade at a discount from comparable, more liquid securities and may be subject to wide fluctuations in market value. The Trust may be subject to significant delays in disposing of illiquid securities. Accordingly, the Trust may be forced to sell these securities at less than fair market value or may not be able to sell them when the Sub-Adviser believes it is desirable to do so. Illiquid securities also may entail registration expenses and other transaction costs that are higher than those for liquid securities. Restricted securities (i.e., securities subject to legal or contractual restrictions on resale) may be illiquid. However, some restricted securities (such as securities issued pursuant to Rule 144A under the Securities Act of 1933, as amended (the "1933 Act") and certain commercial paper) may be treated as liquid for these purposes. Inverse floating rate securities or the residual interest certificates of tender option bond trusts are not considered illiquid securities.

Volatility Risk. The use of Financial Leverage by the Trust will cause the net asset value, and possibly the market price, of the Trust's Common Shares to fluctuate significantly in response to changes in interest rates and other economic indicators. In addition, the Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are below investment grade quality (i.e., "junk bonds"), which may be less liquid and therefore more volatile than investment grade municipal securities. As a result, the net asset value and market price of the Common Shares of the Trust will be more volatile than those of a closed-end investment company that is not exposed to leverage or that does not invest in below investment grade securities.

Inverse Floating Rate Securities Risk. Under current market conditions, the Trust anticipates utilizing Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements. However, the Trust also may utilize Financial Leverage through investments in inverse floating rate securities (sometimes referred to as “inverse floaters”). Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a “tender option bond trust”) formed by a third party sponsor for the purpose of holding municipal bonds. Distributions on inverse floating rate securities bear an inverse relationship to short-term municipal bond interest rates. In general, income on inverse floating rate securities will decrease, or in the extreme be eliminated, when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Trust to the risks of reduced or eliminated interest payments and losses of principal. Short-term interest rates are at historic lows and may be more likely to rise in the current market environment, which may have a negative effect on the returns of inverse floating rate securities.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Trust’s investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities. The structure and degree to which the Trust’s inverse floating rate securities are leveraged will vary based upon a number of factors, including the size of the special purpose trust itself and the terms of the underlying municipal security. In the event of a significant decline in the value of an underlying security, the Trust may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating the special purpose trust or other collateral required to maintain the Trust’s anticipated effective leverage ratio. The market price of inverse floating rate securities is generally more volatile than that of the underlying securities due to leverage.

The Trust may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Trust. In the Sub-Adviser’s discretion, the Trust may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Trust may enter into such shortfall and forbearance agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the special purpose trust has declined in value. Such an agreement would require the Trust to reimburse the third party sponsor of the special purpose trust, upon termination of the special purpose trust issuing the inverse floating rate security, the difference between the liquidation value of the bonds held in the special purpose trust and the principal amount due to the holders of floating rate interests. In such instances, the Trust may be at risk of loss that exceeds its original investment in the inverse floating rate securities. The Trust's investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Trust may be highly leveraged.

Inverse floating rate securities have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in a special purpose trust. The Trust may invest in taxable inverse floating rate securities, issued by special purpose trusts formed with taxable municipal securities. The market for such inverse floating rate securities issued by special purpose trusts formed with taxable municipal securities is relatively new and undeveloped. Initially, there may be a limited number of counterparties, which may increase the credit risks, counterparty risk and liquidity risk of investing in taxable inverse floating rate securities.

The leverage attributable to such inverse floating rate securities may be "called away" on relatively short notice and therefore may be less permanent than more traditional forms of Financial Leverage. In certain circumstances, to the extent the Trust relies on inverse floating rate securities to achieve its desired effective leverage ratio, the likelihood of an increase in the volatility of net asset value and market price of the Common Shares may be greater.

To the extent the Trust relies on inverse floating rate securities to achieve its desired effective leverage ratio, the Trust may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Trust portfolio holdings in certain circumstances, including, but not limited to, the following:

- if the Trust has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;
- if special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and/or
- if the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the special purpose trust) and if additional collateral has not been posted by the Trust.

Recent Market Developments. Global and domestic financial markets have experienced periods of unprecedented turmoil. Instability in the credit markets has made it more difficult for a number of issuers to obtain financings or refinancings for their investment or lending activities or operations. There is a risk that such issuers will be unable to successfully complete such financings or refinancings. In particular, because of the conditions in the credit markets, issuers of debt securities may be subject to increased costs for debt, tightening underwriting standards and reduced liquidity for loans they make, securities they purchase and securities they issue. There is also a risk that developments in sectors of the credit markets in which the Trust does not invest may adversely affect the liquidity and the value of securities in sectors of the credit markets in which the Trust does invest, including securities owned by the Trust.

The debt and equity capital markets in the United States have been negatively impacted by significant write-offs in the financial services sector relating to sub-prime mortgages and the re-pricing of credit risk in the broadly syndicated market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the resulting United States federal government actions led to worsening general economic conditions, which materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. Such market conditions may increase the volatility of the value of securities owned by the Trust, may make it more difficult for the Trust to accurately value its securities or to sell its securities on a timely basis and may adversely affect the ability of the Trust to borrow for investment purposes and increase the cost of such borrowings, which would reduce returns to Common Shareholders. These developments adversely affected the broader economy, and may continue to do so, which in turn may adversely affect the ability of issuers of securities owned by the Trust to make payments of principal and interest when due, lead to lower credit ratings and increased defaults. Such developments could, in turn, reduce the value of securities owned by the Trust and adversely affect the net asset value of the Trust's Common Shares. In addition, the prolonged continuation or further deterioration of current market conditions could adversely impact the Trust's portfolio.

Governmental cost burdens may be reallocated among federal, state and local governments. Also, as a result of the downturn, many state and local governments have experienced significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of these state and local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. In addition to actions taken at the federal level, certain municipalities might seek protection under the bankruptcy laws, thereby affecting the repayment of their outstanding debt.

Recently markets have witnessed more stabilized economic activity as expectations for an economic recovery increased. However, risks to a robust resumption of growth persist. A return to unfavorable economic conditions or sustained economic slowdown could adversely impact the Trust's portfolio. Financial market conditions, as well as various social and political tensions in the United States and around the world, have contributed to increased market volatility and may have long-term effects on the U.S. and worldwide financial markets and cause further economic uncertainties or deterioration in the United States and worldwide. The Adviser and Sub-Adviser do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the U.S. and global economies and securities markets in the Trust's portfolio. The Adviser and the Sub-Adviser intend to monitor developments and seek to manage the Trust's portfolio in a manner consistent with achieving the Trust's investment objectives, but there can be no assurance that it will be successful in doing so.

Government Intervention in the Financial Markets. The instability in the financial markets discussed above has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self regulatory organizations may take actions that affect the regulation of the instruments in which the Trust invests, or the issuers of such instruments. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, is expected to result in a significant revision of the U.S. financial regulatory framework. The Dodd-Frank Act covers a broad range of topics, including, among many others: a reorganization of federal financial regulators; the creation of a process designed to ensure financial system stability and the resolution of potentially insolvent financial firms; the enactment of new rules for derivatives trading; the creation of a consumer financial protection watchdog; the registration and regulation of managers of private funds; the regulation of credit rating agencies; and the enactment of new federal requirements for residential mortgage loans. The regulation of various types of derivative instruments pursuant to the Dodd-Frank Act may adversely affect issuers of securities in which the Trust invests that utilize derivatives strategies for hedging or other purposes. The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and issuers of securities in which the Trust invests may also be affected by the new legislation and regulation in ways that are currently unknown and unforeseeable.

Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of the Trust's portfolio holdings.

Legislation Risk. At any time after the date of this Prospectus, legislation may be enacted that could negatively affect the assets of the Trust or the issuers of such assets. Changing approaches to regulation may have a negative impact on the entities in which the Trust invests. Legislation or regulation may also change the way in which the Trust itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Trust or will not impair the ability of the Trust to achieve its investment objectives.

Strategic Transactions Risk. The Trust may engage in various portfolio strategies, including derivatives transactions involving interest rate and foreign currency transactions, swaps, options and futures ("Strategic Transactions"), for hedging and risk management purposes and to enhance total return. The use of Strategic Transactions to enhance total return may be particularly speculative. Strategic Transactions involve risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction and illiquidity of the derivative instruments. Furthermore, the Trust's ability to successfully use Strategic Transactions depends on the Sub-Adviser's ability to predict pertinent market movements, which cannot be assured. The use of Strategic Transactions may result in losses greater than if they had not been used, may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment or may cause the Trust to hold a security that it might otherwise sell. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes.

Synthetic Investments Risk. As an alternative to holding investments directly, the Trust may also obtain investment exposure to credit securities through the use of derivative instruments (including swaps, options, forwards, notional principal contracts or customized derivative or financial instruments) to replicate, modify or replace the economic attributes associated with an investment in securities in which the Trust may invest. The Trust may be exposed to certain additional risks, including counterparty risk, should the Sub-Adviser use derivatives as a means to synthetically implement the Trust's investment strategies. If the Trust enters into a derivative instrument whereby it agrees to receive the return of a security or financial instrument or a basket of securities
or financial instruments, it will typically contract to receive such returns for a predetermined period of time. During such period, the Trust may not have the ability to increase or decrease its exposure. In addition, customized derivative instruments will likely be highly illiquid, and it is possible that the Trust will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Trust's performance in a material adverse manner. Furthermore, derivative instruments typically contain provisions giving the counterparty the right to terminate the contract upon the occurrence of certain events. Such events may include a decline in the value of the reference securities and material violations of the terms of the contract or the portfolio guidelines as well as other events determined by the

counterparty. If a termination were to occur, the Trust's return could be adversely affected as it would lose the benefit of the indirect exposure to the reference securities and it may incur significant termination expenses.

