BLACKROCK CORE BOND TRUST
Form N-14 8C
June 18, 2014

As filed with the Securities and Exchange Commission on June 18, 2014

Securities Act File No. 333-
Investment Company Act File No. 811-10543

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-14

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.	o
Post-Effective Amendment No.	o
(Check appropriate box or boxes)	

BLACKROCK CORE BOND TRUST
(Exact Name of Registrant as Specified in Charter)

100 Bellevue Parkway
Wilmington, Delaware 19809
(Address of Principal Executive Offices: Number, Street, City, State, Zip Code)

(800) 882-0052
(Area Code and Telephone Number)

John M. Perlowski
President and Chief Executive Officer
BlackRock Core Bond Trust
55 East 52nd Street
New York, New York 10055
(Name and Address of Agent for Service)

With copies to:

Thomas A. DeCapo, Esq.	Janey Ahn, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP	BlackRock Advisors, LLC
500 Boylston Street	40 East 52nd Street
Boston, Massachusetts 02116	New York, New York 10022

AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT

(Approximate Date of Proposed Public Offering)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common shares $0.001 par value	Not Applicable	Not Applicable	$1,000,000	$128.80

(1) Estimated solely for the purpose of calculating the filing registration fee, pursuant to Rule 457(o) under the Securities Act of 1933.

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

EXPLANATORY NOTE

This Registration Statement is organized as follows:

a. Letter to Shareholders of BlackRock Income Trust, Inc. ("BKT"), BlackRock Income Opportunity Trust, Inc. ("BNA") and BlackRock Core Bond Trust ("BHK").

b. Questions and Answers to Shareholders of BKT, BNA and BHK.

c. Notice of Joint Special Meeting of Shareholders of BKT, BNA and BHK.

d. Joint Proxy Statement/Prospectus for BKT, BNA and BHK.

e. Statement of Additional Information regarding the proposed Reorganizations of BKT, BNA and BHK.

f. Part C: Other Information.

g. Exhibits.

BLACKROCK INCOME TRUST, INC.
BLACKROCK INCOME OPPORTUNITY TRUST, INC.
BLACKROCK CORE BOND TRUST

100 Bellevue Parkway
Wilmington, Delaware 19809
(800) 882-0052

, 2014

Dear Shareholder:

You are cordially invited to attend a joint special shareholder meeting (the "Special Meeting") of BlackRock Income Trust, Inc. ("BKT"), BlackRock Income Opportunity Trust, Inc. ("BNA") and BlackRock Core Bond Trust ("BHK" and together with BKT and BNA, the "Funds," and each, a "Fund"), to be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, New Jersey 08540-6455, on September 30, 2014 at 9:00 a.m. (Eastern time). Before the Special Meeting, I would like to provide you with additional background information and ask for your vote on important proposals affecting the Funds which are described in the enclosed Joint Proxy Statement/Prospectus.

Shareholders of BKT and BNA will be asked to consider the following proposal, which is described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: the reorganization of their Fund into BHK.

Shareholders of BHK will be asked to consider the following proposal, which is described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: the reorganization of each of BKT and BNA into BHK, including the issuance of additional common shares of BHK in connection with each such reorganization.

The Board of Directors/Trustees of each Fund believes the proposal applicable to its respective Fund is in the best interests of that Fund and its shareholders and unanimously recommends that you vote "FOR" such proposal.

The enclosed materials explain these proposals in more detail, and I encourage you to review them carefully. As a shareholder, your vote is important, and we hope that you will respond today to ensure that your shares will be represented at the Special Meeting. You may vote using one of the methods below by following the instructions on your proxy card:

- By touch-tone telephone;
- By internet;
- By returning the enclosed proxy card in the postage-paid envelope; or
- In person at the Special Meeting.

If you do not vote using one of these methods described above, you may be contacted by Georgeson Inc., our proxy solicitor, to vote your shares over the telephone.

As always, we appreciate your support.

Sincerely,

JOHN M. PERLOWSKI
President and Chief Executive Officer of the Funds

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares to be voted, your shares will be voted "FOR" each proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares as you instruct at the Special Meeting.

, 2014

IMPORTANT NOTICE
TO SHAREHOLDERS OF
BLACKROCK INCOME TRUST, INC.
BLACKROCK INCOME OPPORTUNITY TRUST, INC.
BLACKROCK CORE BOND TRUST

QUESTIONS & ANSWERS

Although we urge you to read the entire Joint Proxy Statement/Prospectus, we have provided for your convenience a brief overview of some of the important questions concerning the issues to be voted on.