Counterparty Risk. The Trust will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Trust. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Trust may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceedings. The Trust may obtain only a limited recovery or may obtain no recovery in such circumstances.

Securities Lending Risk. The Trust may lend its portfolio securities to banks or dealers which meet the creditworthiness standards established by the Board of Trustees. Securities lending is subject to the risk that loaned securities may not be available to the Trust on a timely basis and the Trust may therefore lose the opportunity to sell the securities at a desirable price. Any loss in the market price of securities loaned by the Trust that occurs during the term of the loan would be borne by the Trust and would adversely affect the Trust’s performance. Also, there may be delays in recovery, or no recovery, of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while the loan is outstanding.

Investment Funds Risk. Investments in Investment Funds present certain special considerations and risks not present in making direct investments in securities in which the Trust may invest. Investments in Investment Funds involve operating expenses and fees that are in addition to the expenses and fees borne by the Trust. Such expenses and fees attributable to the Trust’s investments in Investment Funds are borne indirectly by Common Shareholders. Accordingly, investment in such entities involves expense and fee layering. To the extent management fees of Investment Funds are based on total gross assets, it may create an incentive for such entities’ managers to employ financial leverage, thereby adding additional expense and increasing volatility and risk. A performance-based fee arrangement may create incentives for an adviser or manager to take greater investment risks in the hope of earning a higher profit participation. Investments in Investment Funds frequently expose the Trust to an additional layer of financial leverage.

Market Discount Risk. Shares of closed-end investment companies frequently trade at a discount from their net asset value, which is a risk separate and distinct from the risk that the Trust’s net asset value could decrease as a result of its investment activities. Although the value of the Trust’s net assets is generally considered by market participants in determining whether to purchase or sell Common Shares, whether investors will realize gains or losses upon the sale of Common Shares will depend entirely upon whether the market price of Common Shares at the time of sale is above or below the investor’s purchase price for Common Shares. Because the market price of Common Shares will be determined by factors such as net asset value, dividend and distribution levels (which are dependent, in part, on expenses), supply of and demand for Common Shares, stability of dividends or distributions, trading volume of Common Shares, general market and economic conditions and other factors beyond the control of the Trust, the Trust cannot predict whether Common Shares will trade at, below or above net asset value or at, below or above the initial public offering price. This risk may be greater for investors expecting to sell their Common Shares soon after the completion of the public offering, as the net asset value of the Common Shares will be reduced immediately following the offering as a result of the payment of certain offering expenses. Common Shares of the Trust are designed primarily for long-term investors; investors in Common Shares should not view the Trust as a vehicle for trading purposes.

Portfolio Turnover Risk. The Trust's annual portfolio turnover rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Trust. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Trust. High portfolio turnover may result in an increased realization of net short-term capital gains by the Trust which, when distributed to Common Shareholders, will be taxable as ordinary income. Additionally, in a declining market, portfolio turnover may result in realized capital losses. See "Tax Matters."

Market Disruption and Geopolitical Risk. Instability in the Middle East and terrorist attacks in the United States and around the world have contributed to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties or deterioration in the United States and worldwide. The Adviser and Sub-Adviser do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the U.S. and global economies and securities markets.

Anti-Takeover Provisions in the Trust's Governing Documents

The Trust's Agreement and Declaration of Trust and the Trust's Bylaws (collectively, the "Governing Documents") include provisions that could limit the ability of other entities or persons to acquire control of the Trust or convert the Trust to an open-end fund. These provisions could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares. See "Anti-Takeover and Other Provisions in the Trust's Governing Documents" and "Risks—Anti-Takeover Provisions."

Administrator, Custodian, Transfer Agent and Dividend Disbursing Agent

The Bank of New York Mellon serves as the custodian of the Trust's assets pursuant to a custody agreement. Under the custody agreement, the custodian holds the Trust's assets in compliance with the 1940 Act. For its services, the custodian will receive a monthly fee based upon, among other things, the average value of the total assets of the Trust, plus certain charges for securities transactions. The Bank of

New York Mellon also serves as the Trust's dividend disbursing agent, agent under the Trust's Dividend Reinvestment Plan (the "Plan Agent"), transfer agent and registrar with respect to the Common Shares of the Trust.

Guggenheim Funds Investment Advisors, LLC serves as the Trust's administrator. Pursuant to an administration agreement with the Trust, Guggenheim Funds Investment Advisors, LLC provides certain administrative, bookkeeping and accounting services to the Trust.

SUMMARY OF TRUST EXPENSES

The purpose of the table and the example below is to help you understand the fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The expenses shown in the table are based on estimated amounts for the Trust's first year of operations and assume that the Trust issues 17,000,000 Common Shares. The Trust's actual expenses may vary from the estimated expenses shown in the table. See "Management of the Trust" and "Dividend Reinvestment Plan."

Shareholder Transaction Expenses		
Sales load paid by you (as a percentage of offering price)	4.5	%
Offering expenses borne by Common Shareholders (as a percentage of offering price)(1)	.20	%
Dividend Reinvestment Plan fees(2)	None	

Annual Expenses	Percentage of Net Assets Attributable to Common Shares	
Management fees(3)	.90	%
Interest payments on borrowed funds(4)(7)	.75	%
Other expenses(5)(6)	.37	%
Total annual expenses	2.02	%

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(1) The Adviser has agreed to pay (i) all organizational costs of the Trust and (ii) offering expenses of the Trust (other than the sales load but inclusive of the partial reimbursement of expenses of the underwriters) that exceed $.04 per Common Share sold in the offering, including pursuant to the overallotment option (.20% of the offering price). The Trust has agreed to pay up to .15% of the public offering price of the securities sold in this offering to Guggenheim Funds Distributors, Inc., ("Guggenheim Funds Distributors") an affiliate of the Adviser and the Sub-Adviser, as reimbursement for the distribution services it provides to the Trust. Such reimbursement is subject to the offering expense limitation of $.04 described above and will not be paid to the extent it would cause the offering expenses of the Trust to exceed $.04. Assuming the Trust issues 17,000,000 Common Shares, the offering expenses are estimated to be approximately $940,000 (exclusive of any reimbursement paid to Guggenheim Funds Distributors), of which $680,000 ($.04 per Common Share) will be borne by the Trust.

(2) You will pay brokerage charges if you direct the Plan Agent to sell your Common Shares held in a dividend reinvestment account. See "Dividend Reinvestment Plan."

(3) The Trust pays an investment advisory fee to the Adviser in an annual amount equal to .60% of the Trust's average daily Managed Assets. Common Shareholders bear the portion

of the investment advisory fee attributable to the assets purchased with the proceeds of Financial Leverage, which means that Common Shareholders effectively bear the entire advisory fee.

(4) Under current market conditions, the Trust initially expects to utilize Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements, such that the aggregate amount of Financial Leverage is not expected to exceed 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage). The table above assumes that the Trust utilizes Financial Leverage in the form of Indebtedness in an amount equal to 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage) and an annual interest rate of 1.25%. The table above also assumes a one-time facility fee of .25% of the amount of Indebtedness, which is included as a component of "Interest payments on borrowed funds." To the extent other forms of Financial Leverage (or combinations of forms of Financial Leverage) are utilized, the associated Financial Leverage costs would likely change from the cost estimates set forth above.

(5) The "Other expenses" shown in the table and related footnotes are based on estimated amounts for the Trust's first year of operations. Expenses attributable to the Trust's investments, if any, in Investment Funds are currently estimated not to exceed .01%.

(6) Reimbursement, if any, to be paid by the Trust to Guggenheim Funds Distributors, as described in footnote (1) above, is not reflected in "Other expenses," as it is included in "Offering expenses borne by Common Shareholders (as a percentage of offering price)" above.

(7) The table presented in this footnote estimates what the Trust's annual expenses would be, stated as percentages of the Trust's net assets attributable to Common Shares and assumes the Trust is the same size as the table above but, unlike the table above, assumes that the Trust does not utilize any form of Financial Leverage. In accordance with these assumptions, the Trust's expenses would be estimated as follows:

Annual Expenses	Percentage of Net Assets Attributable to Common Shares (assumes no Financial Leverage is used)	
Management fees	.60	%
Interest payments on borrowed funds	None	
Other expenses(4)(5)	.25	%
Total annual expenses	.85	%

Example

As required by relevant SEC regulations, the following example illustrates the expenses (including the sales load of $45 and estimated expenses of this offering of $2) that you would pay on a $1,000 investment in Common Shares, assuming (1) "Total annual expenses" of 2.02% of net assets attributable to Common Shares and (2) a 5% annual return*:

1 Year	3 Years	5 Years	10 Years
$67	$102	$140	$245

* The Example should not be considered a representation of future expenses or returns. Actual expenses may be higher or lower than those assumed. Moreover, the Trust's actual rate of return may be higher or lower than the hypothetical 5% return shown in the example. The example assumes that all dividends and distributions are reinvested at net asset value and that the estimated "Interest payments on borrowed

funds” and “Other expenses” are accurate.

35

THE TRUST

Guggenheim Build America Bonds Managed Duration Trust (the “Trust”) is a newly-organized, diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Trust was organized as a statutory trust on June 30, 2010, pursuant to a Certificate of Trust, and is governed by the laws of the State of Delaware. As a newly-organized entity, the Trust has no operating history. Its principal office is located at 2455 Corporate West Drive, Lisle, Illinois 60532, and its telephone number is (630) 505-3700.