Q: Why is a shareholder meeting being held?

A: Shareholders of BlackRock Income Trust, Inc. ("BKT") and BlackRock Income Opportunity Trust, Inc. ("BNA"): You are being asked to vote on the reorganization (each, a "Reorganization") of each of BKT and BNA, respectively (each such fund being referred to herein as a "Target Fund") into BlackRock Core Bond Trust ("BHK" or the "Acquiring Fund" and, together with the Target Funds, each, a "Fund"), a Fund that has the same investment advisor, BlackRock Advisors, LLC (the "Investment Advisor") as the Target Funds. BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT. BHK invests its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities. BHK may also invest up to 25% of its total managed assets in below investment grade securities. At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization. See "Comparison of the Funds' Investments" for additional information about the Funds' investment objectives and investment policies.

Shareholders of BlackRock Core Bond Trust ("BHK"): You are being asked to consider the following proposal, which is described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: reorganizing each of BKT and BNA into BHK, including the issuance of additional common shares of BHK in connection with each such Reorganization.

The term "Combined Fund" will refer to BHK as the surviving Fund after the Reorganizations.

A Reorganization will be consummated if a Target Fund's shareholders approve the Reorganization with respect to that Target Fund and the Acquiring Fund's shareholders approve the Reorganization with respect to that Target Fund. A Reorganization is not contingent upon the approval of the other Reorganization. If a Reorganization is not consummated, then the Target Fund for which such Reorganization was not consummated would continue to exist and operate on a stand-alone basis.

In the event a Reorganization is consummated, shareholders of the Combined Fund, including former shareholders of the applicable Target Fund, would be subject to the investment policies of the Acquiring Fund following the

Reorganization. See "Comparison of the Funds' Investments" in the Joint Proxy Statement/Prospectus for a comparison of the Funds' investment objectives and significant investment strategies and operating policies.

Q: Why are the Reorganizations being recommended?

A: The Board of Directors or Board of Trustees of each Fund, as applicable (each, a "Board" and collectively, the "Boards"), considered a number of factors in reaching its determination, including, but not limited to, the following, which are discussed in further detail in the Joint Proxy Statement/Prospectus under "Information about the Reorganizations—Reasons for the Reorganizations:"

- the potential for improved economies of scale, including the potential for a lower operating expense ratio than each of the Funds prior to the Reorganizations, as a result the Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) and contractual management fees compared to each Fund's current Lipper peers (see "How will the Reorganizations affect the fees and expenses of the Funds?" for additional information);

- the potential effects of the Reorganizations on the earnings and distributions of each Fund, including the potential for comparable (i.e., slightly lower or higher) earnings in the long term, provided the Combined Fund is successful in repositioning its portfolio after the Reorganizations to attain a risk/return profile comparable to the Acquiring Fund's current risk/return profile, which is expected to allow each Fund's shareholders to maintain a distribution yield on net asset value ("NAV") comparable to the distribution yield on NAV for each of the Funds prior to the Reorganizations;

- the potential effects of the Reorganizations on each Fund's premium/discount to NAV, including the potential for improved premium/discount levels for the Combined Fund's common shares (see "Have common shares of the Target Funds and the Acquiring Fund historically traded at a premium or discount?" for additional information);

- the potential for improved secondary market trading, including the potential for greater secondary market liquidity for the Combined Fund's common shares, which may result in tighter bid-ask spreads and better trade execution for the Combined Fund's shareholders when purchasing or selling the Combined Fund's common shares;

- the potential for operating and administrative efficiencies for the Combined Fund, including the potential for the following benefits:

- greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, additional sources of leverage or more competitive leverage terms, greater flexibility managing leverage and more favorable transaction terms;

- benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage; and

- benefits from having fewer similar funds in the same fund complex, including a simplified operational model and a reduction in risk of operational, legal and financial errors;

- alternatives to the Reorganizations for each Fund;

- the compatibility of the Funds' investment objectives, investment policies and related risks and risk profiles (see "How similar are the Funds?" for additional information);

- consistency of portfolio management and portfolio composition (see "How similar are the Funds?" for additional information);

- the anticipated tax-free nature of the Reorganizations (see "Will I have to pay any U.S. federal taxes as a result of the Reorganizations?" for additional information);

- the potential effects on each Fund's capital loss carryforwards;

- the potential effects on each Fund's undistributed net investment income;
- the expected costs of the Reorganizations (see "Will I have to pay any sales load, commission or other similar fees in connection with the Reorganizations?" for additional information);
- the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the Funds;
- the effect of the Reorganizations on shareholder rights; and
- any potential benefits of the Reorganizations to the Investment Advisor and its affiliates.

The Investment Advisor intends to reposition the Combined Fund's portfolio after the completion of the Reorganizations by selling a significant portion of the higher rated assets acquired from BKT that are generally lower yielding than the assets currently held by BHK and using the proceeds to purchase assets with risk/return profiles similar to those assets currently held by BHK and consistent with the Combined Fund's investment objectives and investment policies (the "Repositioning"). The Combined Fund will continue to hold a portion of the assets acquired from BKT after the Repositioning. The Combined Fund generally intends to hold those assets acquired from BKT that have yields higher than or comparable to the assets currently held by BHK. However, the Combined Fund may also hold a portion of BKT's lower yielding assets after the Repositioning. The Investment Advisor anticipates that the Repositioning will enable the Combined Fund to attain a risk/return profile comparable to the current risk/return profiles of BNA and BHK. The Combined Fund's earnings and distribution yields on NAV after the Repositioning are expected to be comparable (i.e., the same or slightly lower or higher) to the current earnings and distribution yields on NAV of BNA and BHK. However, there can be no assurance that the Combined Fund can successfully implement the Repositioning. The Combined Fund's ability to execute the Repositioning depends on many factors, including portfolio transaction costs, market rates of interest, the availability of attractive securities to purchase, market liquidity, regulatory considerations and restrictions, the U.S. federal income tax rules applicable to reorganizations and general economic and market conditions. If the Combined Fund is unable to successfully implement the Repositioning, then the Combined Fund's earnings yield on NAV may be lower than BNA's and BHK's current earnings yield on NAV, and assuming BHK's distribution policy remains in place after the Reorganizations, shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV after the Reorganizations.

Because the shareholders of each Fund will vote separately on its respective Reorganization(s), there are multiple potential combinations of Reorganizations. The Board of each Fund and the Investment Advisor believe that the most likely result of the potential combinations of Reorganizations is the combination of all the Funds. To the extent that one of the Reorganizations is not completed, but the other Reorganization is completed, any expected expense savings by the Combined Fund, or other potential benefits resulting from the Reorganizations, may be reduced.

If the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of that Target Fund and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How will the Reorganizations affect the fees and expenses of the Funds?

A: For the fiscal year ended August 31, 2013, the Total Expense Ratios of BKT, BNA and BHK were 1.00%, 0.93% and 0.98%, respectively. For the 12-month period ended February 28, 2014, the Total Expense Ratios of BKT, BNA and BHK were 0.98%, 0.92% and 0.98%, respectively. "Total Expenses" means a Fund's total annual operating expenses (including interest expenses and applicable fee waivers). "Total Expense Ratio" means a Fund's Total Expenses expressed as a percentage of its average net assets attributable to its common shares.

The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 0.89% on a historical and pro forma basis for the 12-month period ended February 28, 2014, representing a reduction in the Total Expense Ratio for the shareholders of BKT, BNA and BHK of 0.09%, 0.03% and 0.09%, respectively.

The level of expense savings (or increases) will vary depending on the combination of the Funds in the proposed Reorganizations, and furthermore, there can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of any Reorganization.

Each Target Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of the Target Fund's average weekly net assets:

Average Weekly Value of Net Assets:	Annual Rate
BKT	0.65%
BNA	0.60%

iii

In addition, each Target Fund entered into an Administration Agreement with the Investment Advisor to provide certain administrative services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of the Target Fund's average weekly net assets:

Average Weekly Value of Net Assets:	Annual Rate
BKT	0.15%
BNA	0.10%

The Acquiring Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory and administration services. For such services, the Acquiring Fund pays the Investment Advisor a monthly fee at the annual rate of 0.55% of the Acquiring Fund's average weekly Managed Assets. "Managed Assets" means the total assets of the Acquiring Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). The Acquiring Fund is not subject to a separate fee for administration services. The Investment Advisor currently waives a portion of the Acquiring Fund's investment management fee at an annual rate of 0.03% of the Acquiring Fund's average weekly Managed Assets. The waiver is voluntary and may be reduced or discontinued at any time without notice.