Guggenheim Funds Investment Advisors, LLC (the “Adviser”) serves as the Trust’s investment adviser and is responsible for the management of the Trust. Guggenheim Partners Asset Management, LLC (“GPAM” or the “Sub-Adviser”) serves as the Trust’s investment sub-adviser and is responsible for the management of the Trust’s portfolio of investments. Each of the Adviser and the Sub-Adviser are subsidiaries of Guggenheim Partners, LLC (“Guggenheim”). Guggenheim is headquartered in Chicago and New York with a global network of offices throughout the United States, Europe and Asia.

USE OF PROCEEDS

The net proceeds of the offering of Common Shares will be approximately $324,020,000 ($367,541,566 if the underwriters exercise the overallotment option in full) after payment of the estimated offering expenses to be borne by the Trust. The Trust will pay all of its offering expenses up to $.04 per Common Share, and the Adviser has agreed to pay (i) all of the Trust’s organizational costs, and (ii) those offering expenses of the Trust (other than sales load, but inclusive of the partial reimbursement of expenses of the underwriters) that exceed $.04 per Common Share sold in the offering, including pursuant to the overallotment option. The Trust will invest the net proceeds of the offering in accordance with its investment objectives and policies as soon as practicable after the closing of the offering. The Trust expects to be able to invest the net proceeds from this offering within three months after the completion of this offering. Pending the full investment of the proceeds of the offering, it is anticipated that the proceeds will be invested in U.S. Government securities or high quality, short-term money market instruments. Certain aspects of the Trust’s duration management strategy may not be implemented until after the full investment of the proceeds of this offering. Until the duration management strategy is fully implemented, the Trust may be more subject to interest rate risk.

INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives and Strategy

The Trust’s primary investment objective is to provide current income with a secondary objective of long-term capital appreciation. The Trust cannot ensure investors that it will achieve its investment objectives. The Trust’s investment objectives are considered fundamental and may not be changed without the approval of the holders of the Common Shares (the “Common Shareholders”).

The Trust seeks to achieve its investment objectives by investing primarily in a diversified portfolio of taxable municipal securities known as “Build America Bonds” (or “BABs”).

Build America Bonds

BABs are taxable municipal securities issued by state and local governments, pursuant to the American Recovery and Reinvestment Act of 2009 (the “Act”). Enacted in February 2009, the Act was intended in part to assist state and local governments in financing capital projects at lower net borrowing costs through direct subsidies designed to stimulate state and local infrastructure projects, create jobs and attract non-traditional municipal security investors. BABs are issued by state and local governments to finance capital projects such as public schools, roads, transportation infrastructure, bridges, ports and public buildings. Municipal securities include, among other things, bonds, notes, leases and certificates of participation. Municipal securities may be structured as callable or non-callable, may have payment forms that include fixed-coupon, variable rate and zero coupon, and may include capital appreciation bonds, floating rate securities, inverse floating rate securities (including residual interest municipal tender option bonds), inflation-linked securities and other derivative instruments that replicate investment exposure to such securities. BABs, as municipal securities, may be structured in any of the foregoing ways, except that under current law BABs may not be structured as zero coupon bonds, and new versions of BABs may be offered in the future. The Trust may invest in any of these types of BABs.

BABs offer an alternative form of financing for state and local government entities whose primary means for accessing the capital markets traditionally has been through the issuance of tax-exempt municipal securities. Unlike investments in most other municipal securities, interest received on BABs is subject to federal income tax and may be subject to state income tax. BABs issuers may elect either (i) to receive payments from the U.S. Treasury equal to a specified percentage of their interest payments ("Direct Payment BABs") or (ii) to cause investors in the bonds to receive federal tax credits ("Tax Credit BABs").

Under the terms of the Act, issuers of Direct Payment BABs are entitled to receive reimbursement from the U.S. Treasury currently equal to 35% (or 45% in the case of Recovery Zone Economic Development Bonds, a new type of taxable governmental bond similar to BABs) of the interest paid on the bonds, which continues for the life of the bond. Such subsidies may allow such issuers to issue BABs that pay interest rates that are expected to be competitive with the rates typically paid by private bond issuers in the taxable fixed-income market. Tax Credit BABs provide a 35% interest subsidy (net of the tax credit) to investors that results in a federal subsidy to the issuer equal to approximately 25% of the total return to the investor (interest and tax credit). Based on current market conditions, the Trust anticipates initially investing primarily in Direct Payment BABs and does not anticipate investing in Tax Credit BABs. Therefore, the Trust does not expect to receive (or pass through to Common Shareholders) tax credits as a result of its investments in BABs.

Currently, bonds issued after December 31, 2010 (referred to as the "sunset") will not qualify as BABs unless the relevant provisions of the Act are extended or similar legislation is enacted that provides for municipal issuers to elect to issue taxable municipal securities and receive from the U.S. Treasury federal subsidies to offset a portion of the interest costs incurred over the full term of such taxable municipal securities. As currently enacted, the Act contains no budgetary limit on issuances through the program until the sunset. However, under the Act BABs cannot be used to finance private, non-municipal activities, and can only be used to fund capital expenditures. The proceeds of BABs issuances are used for public benefit and generally support facilities that meet such essential needs as water, electricity, transportation, and education. As currently enacted, the Act does not permit refunding issuances, private activity bond issuances, or deficit fund issuances. Many BABs are general obligation bonds, which are backed by the full faith and taxing powers of the state and local governments issuing them.

The Internal Revenue Code of 1986, as amended (the "Code") contains a general offset rule (the "IRS Offset Rule") which allows for the possibility that subsidy payments received by issuers of BABs may be subject to offset against amounts owed by them to the federal government. The State of Florida recently announced that it suspended the new issuance of BABs as a result of its uncertainty relating to the IRS Offset Rule, which allows for the possibility that subsidy payments received by issuers of BABs may be subject to offset against amounts owed by them to the federal government. If other BABs issuers were to suspend the new issuance of BABs due to the IRS Offset Rule, as Florida has done, this could then have a negative impact on the BABs market. The possibility of such offsets has been recognized since the inception of the BABs program. The IRS has broad regulatory authority to develop special rules to adapt or tailor the procedural framework implementing the BABs program. In May 2010, the IRS withheld subsidies from several states and municipalities, including Austin, Texas and the State of Maryland. The IRS has stated that less than 2% of all subsidy payments have been withheld for offsets but has not provided an exact dollar figure. The Sub-Adviser believes the IRS Offset Rule is understood by potential BABs issuers. The Sub-Adviser does not believe that the State of Florida's announcement or the May 2010 offsets will have an adverse impact on the future of BABs issuance in general or on the Trust, although no assurance can be given in this regard. In addition, the IRS may audit the state agencies issuing BABs and such audits may result in negative consequences for the BABs issuers being audited. See "Risks—Build America Bonds Risk."

The Obama administration and Congress are considering a variety of proposals to extend or modify the BABs program. In particular, a bill approved by the House of Representatives would (1) extend the BABs program to March 31, 2013, (2) reduce the amount of the direct pay subsidy for bonds issued after 2010, and (3) apply the BABs program to certain bonds issued to refinance BABs. A similar proposal in the Senate would extend the BABs program only to December 31, 2011. No assurance can be given as to whether these proposals or other changes in the BABs program will be enacted, nor can it be predicted whether such proposals or changes, if enacted, will have a positive or negative effect on the Trust. If the BABs program is not extended and there cease to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board of Trustees intends to evaluate potential actions with respect to the Trust. See “Risks—Build America Bonds Risk—Continuation of BABs Program.”

The Hiring Incentives to Restore Employment Act of 2010 (the “HIRE Act”), permits issues of certain types of municipal tax credit bonds to elect to receive direct pay subsidies similar to those provided for by the BABs program. The provisions of the HIRE Act apply to the following types of bonds: (i) Qualified School Construction Bonds (“QSCBs”), which can be issued to finance the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed; (ii) Qualified Zone Academy Bonds (“QZABs”), which can be issued to finance the renovation of existing schools that qualify as a “qualified zone academy;” (iii) New Clean Renewable Energy Bonds (“New CREBs”), which may be issued to finance qualified renewable energy facilities that produce electricity; and (iv) and Qualified Energy Conservation Bonds (“QECBs”), which are issued for qualified energy conservation purposes. Eligible issuers of QSCBs and QZABs can receive subsidy payments equal to 100% of the lesser of the actual interest rate of the bonds or the tax credit rate for municipal tax-credit bonds, set daily by the U.S. Treasury. Eligible issuers of New CREBs and QECBs can receive subsidy payments equal to 70% of the lesser of the actual interest rate of the bonds or the tax credit rate for municipal tax-credit bonds, set daily by the U.S. Treasury. QSCBs, QZABs, New CREBs and QECBs that qualify for direct pay subsidies are considered BABs for purposes of the Trust's policy of investing at least 80% of its Managed Assets in BABs.

Investment Rationale

The Sub-Adviser believes that BABs represent a compelling asset class that addresses investors’ need for liquidity, diversification, enhanced credit and yield.

· Liquidity. Between the launch of the BABs program on April 3, 2009 and August 31, 2010 approximately $130 billion of BABs have been issued.

· Diversification. Municipal issuers in 49 states and the District of Columbia have utilized the BABs program since its inception.

· Enhanced Credit. Investment-grade municipal issuers have lower historical default rates than investment- grade corporate issuers.

· Yield. BABs may offer higher yield-to-maturity than similarly-rated corporate bonds and greater call protection than similarly-rated tax-exempt municipal bonds.

The Sub-Adviser considers itself to be at the forefront of the structuring and development of the BABs and (QSCBs) markets, with $4.3 billion in municipal assets under management, including $1.5 billion in BABs and $1.3 billion in QSCBs as of June 30, 2010.