If any of the Reorganizations are consummated, the Investment Advisor will reduce the annual contractual investment management fee rate of the Combined Fund to 0.50% of the average weekly Managed Assets of the Combined Fund, which is lower than the annual contractual investment management fee rate of any individual Fund. The Combined Fund will not be subject to a separate fee for administration services or any fee waivers.

The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) and contractual management fees compared to each Fund's current Lipper peers.

Q: What happens if shareholders of one Target Fund do not approve its Reorganization but shareholders of the other Target Fund approve their Reorganization?

A: An unfavorable vote on a proposed Reorganization by the shareholders of one Target Fund will not affect the implementation of the Reorganization of the other Target Fund if the other Reorganization is approved by the shareholders of each of the Acquiring Fund and the other Target Fund.

If the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of that Target Fund and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: What happens if shareholders of the Acquiring Fund do not approve the Reorganization of one Target Fund but approve the Reorganizations of the other Target Fund?

A: An unfavorable vote by shareholders of the Acquiring Fund on the Reorganization of one Target Fund will not affect the implementation of the Reorganization by the other Target Fund, if the other Reorganization is approved by the shareholders of the Acquiring Fund and the shareholders of the other Target Fund. If the Reorganization of a Target Fund is not approved, however, the Investment Advisor may, in connection with ongoing management of that Target Fund and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How similar are the Funds?

A: The Funds have the same investment advisor, certain common portfolio managers, and the same board members. Each Fund's common shares are listed on the New York Stock Exchange.

BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit quality.

The investment objective of each of BHK and BNA is to provide current income and capital appreciation. BKT's investment objective is to manage a portfolio of high-quality securities to achieve both preservation of capital and high monthly income.

Each of BHK and BNA invests its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities. Under normal market conditions, each of BHK and BNA invests at least 75% of its total managed assets in investment grade quality bonds. Each of BHK and BNA may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor. Below investment grade quality securities (rated Ba/BB or below) are commonly referred to as "high yield" or "junk" bonds and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments.

At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization.

BKT invests at least 65% of its assets in mortgage-backed securities. Each of BHK and BNA may invest its assets in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities.

BKT shareholders are expected to be subject to greater credit risks because of the Combined Fund's broader and more diversified approach to investments and credit quality. In addition, because the Combined Fund's portfolio is expected to be more diversified than BKT's portfolio, BKT shareholders may become subject to risks associated with securities that are not currently held by BKT, such as risks associated with corporate bonds and other securities.

BKT has greater exposure to mortgage-related securities than BHK and BNA, including stripped mortgage-backed securities ("MBS"). One type of stripped MBS pays to one class all of the interest from the mortgage assets (the "IO class"), while the other class will receive all of the principal (the "PO class"). Risks associated with mortgage-related securities, including stripped mortgage-backed securities, may be greater in the Combined Fund's portfolio than in the portfolios of BHK or BNA because the Combined Fund may have a larger proportion of its portfolio in mortgage-related securities than BHK or BNA as a result of the Combined Fund's acquisition of legacy BKT's assets.

Risks associated with mortgage-backed securities include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution (including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the issuing vehicle and the return to investors in such MBS); whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the MBS) 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 MBS; risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the MBS; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral.

Stripped mortgage-backed securities may be subject to additional risk. The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets and a rapid rate of principal payments may have a material adverse effect on the Combined Fund's yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, the Combined Fund may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

BKT and BNA are each organized as a Maryland corporation. BHK is organized as a Delaware statutory trust. Because the Acquiring Fund is organized as a Delaware statutory trust, shareholders of BNA and BKT will become shareholders of a Delaware statutory trust rather than shareholders of a Maryland corporation if BNA's and BKT's Reorganizations are completed. A more detailed description of the differences between Delaware statutory trust law and Maryland corporate law is contained in the Joint Proxy Statement/Prospectus under the heading "Governing Law."

Each Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act").

See "Comparison of the Funds' Investments" in the Joint Proxy Statement/Prospectus for a comparison of the Funds' investment objectives, significant investment strategies and operating policies and investment restrictions.

Q: How will the Reorganizations be effected?

A: Assuming Target Fund shareholders approve the Reorganizations of the Target Funds and Acquiring Fund shareholders approve the Reorganizations of the Acquiring Fund, each Target Fund will merge directly with and into the Acquiring Fund. Each Target Fund will terminate its registration under the 1940 Act after the completion of its Reorganization.