The Trust seeks to maximize the benefits to investors of this asset class while seeking to mitigate interest-rate risk and overall portfolio volatility.

Investment Policies

Under normal market conditions:

· The Trust will invest at least 80% of its Managed Assets in BABs.

· The Trust may invest up to 20% of its Managed Assets in securities other than BABs, including taxable municipal securities that do not qualify for federal subsidy payments under the Act, municipal securities the interest income from which is exempt from regular federal income tax (sometimes referred to as "tax-exempt municipal securities"), asset-backed securities ("ABS"), senior loans and other income producing securities.

· The Trust will not invest more than 25% of its Managed Assets in municipal securities in any one state of origin.

· The Trust will not invest more than 15% of its Managed Assets in municipal securities that, at the time of investment, are illiquid.

Credit Quality. Under normal market conditions, the Trust will invest at least 80% of its Managed Assets in securities that, at the time of investment, are investment grade quality. A security is considered investment grade quality if, at the time of investment, it is rated within the four highest letter grades by at least one of the nationally recognized statistical rating organizations ("NRSROs") (that is Baa or better by Moody's Investors Service, Inc. ("Moody's") or BBB or better by Standard & Poor's Ratings Services ("S&P") or Fitch Ratings ("Fitch")) that rate such security, even if it is rated lower by another, or if it is unrated by any NRSRO but judged to be of comparable quality by the Sub-Adviser.

Under normal market conditions, the Trust may invest up to 20% of its Managed Assets in securities that, at the time of investment, are rated below investment grade (that is below Baa3- by Moody's or below BBB- by S&P or Fitch) or are unrated by any NRSRO but judged to be of comparable quality by the Sub-Adviser. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as "junk bonds."

The credit quality policies noted above apply only at the time a security is purchased, and the Trust is not required to dispose of a security in the event that an NRSRO downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, the Sub-Adviser may consider such factors as the Sub-Adviser's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other NRSROs.

NRSROs are private services that provide ratings of the credit quality of debt obligations. Ratings assigned by an NRSRO are not absolute standards of credit quality and do not evaluate market risks or the liquidity of securities. NRSROs may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. To the extent that the issuer of a security pays an NRSRO for the analysis of its security, an inherent conflict of interest may exist that could affect the reliability of the rating. Although these ratings may be an initial criterion for selection of portfolio investments, the Sub-Adviser also independently evaluates these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Trust invests in unrated lower grade securities, the Trust's ability to achieve its investment objectives will be more dependent on the Sub-Adviser's credit analysis than would be the case when the Trust invests in rated securities. A general description of the ratings of S&P, Moody's and Fitch is set forth in Appendix A to the Statement of Additional Information.

Duration Management Strategy. "Duration" is a measure of the price volatility of a security as a result of changes in market rates of interest, based on the weighted average timing of a security's expected principal and interest payments. Duration differs from "maturity" of a security (which is the date on which the issuer is obligated to repay the principal amount) in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations, and (in general) a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration. There is no limit on the remaining maturity or duration of any individual security in which the Trust may invest, nor will the Trust's portfolio be managed to any duration benchmark prior to taking into account the duration management strategy discussed herein.

The Trust intends to employ investment and trading strategies to seek to reduce the leverage-adjusted portfolio duration to generally less than ten (10) years. The Sub-Adviser may seek to manage the duration of the Trust's portfolio through the use of derivative instruments, including U.S. treasury swaps, credit default swaps, total return swaps and futures contracts to reduce the overall volatility of the Trust's portfolio to changes in market interest rates.

For example, the Sub-Adviser may seek to manage the overall duration through the combination of the sale of interest-rate swaps on the long end of the yield curve (for example a transaction in which the Trust would pay a fixed interest rate on a 30 year swap transaction) with the purchase of an interest-rate swap on the intermediate portion of the yield curve (for example a transaction in which the Trust would receive a fixed interest rate on a ten year swap transaction). In addition, the Trust may invest up to 20% of its Managed Assets in securities other than BABs, which may consist of short-duration fixed-income securities, which may help to decrease the overall duration of the Trust's portfolio while also potentially adding incremental yield. Initially, the Sub-Adviser anticipates focusing such investments in ABS, senior loans and high-yield fixed income securities, although the types of short-duration fixed-income securities in which the Trust may invest may vary significantly over time. The Sub-Adviser may seek to manage the Trust's duration in a flexible and opportunistic manner based primarily on then current market conditions and interest rate levels. The Trust may incur costs in implementing the duration management strategy, but such strategy will seek to reduce the volatility of the Trust's portfolio. There can be no assurance that the Sub-Adviser's duration management strategy will be successful at any given time in managing the duration of the Trust's portfolio or helping the Trust to achieve its investment objectives.

The investment policies set forth above may be changed by the Board of Trustees of the Trust (the "Board of Trustees"), but no change is anticipated. If the Trust's policy with respect to investing at least 80% of its Managed Assets in BABs changes, the Trust will provide shareholders at least 60 days' prior notice before implementation of the change. Except as otherwise noted, all percentage limitations set forth in this prospectus and the Statement of Additional Information ("SAI") apply immediately after a purchase or initial investment and any subsequent change in any applicable percentage resulting from market fluctuations does not require any action.

Portfolio Contents

The Trust's investment portfolio may include investments in the following types of securities and investments:

Municipal Securities. The Trust may invest in taxable municipal securities (including BABs) and tax-exempt municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from regular federal income tax. Municipal securities are often issued by state and local governmental entities to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned transportation, electric utility or pollution control projects. Municipal securities may be issued on a long term basis to provide permanent financing. The repayment of such debt may be secured generally by a pledge of the full faith and credit taxing powers of the issuer, a limited or special tax, or any other revenue source, including project revenues, which may include tolls, fees and other user charges, lease payments and mortgage payments. Municipal securities may also be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds of the later issuance of long-term debt.

Municipal securities are either general obligation or revenue bonds and typically are issued to finance public projects (such as roads or public buildings), to pay general operating expenses or to refinance outstanding debt. General obligation bonds are backed by the full faith and credit, or taxing authority, of the issuer and may be repaid from any revenue source; revenue bonds may be repaid only from the revenues of a specific facility or source. The Trust also may purchase municipal securities that represent lease obligations, municipal notes, pre-refunded municipal bonds, private activity bonds, taxable municipal bonds, floating rate securities and other related securities and may purchase derivative instruments that create exposure to municipal bonds, notes and securities, however, under current law not all such types of municipal securities may be issued as BABs. The Trust may purchase municipal securities representing a wide range of sectors and issued for a wide range of purposes.

The yields on municipal securities depend on a variety of factors, including prevailing interest rates and the condition of the general money market and the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. A municipal security's market value generally will depend upon its form, maturity, call features, and interest rate, as well as the credit quality of the issuer, all such factors examined in the context of the municipal securities market and interest rate levels and trends. The market value of municipal securities will vary with changes in interest rate levels and as a result of changing evaluations of the ability of their issuers to meet interest and principal payments.

Municipal Leases and Certificates of Participation. The Trust also may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase that is issued by a state or local government to acquire equipment and facilities. Income from such obligations generally is exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Trust's original investment. To the extent that the Trust invests in unrated municipal leases or participates in such leases, the credit quality and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Trust will only purchase municipal securities representing lease obligations where the Sub-Adviser believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Trust with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Trust with the right to demand payment, on not more than seven days' notice, of all or any part of the Trust's participation interest in the underlying municipal securities, plus accrued interest.

Municipal Notes. The Trust also may purchase municipal securities in the form of notes that generally are used to provide for short-term capital needs, in anticipation of an issuer's receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer's payment obligations under the notes or that refinancing will be otherwise unavailable.

Pre-Refunded Municipal Securities. The principal of, and interest on, pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. Government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

Insured Municipal Securities. The Trust may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. To date, BABs have sold largely without insurance; however, as the BABs market continues to develop and evolve, insured BABs offerings may become more prevalent. The credit quality of companies that provide such credit enhancements will affect the value of these securities. Although the insurance feature is designed to reduce certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Trust's income, which may in turn negatively affect the Trust's net asset value. The Trust may use any insurer, regardless of its rating. A municipal security typically will be deemed to have the rating of its insurer. However, in the event an insurer has a credit rating below the rating of an underlying municipal security or is perceived by the market to have such a lower rating, the municipal security rating would be the more relevant rating and the value of the municipal security would more closely, if not entirely, reflect such rating. As a result, the value of insurance associated with a municipal security may decline and the insurance may not add any value. The insurance feature normally provides that it guarantees the full payment of principal and interest when due of an insured obligation, but does not guarantee the market value of the insured obligation or the net asset value of the Common Shares represented by such insured obligation.

Private Activity Bonds. Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues. Under current law, private activity bonds cannot be issued as BABs.

Taxable Municipal Bonds. The Trust may invest in taxable municipal bonds that do not qualify for federal support. Taxable municipal bonds are municipal bonds in which interest paid to the bondholder does not qualify as tax-exempt for federal tax purposes because of the use to which the bond proceeds are put by the municipal borrower. Taxable municipal bonds may include bonds issued to finance sports facilities or investor-led housing, refunding of a refunded issue or borrowing to replenish a municipality's underfunded pension plan. Taxable municipal bonds may be issued on behalf of private non-profit universities or hospitals. Although taxable municipal bonds are subject to federal taxation, they may not be subject to taxation by the state in which the municipal issuer is located.

Special Taxing Districts. Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds (a type of municipal bond established by the Community Facilities District Act of 1982), are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing powers of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds. Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development fails to progress as anticipated or if larger taxpayers fail to pay the assessments, fees and taxes as provided in the financing plans of the districts.