Shareholders of the Target Funds: You will become shareholders of the Acquiring Fund. You will receive newly issued common shares of the Acquiring Fund, par value $0.001 per share, the aggregate NAV (not the market value) of which will equal the aggregate NAV (not the market value) of the common shares of the particular Target Fund you held immediately prior to such Reorganization, less the applicable costs of the Reorganization (though you may receive cash for fractional shares).

Shareholders of the Acquiring Fund: You will remain shareholders of BHK, which will have additional common shares outstanding after the Reorganizations.

Q: Have common shares of the Target Funds and the Acquiring Fund historically traded at a premium or discount?

A: The common shares of each Fund have historically fluctuated between a discount and a premium. As of May 31, 2014, each Fund traded at a discount to its respective NAV.

To the extent a Target Fund is trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganizations, the shareholders of such Target Fund would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent a Target Fund is trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganizations, the shareholders of such Target Fund may be negatively impacted if the Reorganizations are consummated. The Acquiring Fund shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganizations, common shares of the Combined Fund will trade at, above or below NAV. In the Reorganizations, shareholders of each Target Fund will receive common shares of the Acquiring Fund based on the relative NAVs (not the market values) of each respective Fund's common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of your Fund prior to the Reorganizations.

Q: Will I have to pay any sales load, commission or other similar fees in connection with the Reorganizations?

A: You will pay no sales loads or commissions in connection with the Reorganizations. Regardless of whether the Reorganizations are completed, however, the costs associated with these proposed Reorganizations, including the costs associated with the shareholder meeting, will be borne directly by each of the respective Funds incurring the expense or will otherwise be allocated among the Funds proportionately or on another reasonable basis, except that the Investment Advisor will bear a portion of the reorganization costs of BNA as discussed more fully in the Joint Proxy Statement/Prospectus.

Because of the expected expense savings and other benefits for each of the Funds, the Investment Advisor recommended and the Boards of such Funds have approved that such Funds be responsible for their own Reorganization expenses, except that the Investment Advisor will bear a portion of the reorganization costs of BNA. See "Information About the Reorganizations—Reasons for the Reorganizations" in the attached Joint Proxy Statement/Prospectus. The expenses of the Reorganizations (assuming all of the Reorganizations are consummated) are estimated to be $493,000 for BKT, $441,000 for BNA (without consideration of any amount to be borne by the Investment Advisor) and $423,000 for BHK. The Investment Advisor has agreed to pay $300,000 of BNA's costs of the Reorganizations.

Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (e.g., expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the

Reorganizations or other action taken by the shareholder in connection with the Reorganizations). The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.

Q: Will I have to pay any U.S. federal taxes as a result of the Reorganizations?

A: Each of the Reorganizations is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). If a Reorganization so qualifies, in general, shareholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund common shares for Acquiring Fund common shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Fund will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to any Reorganization.

On or prior to the closing date of the Reorganizations (the "Closing Date"), each of the Target Funds will declare a distribution to its shareholders that, together with all previous distributions, will have the effect of distributing to each respective Target Fund's shareholders all of its investment company taxable income (computed without regard to the deduction for dividends paid), if any, through the Closing Date, all of its net capital gains, if any, through the Closing Date, and all of its net tax-exempt interest income, if any, through the Closing Date. Such a distribution will be taxable to each Target Fund's shareholders for U.S. federal income tax purposes.

The Funds' shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganizations, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

Q: Why is the vote of shareholders of the Acquiring Fund being solicited in connection with the Reorganizations?

A: Although the Acquiring Fund will continue its legal existence and operations after the Reorganizations, the Acquiring Fund's charter requires the Acquiring Fund's shareholders to approve each of the Acquiring Fund's Reorganizations. If a Reorganization of the Acquiring Fund is not approved, then such Reorganization will not occur.

Q: How does the Board of my Fund suggest that I vote?

A: After careful consideration, the Board of your Fund unanimously recommends that you vote "FOR" each of the items proposed for your Fund.

Q: How do I vote my proxy?

A: You may cast your vote by mail, phone, internet or in person at the Special Meeting. To vote by mail, please mark your vote on the enclosed proxy card and sign, date and return the card in the postage-paid envelope provided. If you choose to vote by phone or internet, please refer to the instructions found on the proxy card accompanying the Joint Proxy Statement/Prospectus. To vote by phone or internet, you will need the "control number" that appears on the proxy card.

Q: Whom do I contact for further information?