Floating Rate Securities. The Trust may also invest in floating rate securities issued by special purpose trusts. The special purpose trust typically sells two classes of beneficial interests or securities: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). The floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. Floating rate securities may take the form of short-term floating rate securities or the option period may be substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying bond deposited in the special purpose trust, the Trust as the holder of the floating rate security relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the special purpose trust provide for a liquidation of the municipal security deposited in the special purpose trust and the application of the proceeds to pay off the floating rate security. The special purpose trusts that are organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the floating rate security.

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

Asset-Backed Securities. Asset-backed securities ("ABS") are a form of structured debt obligation. ABS are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period. Asset-backed securitization is a financing technique in which financial assets, in many cases themselves less liquid, are pooled and converted into instruments that may be offered and sold in the capital markets. In a basic securitization structure, an entity, often a financial institution, originates or otherwise acquires a pool of financial assets, either directly or through an affiliate. It then sells the financial assets, again either directly or through an affiliate, to a specially created investment vehicle that issues securities "backed" or supported by those financial assets. The securities issued by such investment vehicle are ABS. Payment on the ABS depends primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as liquidity facilities, guarantees or other features generally known as credit enhancements. The collateral for these securities may include home equity loans, automobile and credit card receivables, boat loans, computer leases, airplane leases, mobile home loans, recreational vehicle loans and hospital account receivables. The Trust may invest in these and other types of asset-backed securities that may be developed in the future.

Senior Loans. Senior Loans hold the most senior position in the capital structure of a business entity (the "Borrower"), are typically secured with specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by subordinated debt holders and stockholders of the Borrower. The proceeds of Senior Loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancings and to finance internal growth and for other corporate purposes. Senior Loans typically have rates of interest which are redetermined daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. These base lending rates are primarily LIBOR and secondarily the prime rate offered by one or more major U.S. banks and the certificate of deposit rate or other base lending rates used by commercial lenders.

Senior Loans typically have a stated term of between five and nine years. Longer interest rate reset periods generally increase fluctuations in the Trust's net asset value as a result of changes in market interest rates. The Trust is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio. As a result, as short-term interest rates increase, interest payable to the Trust from its investments in Senior Loans should increase, and as short-term interest rates decrease, interest payable to the Trust from its investments in Senior Loans should decrease. Because of prepayments, the Sub-Adviser expects the average life of the Senior Loans in which the Trust invests to be shorter than the stated maturity.

Senior Loans are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Trust, a reduction in the value of the investment and a potential decrease in the net asset value of the Trust. There can be no assurance that the liquidation of any collateral securing a Senior Loan 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. In the event of bankruptcy of a Borrower, the Trust could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. The collateral securing a Senior Loan may lose all or substantially all of its value in the event of the 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 such 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 circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. If interest were required to be refunded, it could negatively affect the Trust's performance.

Many Senior Loans in which the Trust will invest may not be rated by a rating agency, will not be registered with the Securities and Exchange Commission ("SEC"), or any state securities commission, and will not be listed on any national securities exchange. The amount of public information available with respect to Senior Loans will generally be less extensive than that available for registered or exchange-listed securities. In evaluating the creditworthiness of Borrowers, the Sub-Adviser will consider, and may rely in part on, analyses performed by others. Borrowers may have outstanding debt obligations that are rated below investment grade by a rating agency. Many of the Senior Loans in which the Trust will invest will have been assigned below investment grade ratings by independent rating agencies. In the event Senior Loans are not rated, they are likely to be the equivalent of below investment grade quality. Because of the protective features of Senior Loans, the Sub-Adviser believes that Senior Loans tend to have more favorable loss recovery rates as compared to more junior types of below investment grade debt obligations. The Sub-Adviser does not view ratings as the determinative factor in their investment decisions and rely more upon their credit analysis abilities than upon ratings.

No active trading market may exist for some Senior Loans, and some loans may be subject to restrictions on resale. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value and thus cause a material decline in the Trust's net asset value. In addition, the Trust may not be able to readily dispose of its Senior Loans at prices that approximate those at which the Trust could sell such loans if they were more widely-traded and, as a result of such illiquidity, the Trust may have to sell other investments including at times when it may not be advisable to do so, or engage in borrowing transactions if necessary to raise cash to meet its obligations. During periods of limited supply and liquidity of Senior Loans, the Trust's yield may be lower.

Although changes in prevailing interest rates can be expected to cause some fluctuations in the value of Senior Loans (due to the fact that floating rates on Senior Loans reset only periodically), the value of Senior Loans is substantially less sensitive to changes in market interest rates than that of fixed rate instruments. As a result, to the extent the Trust invests in floating-rate Senior Loans, the Trust's portfolio may be less volatile and less sensitive to changes in market interest rates than if the Trust invested in fixed rate obligations. Similarly, a sudden and significant increase in market interest rates may cause a decline in the value of these investments and in the Trust's net asset value. Other factors, including rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity, can reduce the value of Senior Loans and other debt obligations, impairing the Trust's net asset value.

The Trust may purchase and retain in its portfolio a Senior Loan where the Borrower has experienced, or may be perceived to be likely to experience, credit problems, including involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. Such investments may provide opportunities for enhanced income as well as capital appreciation, although they also will be subject to greater risk of loss. 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 Trust may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan.

The Trust may purchase Senior Loans on a direct assignment basis from a participant in the original syndicate of lenders or from subsequent assignees of such interests. If the Trust purchases a Senior Loan on direct assignment, it 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. Investments in Senior Loans on a direct assignment basis may involve additional risks to the Trust. For example, if such loan is foreclosed, the Trust could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral.

The Trust may also purchase, without limitation, participations in Senior Loans. The participation by the Trust in a lender’s portion of a Senior Loan typically will result in the Trust having a contractual relationship only with such lender, not with the Borrower. As a result, the Trust 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 payments from the Borrower. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participations in a loan to a Borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Trust may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, the Trust assumes the credit risk associated with the Borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Trust intends to invest may not be rated by any NRSRO. Given the current structure of the markets for loan participations and assignments, the Trust currently expects to treat these securities as illiquid.

The Trust may use an independent pricing service or prices provided by dealers to value loans and other debt securities at their market value. The Trust will use the fair value method to value Senior Loans or other securities if market quotations for them are not readily available or are deemed unreliable. A security that is fair valued may be valued at a price higher or lower than actual market quotations or the value determined by other funds using their own fair valuation procedures.

Other Income Producing Securities. The Trust may invest up to 20% of its Managed Assets in securities other than BABs, including other income producing securities. In addition to ABS and Senior Loans which are discussed above, other income producing securities in which the Trust may invest are described in the SAI.

Investment Funds. As an alternative to holding investments directly, the Trust may also obtain investment exposure to securities in which it may invest directly by investing up to 20% of its Managed Assets in other investment companies, including U.S. registered investment companies and/or other U.S. or foreign pooled investment vehicles (collectively, “Investment Funds”). Investment Funds do not include structured finance investments, such as asset-backed securities. To the extent that the Trust invests in Investment Funds that invest at least 80% of their total assets in BABs, such investment will be counted for purposes of the Trust’s policy of investing at least 80% of its Managed Assets in BABs. Investments in other Investment Funds involve operating expenses and fees at the Investment Funds level that are in addition to the expenses and fees borne by the Trust and are borne indirectly by Common Shareholders.

Synthetic Investments. As an alternative to holding investments directly, the Trust may also obtain investment exposure to investments in which the Trust may invest directly through the use of derivative instruments (including swaps, options, forwards, notional principal contracts or customized derivative or financial instruments) to replicate, modify or replace the economic attributes associated with an investment in which the Trust may invest directly. The Trust may be exposed to certain additional risks should the Sub-Adviser use derivatives as a means to synthetically implement the Trust’s investment strategies, including counterparty risk, lack of liquidity in such derivative instruments and additional expenses associated with using such derivative instruments. To the extent that the Trust obtains indirect investment exposure to BABs through the use of the foregoing derivative instruments with economic characteristics similar to BABs, such investments will be counted for purposes of the Trust’s policy of investing at least 80% of its Managed Assets in BABs. The Trust has not adopted any percentage limitation with respect to the overall percentage of investment exposure to BABs that the Trust may obtain through the use of derivative instruments.

Illiquid Securities. The Trust may invest up to 15% of its Managed Assets in municipal securities that are, at the time of investment, illiquid and certain other securities in which the Trust may invest may be illiquid. Illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value that the Trust values the securities. Illiquid securities include securities legally restricted as to resale, such as commercial paper issued pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"), and securities eligible for resale pursuant to Rule 144A thereunder. Section 4(2) and Rule 144A securities may, however, be treated as liquid by the Sub-Adviser pursuant to procedures adopted by the Board of Trustees, which require consideration of factors such as trading activity, availability of market quotations and number of dealers willing to purchase the security. If the Trust invests in Rule 144A securities, the level of portfolio illiquidity may increase to the extent that eligible buyers become uninterested in purchasing such securities. It may be difficult to sell such securities at a price representing the fair value until such time as such securities may be sold publicly. Where registration is required, a considerable period may elapse between a decision to sell the securities and the time when it would be permitted to sell. Thus, the Trust may not be able to obtain as favorable a price as that prevailing at the time of the decision to sell. The Trust may also acquire securities through private placements under which it may agree to contractual restrictions on the resale of such securities. Such restrictions might prevent their sale at a time when such sale would otherwise be desirable.

Interest Rate Transactions. In connection with the Trust's duration management strategy and anticipated use of Financial Leverage, the Trust may enter into interest rate swap or cap transactions. Interest rate swaps involve the Trust's agreement with the swap counterparty to pay or receive a fixed-rate payment in exchange for a variable-rate payment. An interest rate cap transaction would require the Trust to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable-rate index exceeds a predetermined fixed rate, to receive payment from the counterparty of the difference based on the notional amount.

In connection with the Trust's duration management strategy, the Trust may use interest rate swaps to reduce the overall duration of the portfolio. In connection with the Trust's anticipated leverage, the Trust may use interest rate swaps or caps to reduce or eliminate the risk that an increase in short-term interest rates could have on Common Share net earnings as a result of Financial Leverage. For example, the Trust may agree to pay to the swap counterparty a fixed-rate payment in exchange for the counterparty's paying the Trust a variable-rate payment that is intended to approximate all or a portion of the Trust's variable-rate payment obligation on the Trust's Financial Leverage.

The Trust will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Trust's receiving or paying, as the case may be, only the net amount of the two payments. The Trust intends to earmark or segregate cash or liquid securities having a value at least equal to the Trust's net payment obligations under any swap transaction, marked to market daily. The Trust will treat such amounts as illiquid.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the Trust's use of interest rate instruments could enhance or harm the overall performance of the Common Shares.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Trust is contractually obligated to make. The Trust will be subject to credit risk with respect to the counterparties to interest rate transactions entered into by the Trust. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Trust may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceedings. The Trust may obtain only a limited recovery or may obtain no recovery in such circumstances. Depending on whether the Trust would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such default by a counterparty could negatively impact the performance of the Common Shares. Although this will not guarantee that the counterparty does not default, the Trust will not enter into an interest rate swap or cap transaction with any counterparty that the Sub-Adviser believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, the Sub-Adviser will regularly monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Trust's investments.

At the time the interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Trust will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of the Common Shares. The Trust may choose or be required to prepay Indebtedness. Such a prepayment would likely result in the Trust's seeking to terminate early all or a portion of any swap or cap transaction entered into in connection with the Trust's use of Financial Leverage. Such early termination of a swap could result in a termination payment by or to the Trust. An early termination of a cap could result in a termination payment to the Trust. There may also be penalties associated with early termination.

Temporary Defensive Investments

At any time when a temporary defensive posture is believed by the Sub-Adviser to be warranted (a "temporary defensive period"), the Trust may, without limitation, hold cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The money market instruments in which the Trust may invest are obligations of the U.S. Government, its agencies or instrumentalities; commercial paper rated A-1 or higher by

S&P or Prime-1 by Moody's; and certificates of deposit and bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. During a temporary defensive period, the Trust may also invest in shares of money market mutual funds. Money market mutual funds are investment companies, and the investments in those companies by the Trust are in some cases subject to certain fundamental investment restrictions and applicable law. See "Investment Restrictions" in the SAI. As a shareholder in a mutual fund, the Trust will bear its ratable share of its expenses, including management fees, and will remain subject to payment of the fees to the Adviser, with respect to assets so invested. See "Management of the Trust." The Trust may not achieve its investment objectives during a temporary defensive period or be able to sustain its historical distribution levels.

Certain Other Investment Practices

When Issued, Delayed Delivery Securities and Forward Commitments. The Trust may enter into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis, in excess of customary settlement periods for the type of security involved, in order to acquire the security or to hedge against anticipated changes in interest rates and price. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring (i.e., a when, as and if issued security). When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Trust may sell the security before the settlement date if it is deemed advisable. Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Trust prior to the settlement date. The Trust will earmark or segregate cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

Loans of Portfolio Securities. To increase income, the Trust may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan will cause the value of all loaned securities to exceed 33 1 / 3% of the value of the Trust's total assets. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Trust could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially. There can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Trust, and any gain or loss in the market price during the period of the loan would inure to the Trust. If the other party to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Trust is unsettled. As a result, under extreme circumstances, there may be a restriction on the Trust's ability to sell the collateral and the Trust would suffer a loss. See "Investment Objectives and Policies—Loans of Portfolio Securities" in the SAI.

Repurchase Agreements. Repurchase agreements may be seen as loans by the Trust collateralized by underlying debt securities. Under the terms of a typical repurchase agreement, the Trust would acquire an underlying debt obligation for a relatively short period (usually not more than one week) subject to an obligation of the seller to repurchase, and the Trust to resell, the obligation at an agreed price and time. This arrangement results in a fixed rate of return to the

Trust that is not subject to market fluctuations during the holding period. The Trust bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and the Trust is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. The Sub-Adviser, acting under the supervision of the Board of Trustees, reviews the creditworthiness of those banks and dealers with which the Trust enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level. The Trust has not adopted percentage limitations with respect to the percentage of its assets that may be subject to repurchase agreements. The Trust will not enter into repurchase agreements with the Adviser, the Sub-Adviser or their affiliates.

Strategic Transactions

In addition to those derivatives transactions utilized in connection with the Trust's duration management strategy and those described above under "—Portfolio Contents—Interest Rate Transactions," the Trust may, but is not required to, use various portfolio strategies, including derivatives transactions involving interest rate and foreign currency transactions, swaps, options and futures ("Strategic Transactions"). In the course of pursuing Strategic Transactions, the Trust may purchase and sell exchange-listed and over-the-counter put and call options on securities, instruments or equity and fixed-income indices, purchase and sell futures contracts and options thereon, and enter into swap, cap, floor or collar transactions. In addition, Strategic Transactions may also include new techniques, instruments or strategies that are developed or permitted as regulatory changes occur.

The Trust generally may seek to use Strategic Transactions to earn income, facilitate portfolio management and mitigate risks. The Trust may use Strategic Transactions as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Trust's portfolio, protect the value of the Trust's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Trust, protect against changes in currency exchange rates, manage the effective maturity or duration of the Trust's portfolio, or obtain indirect investment exposure as a substitute for purchasing or selling particular securities directly. The Trust will not enter into a Strategic Transaction to the extent such Strategic Transaction would cause the Trust to become subject to regulation by the Commodity Futures Trading Commission as a commodity pool.

Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on the Sub-Adviser's ability to predict pertinent market movements, which cannot be assured. Losses on Strategic Transactions may reduce the Trust's net asset value and its ability to pay distributions if they are not offset by gains on portfolio positions being hedged. The use of Strategic Transactions may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment, or may cause the Trust to hold a security that it might otherwise sell. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes. The use of Financial Leverage by the Trust, if any, may limit the Trust's ability to use Strategic Transactions.

For a more deleted discussion of certain derivatives and their attendant risks, see "Investment Objectives and Policies—Derivative Instruments" in the SAI.

Portfolio Turnover

The Trust will buy and sell securities to seek to accomplish its investment objectives. Portfolio turnover generally involves some expense to the Trust, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. The portfolio turnover rate is computed by dividing the lesser of the amount of the securities purchased or securities sold by the average monthly value of securities owned during the year (excluding securities whose maturities at acquisition were one year or less). The Trust's portfolio turnover rate may vary greatly from year to year. Higher portfolio turnover may decrease the after-tax return to individual investors in the Trust to the extent it results in a decrease of the long-term capital gains portion of distributions to shareholders. Under normal market conditions, the Trust anticipates that its annual portfolio turnover rate will be approximately 50%.

Investment Restrictions

The Trust has adopted certain other investment limitations designed to limit investment risk. These limitations are fundamental and may not be changed without the approval of the holders of a majority of the outstanding Common Shares, as defined in the 1940 Act (and preferred shares, if any, voting together as a single class). See “Investment Restrictions” in the SAI for a complete list of the fundamental investment policies of the Trust.

USE OF FINANCIAL LEVERAGE

The Trust may employ leverage through (i) the issuance of senior securities representing indebtedness, including through borrowing from financial institutions or issuance of debt securities, including notes or commercial paper (collectively, “Indebtedness”), (ii) engaging in reverse repurchase agreements, dollar rolls and economically similar transactions, (iii) investing in inverse floating rate securities, and (iv) the issuance of preferred shares (“Preferred Shares”) (collectively “Financial Leverage”). So long as the net rate of return on the Trust’s investments purchased with the proceeds of Financial Leverage exceeds the cost of such Financial Leverage, such excess amounts will be available to pay higher distributions to Common Shareholders. The maximum level of and types of Financial

Leverage used by the Trust must be approved by the Board of Trustees. The Trust may utilize Financial Leverage up to the limits imposed by the 1940 Act. Under current market conditions, the Trust initially expects to utilize Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements, such that the aggregate amount of Financial Leverage is not expected to exceed 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage). The Trust has no current intention to issue Preferred Shares. There can be no assurance that a leveraging strategy will be implemented or that it will be successful during any period during which it is employed.

Indebtedness

Under the 1940 Act, the Trust generally is not permitted to issue Indebtedness unless, immediately after the Indebtedness, the value of the Trust's total assets less liabilities other than the principal amount represented by Indebtedness, is at least 300% of such principal amount. In addition, the Trust is not permitted to declare any cash dividend or other distribution on the Common Shares unless, at the time of such declaration, the value of the Trust's total assets, less liabilities other than the principal amount represented by Indebtedness, is at least 300% of such principal amount after deducting the amount of such dividend or other distribution. If the Trust utilized Indebtedness, the Trust intends, to the extent possible, to prepay all or a portion of the principal amount of any outstanding Indebtedness to the extent necessary to maintain the required asset coverage. The Trust may also utilize Indebtedness in excess of such limit for temporary purposes such as the settlement of transactions.

The terms of any such Indebtedness may require the Trust to pay a fee to maintain a line of credit, such as a commitment fee, or to maintain minimum average balances with a lender. Any such requirements would increase the cost of such Indebtedness over the stated interest rate. Such lenders would have the right to receive interest on and repayment of principal of any such Indebtedness, which right will be senior to those of the Common Shareholders. Any such Indebtedness may contain provisions limiting certain activities of the Trust, including the payment of dividends to Common Shareholders in certain circumstances. Any Indebtedness will likely be ranked senior or equal to all other existing and future Indebtedness of the Trust. If the Trust utilizes Indebtedness, the Common Shareholders will bear the offering costs of the issuance of any Indebtedness, which are currently expected to be approximately .25% of the total amount of an offering of Indebtedness, and which is included as a component of "Interest payments on borrowed funds" in the Annual Expenses table under "Summary of Trust Expenses."

Certain types of Indebtedness subject the Trust to covenants in credit agreements relating to asset coverage and portfolio composition requirements. Certain Indebtedness issued by the Trust also may subject the Trust to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for such Indebtedness. Such guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Sub-Adviser from managing the Trust's portfolio in accordance with the Trust's investment objectives and policies.

The 1940 Act grants to the lenders to the Trust, under certain circumstances, certain voting rights in the event of default in the payment of interest on or repayment of principal. Failure to maintain certain asset coverage requirements could result in an event of default and entitle the debt holders to elect a majority of the Board of Trustees.

Reverse Repurchase Agreements and Dollar Roll Transactions

In reverse repurchase agreement transactions, the Trust sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. The Trust may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction. During the period between the sale and repurchase, the Trust will not be entitled to receive interest and principal payments on the securities sold. Proceeds of the sale will be invested in additional instruments for the Trust, and the income from these investments will generate income for the Trust. If such income does not exceed the income, capital appreciation and gain or loss that would have been realized on the securities sold as part of the reverse repurchase agreement, the use of this technique will diminish the investment performance of the Trust compared with what the performance would have been without the use of reverse repurchase agreements.

A dollar roll transaction involves a sale by the Trust of a security, often a mortgage-backed security, concurrently with an agreement by the Trust to purchase a similar security at a later date at an agreed-upon price. The securities that are purchased will bear the same interest rate and stated maturity as those sold, but pools of mortgages collateralizing those securities may have different prepayment histories than those sold. During the period between the sale and repurchase, the Trust will not be entitled to receive interest and principal payments on the securities sold. Proceeds of the sale will be invested in additional instruments for the Trust, and the income from these investments will generate income for the Trust. If such income does not exceed the income, capital appreciation and gain or loss that would have been realized on the securities sold as part of the dollar roll, the use of this technique will diminish the investment performance of the Trust compared with what the performance would have been without the use of dollar rolls.

With respect to Financial Leverage incurred through engaging in reverse repurchase agreements and dollar rolls, the Trust intends to earmark or segregate cash or liquid securities in accordance with applicable interpretations of the Staff of the SEC. Under current interpretations of the Staff of the SEC, the Trust would earmark or segregate liquid assets in an amount equal to the Trust’s repurchase obligation under the reverse repurchase agreement. As a result of such segregation, the Trust’s obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act. Therefore, the Trust’s ability to utilize Financial Leverage through such transactions will not be limited by the 1940 Act, but will be limited by the Trust’s maximum overall leverage levels approved by the Board of Trustees (currently 33 1/3% of the Trust's Managed Assets) and may be limited by the availability of cash or liquid securities to earmark or segregate in connection with such transactions.

With respect to any reverse repurchase agreement, dollar roll or similar transaction, the Trust’s Managed Assets shall include any proceeds from the sale of an asset of the Trust to a counterparty in such a transaction, in addition to the value of the underlying asset as of the relevant measuring date.

Inverse Floating Rate Securities

Under current market conditions, the Trust anticipates utilizing Financial Leverage through Indebtedness and/or engaging in reverse repurchase agreements. The Trust also may utilize Financial Leverage through investments in inverse floating rate securities (sometimes referred to as “inverse floaters”), although the Trust will not do so during its first year of operation. Inverse floating rate securities are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. The holder of the inverse floating rate securities receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal security deposited into the special purpose trust. In addition, all voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the special purpose trust, inverse floaters’ value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than that of the underlying securities due to the leveraging effect of this ownership structure. The volatility of the interest cash flow and the residual market value will vary with the degree to which the special purpose trust is leveraged. This is expressed in the ratio of the total face value of the short-term floaters in relation to the value of the residual inverse floaters that are issued by the special purpose trust. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (i.e., when bond values are falling), but tend to outperform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity.

Inverse floaters have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market for such inverse floating rate securities issued by special purpose trusts formed with taxable municipal securities is relatively new and undeveloped. Initially, there may be a limited number of counterparties, which may increase the credit risks, counterparty risk and liquidity risk of investing in taxable inverse floating rate securities.

The Trust may invest in inverse floating rate securities, issued by special purpose trusts that have recourse to the Trust. At the Sub-Adviser's discretion, the Trust may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Trust may enter into such shortfall and forbearance agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the special purpose trust has declined in value. Such an agreement would require the

Trust to reimburse the third party sponsor of the special purpose trust, upon termination of the special purpose trust issuing the inverse floating rate security, the difference between the liquidation value of the bonds held in the special purpose trust and the principal amount due to the holders of floating rate interests. Such agreements may expose the Trust to a risk of loss that exceeds its investment in the inverse floating rate securities. Absent a shortfall and forbearance agreement, the Trust would not be required to make such a reimbursement. If the Trust chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Trust could incur a loss.

With respect to Financial Leverage incurred through investments in inverse floating rate securities, the Trust intends to earmark or segregate cash or liquid securities in accordance with applicable interpretations of the Staff of the SEC. Under current interpretations of the Staff of the SEC, the Trust would earmark or segregate liquid assets, not including assets deposited in the special purpose trust, in an amount equal to any short term floaters that are not owned by the Trust, plus any accrued but unpaid interest due on such short term floaters, issued by special purpose trusts sponsored on behalf of the Trust. As a result of such segregation, the Trust's obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act. Therefore, the Trust's ability to utilize Financial Leverage through such transactions will not be limited by the 1940 Act, but will be limited by the Trust's maximum overall leverage levels approved by the Board of Trustees (currently 33 1/3% of the Trust's Managed Assets) and may be limited by the availability of cash or liquid securities to earmark or segregate in connection with such transactions.

With respect to inverse floating rate securities, the Trust's Managed Assets include assets attributable to the Trust's use of effective leverage (whether or not those assets are reflected in the Trust's financial statements for purposes of generally accepted accounting principles), including the portion of assets in special purpose trusts of which the Trust owns the inverse floater certificates that has been effectively financed by the special purpose trust's issuance of floating rate certificates.

Preferred Shares

Although the Trust has no current intention to do so, the 1940 Act also permits the Trust to utilize Financial Leverage through the issuance of Preferred Shares. The Trust's Governing Documents provide that the Board of Trustees may authorize and issue Preferred Shares with rights as determined by the Board of Trustees, by action of the Board of Trustees without prior approval of the Common Shareholders. Common Shareholders have no preemptive right to purchase any Preferred Shares that might be issued. Any such Preferred Share offering would be subject to the limits imposed by the 1940 Act. Under the 1940 Act, the Trust may not issue Preferred Shares unless, immediately after such issuance, it has an "asset coverage" of at least 200% of the liquidation value of the outstanding Preferred Shares (i.e., such liquidation value may not exceed 50% of the value of the Trust's total assets). For these purposes, "asset coverage" means the ratio of (i) total assets less all liabilities and indebtedness not represented by "senior securities" to (ii) the amount of "senior securities representing indebtedness" plus the "involuntary liquidation preference" of the Preferred Shares. "Senior security" means any bond, note, or similar security evidencing indebtedness and any class of shares having priority over any other class as to distribution of assets or payment of dividends. "Senior security representing indebtedness" means any "senior security" other than equity shares. The "involuntary liquidation preference" of the Preferred Shares is the amount that holders of Preferred Shares would be entitled to receive in the event of an involuntary liquidation of the Trust in preference to the Common Shares. In addition, the Trust is not permitted to declare any dividend (except a dividend payable in Common Shares), or to declare any other distribution on its Common Shares, or to purchase any Common Shares, unless the Preferred Shares have at the time of the declaration of any such dividend or other distribution, or at the time of any such purchase of Common Shares, an asset coverage of at least 200% after deducting the amount of such dividend, distribution or purchase price. If Preferred Shares are issued, the Trust intends, to the extent possible, to purchase or redeem Preferred Shares from time to time to the extent necessary to maintain asset coverage of any Preferred Shares of at least 200%. Any Preferred Shares issued by the Trust would have special voting rights and a liquidation preference over the Common Shares. Issuance of Preferred Shares would constitute Financial Leverage and would entail special risks to the Common Shareholders.

If Preferred Shares are outstanding, two of the Trust's Trustees will be elected by the holders of Preferred Shares, voting separately as a class. The remaining Trustees of the Trust will be elected by Common Shareholders and Preferred Shares voting together as a single class. In the unlikely event the Trust failed to pay dividends on Preferred Shares for two years, Preferred Shares would be entitled to elect a majority of the Trustees of the Trust.

The Trust may be subject to certain restrictions imposed by guidelines of one or more NRSROs that may issue ratings for Preferred Shares issued by the Trust. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Trust by the 1940 Act. The Trust has no present intention to issue Preferred Shares.

Certain Portfolio Transactions

In addition, the Trust may engage in certain derivative transactions, including swaps, that have characteristics similar to leverage. To the extent the terms of such transactions obligate the Trust to make payments, the Trust intends to earmark or segregate cash or liquid securities in an amount at least equal to the current value of the amount then payable by the Trust under the terms of such transactions in accordance with applicable interpretations of the Staff of the SEC. To the extent the terms of such transactions obligate the Trust to deliver particular securities to extinguish the Trust's obligations under such transactions the Trust may "cover" its obligations under such transactions by either (i) owning the securities or collateral underlying such transactions or (ii) having an absolute and immediate right to acquire such securities or collateral without additional cash consideration (or, if additional cash consideration is required, having earmarked or segregated cash or liquid securities). Such segregation or cover will ensure that the Trust has liquid assets available to satisfy its obligations under such transactions. As a result of such segregation or cover, the Trust's obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act, or included in calculating the aggregate amount of the Trust's financial leverage. To the extent that the Trust's obligations under such transactions are not so segregated or covered, such obligations may be considered "senior securities representing indebtedness" under the 1940 Act and therefore subject to the 300% asset coverage requirement.

Effects of Financial Leverage

Assuming (i) the use by the Trust of Financial Leverage representing approximately 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage) and (ii) interest costs to the Trust at an average annual rate of 1.25% with respect to such Financial Leverage, then the incremental income generated by the Trust's portfolio (net of estimated expenses including expenses related to the Financial Leverage) must exceed approximately .42% to cover such interest expense. These numbers are merely estimates used for illustration. The amount of Financial Leverage used by the Trust as well as actual interest expenses on such Financial Leverage may vary frequently and may be significantly higher or lower than the rate estimated above.

The following table is furnished pursuant to requirements of the SEC. It is designed to illustrate the effect of Financial Leverage on Common Share total return, assuming investment portfolio total returns (comprised of income, net expenses and changes in the value of investments held in the Trust's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of what the Trust's investment portfolio returns will be. The table further reflects the issuance of Financial Leverage representing approximately 33 1 / 3 % of the Trust's Managed Assets (including the proceeds of such Financial Leverage) and the Trust's currently projected annual interest rate of 1.25% with respect to such Financial Leverage. The table does not reflect any offering costs of Common Shares or Financial Leverage.

Assumed portfolio total return (net of expenses)	(10.00)%	(5.00)%	0.00%	5.00%	10.00%
Common Share total return	-15.62%	-8.12%	-.62%	6.87%	14.37%

Common Share total return is composed of two elements—the Common Share dividends paid by the Trust (the amount of which is largely determined by the Trust's net investment income after paying the carrying cost of Financial Leverage) and realized and unrealized gains or losses on the value of the securities the Trust owns. As required by SEC rules, the table assumes that the Trust is more likely to suffer capital loss than to enjoy capital appreciation. For example, to assume a total return of 0%, the Trust must assume that the net investment income it receives on its investments is entirely offset by losses on the value of those investments. This table reflects the hypothetical performance of the Trust's portfolio and not the performance of the Trust's Common Shares, the value of which will be determined by market and other factors.

During the time in which the Trust is utilizing Financial Leverage, the amount of the fees paid to the Adviser and the Sub-Adviser for investment advisory services will be higher than if the Trust did not utilize Financial Leverage because the fees paid will be calculated based on the Trust's Managed Assets, including proceeds of Financial Leverage. This may create a conflict of interest between the Adviser and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand. Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of Financial Leverage, which means that Common Shareholders effectively bear the entire advisory fee. In order to manage this conflict of interest, the maximum level of and types of Financial Leverage used by the Trust must be approved by the Board of Trustees, and the Board of Trustees will receive regular reports from the Adviser and the Sub-Adviser regarding the Trust's use of Financial Leverage and the effect of Financial Leverage on the management of the Trust's portfolio and the performance of the Trust.

Unless and until the Trust utilizes Financial Leverage, the Common Shares will not be leveraged and this section will not apply.

RISKS

Investors should consider the following risk factors and special considerations associated with investing in the Trust. An investment in the Trust is subject to investment risk, including the possible loss of the entire principal amount that you invest.

No Operating History

The Trust is a newly-organized, diversified, closed-end management investment company with no operating history.

Not a Complete Investment Program

An investment in the Common Shares of the Trust should not be considered a complete investment program. The Trust is intended for long-term investors seeking current income and capital appreciation. The Trust is not meant to provide a vehicle for those who wish to play short-term swings in the stock market. Each Common Shareholder should take into account the Trust's investment objectives as well as the Common Shareholder's other investments when considering an investment in the Trust.

Investment and Market Risk

An investment in Common Shares of the Trust is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in the Common Shares of the Trust represents an indirect investment in the securities owned by the Trust, including municipal securities, which generally trade in the over-the-counter markets. The value of those securities may fluctuate, sometimes rapidly and unpredictably. The value of the securities owned by the Trust will affect the value of the Common Shares. At any point in time, your Common Shares may be worth less than your original investment, including the reinvestment of Trust dividends and distributions.

Management Risk

The Trust is subject to management risk because it has an actively managed portfolio. The Sub-Adviser will apply investment techniques and risk analysis in making investment decisions for the Trust, but there can be no guarantee that these will produce the desired results. The Trust will invest in securities that the Sub-Adviser believes are undervalued or mispriced as a result of recent economic events, such as market dislocations, the inability of other investors to evaluate risk and forced selling. If the Sub-Adviser’s perception of the value of a security is incorrect, your investment in the Trust may lose value.

Build America Bonds Risk

The BABs market is smaller and less diverse than the broader municipal securities market. In addition, because BABs are a new form of municipal financing and because bonds issued after December 31, 2010 currently will not qualify as BABs unless the relevant provisions of the Act are extended, it is impossible to predict the extent to which a market for such bonds will develop, meaning that BABs may experience less liquidity than other types of municipal securities. If the ability to issue BABs is not extended beyond December 31, 2010, the number of BABs available in the market will be limited and there can be no assurance that BABs will be actively traded. Reduced liquidity may negatively affect the value of the BABs.

Because issuers of Direct Payment BABs held in the Trust’s portfolio receive reimbursement from the U.S. Treasury with respect to interest payment on bonds, there is a risk that those municipal issuers will not receive timely payment from the U.S. Treasury and may remain obligated to pay the full interest due on Direct Payment BABs held by the Trust. Furthermore, it is possible that a municipal issuer may fail to comply with the requirements to receive the direct pay subsidy or that a future Congress may terminate the subsidy altogether. In addition, the IRS Offset Rule allows for the possibility that subsidy payments received by issuers of BABs may be subject to offset against amounts owed by them to the federal government. Moreover, the IRS may audit the agencies issuing BABs and such audits may, among other things, examine the price at which BABs are initially sold to investors. If the IRS concludes that a

BAB was mis-priced based on its audit, it could disallow all or a portion of the interest subsidy received by the issuer of the BAB. The IRS Offset Rule and the disallowance of any interest subsidy as a result of an IRS audit could potentially adversely affect a BABs issuer's credit rating, and adversely affect the issuer's ability to repay or refinance BABs. This, in turn, could adversely affect the ratings and value of the BABs held by the Trust and the Trust's net asset value. In this regard, the State of Florida recently announced that it suspended the new issuance of BABs as a result of its uncertainty relating to the IRS Offset Rule and, in May 2010, the IRS withheld subsidies from several states and municipalities, including Austin, Texas and the State of Maryland.

Because the BABs program is new, certain aspects of the BABs program may be subject to additional federal or state level guidance or subsequent legislation. For example, the IRS or U.S. Treasury could impose restrictions or limitations on the payments received. Aspects of the BABs program for which the IRS and the U.S. Treasury have solicited public comment include, but have not been limited to, methods for making direct payments to issuers, the tax procedural framework for such payments, and compliance safeguards. It is not known what additional procedures will be implemented with respect to Direct Payment BABs, if any, nor is it known what effect such possible procedures would have on the BABs market. Legislation extending the relevant provisions of the Act, if any, may also modify the characteristics of BABs issued after December 31, 2010, including the amount of subsidy paid to issuers.

The Trust intends to invest primarily in BABs and therefore the Trust's net asset value may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. Because BABs currently do not include certain industries or types of municipal bonds (e.g., tobacco bonds or private activity bonds), there may be less diversification than with a broader pool of municipal securities.

Continuation of BABs Program. Currently, bonds issued after December 31, 2010 will not qualify as BABs unless the relevant provisions of the Act are extended or similar legislation is enacted that provides for municipal issuers to elect to issue taxable municipal securities and receive from the U.S. Treasury federal subsidies to offset a portion of the interest costs incurred over the full term of such taxable municipal securities. The Obama administration and Congress are considering a variety of proposals to extend or modify the BABs program. In particular, a bill approved by the House of Representatives would (1) extend the BABs program to March 31, 2013, (2) reduce the amount of the direct pay subsidy for bonds issued after 2010, and (3) apply the BABs program to certain bonds issued to refinance BABs. A similar proposal in the Senate would extend the BABs program only to December 31, 2011. No assurance can be given as to whether these proposals or other changes in the BABs program will be enacted, nor can it be predicted whether such proposals or changes, if enacted, will have a positive or negative effect on the Trust. If the BABs program is not extended and there cease to be new issuances of BABs or other taxable municipal securities with interest payments subsidized by the U.S. Government through direct pay subsidies, the Board of Trustees intends to evaluate potential actions with respect to the Trust. In such event the Board of Trustees may consider, among other things, changes to the non-fundamental investment policies of the Trust to permit the Trust to broaden its investment focus, for example to taxable municipal securities generally, merger of the Trust into another fund or termination of the Trust. If the Trust were to be terminated, the Trust would distribute all of its net assets to shareholders of record as of the date of termination after providing for all obligations of the Trust. The Trust's investment objectives and policies are not designed to seek to return the initial offering price of the Common Shares in the offering on any future termination date. Investors who purchase Common Shares may receive more or less than their original investment upon any termination of the Trust.

General Municipal Securities Market Risk