A: You may contact your financial advisor for further information. You may also call Georgeson Inc., the Funds' proxy solicitor, at 1-866-296-5716.

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares to be voted, your shares will be voted "FOR" each proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares as you instruct at the Special Meeting.

BLACKROCK INCOME TRUST, INC.
BLACKROCK INCOME OPPORTUNITY TRUST, INC.
BLACKROCK CORE BOND TRUST

100 Bellevue Parkway
Wilmington, Delaware 19809
(800) 882-0052

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON SEPTEMBER 30, 2014

Notice is hereby given that a joint special meeting of shareholders (the "Special Meeting") of BlackRock Income Trust, Inc. ("BKT"), BlackRock Income Opportunity Trust, Inc. ("BNA" and collectively with BKT, the "Target Funds") and BlackRock Core Bond Trust ("BHK" or the "Acquiring Fund" and collectively with the Target Funds, the "Funds") will be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, New Jersey 08540-6455, on September 30, 2014 at 9:00 a.m. (Eastern time) for the following purposes:

1. The Reorganizations of the Target Funds

Shareholders of BlackRock Income Trust, Inc. ("BKT"):

Proposal 1(A): The shareholders of BKT are being asked to approve an Agreement and Plan of Reorganization between BKT and BHK (the "BKT Reorganization Agreement") and the termination of BKT's registration under the Investment Company Act of 1940 (the "1940 Act").

Shareholders of BlackRock Income Opportunity Trust, Inc. ("BNA"):

Proposal 1(B): The shareholders of BNA are being asked to approve an Agreement and Plan of Reorganization between BNA and BHK (the "BNA Reorganization Agreement") and the termination of BNA's registration under the 1940 Act.

2. The Reorganizations of the Acquiring Fund and the Issuances of the Acquiring Fund's Common Shares

Shareholders of BlackRock Core Bond Trust ("BHK"):

Proposal 2(A): The shareholders of BHK are being asked to approve the BKT Reorganization Agreement, including the issuance of additional common shares of BHK in connection with the BKT Reorganization Agreement.

Proposal 2(B): The shareholders of BHK are being asked to approve the BNA Reorganization Agreement, including the issuance of additional common shares of BHK in connection with the BNA Reorganization Agreement.

Shareholders of record as of the close of business on August 1, 2014 are entitled to vote at the Special Meeting or any adjournment or postponement thereof.

THE BOARD OF DIRECTORS OR BOARD OF TRUSTEES, AS APPLICABLE, (EACH, A "BOARD") OF EACH OF THE FUNDS RECOMMENDS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING SUCH PROXY CARD AND

RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES, OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET.

THE BOARD OF EACH TARGET FUND UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- FOR THE REORGANIZATION OF YOUR TARGET FUND PURSUANT TO YOUR TARGET FUND'S REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS, AND THE TERMINATION OF YOUR TARGET FUND'S REGISTRATION UNDER THE 1940 ACT.

THE BOARD OF BHK UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- FOR THE REORGANIZATION OF BHK PURSUANT TO EACH REORGANIZATION AGREEMENT BETWEEN BHK AND A TARGET FUND, INCLUDING THE ISSUANCE OF ADDITIONAL COMMON SHARES OF BHK IN CONNECTION WITH EACH SUCH REORGANIZATION AGREEMENT.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD OR RECORD YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET PROMPTLY.

For the Board of Directors/Trustees of the Funds

JOHN M. PERLOWSKI
President and Chief Executive Officer of the Funds

, 2014

YOUR VOTE IS IMPORTANT.

PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE
ENCLOSED PROXY CARD OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE
INTERNET, NO MATTER HOW MANY SHARES YOU OWN.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON SEPTEMBER 30, 2014.

THE PROXY STATEMENT FOR THIS MEETING IS AVAILABLE AT:
HTTPS://WWW.PROXY-DIRECT.COM/BLK-25803

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

SUBJECT TO COMPLETION, DATED JUNE 18, 2014

JOINT PROXY STATEMENT/PROSPECTUS

BLACKROCK INCOME TRUST, INC.
BLACKROCK INCOME OPPORTUNITY TRUST, INC.
BLACKROCK CORE BOND TRUST

100 Bellevue Parkway
Wilmington, Delaware 19809
(800) 882-0052

JOINT SPECIAL MEETING OF SHAREHOLDERS

September 30, 2014

This Joint Proxy Statement/Prospectus is furnished to you as a shareholder of (i) BlackRock Income Trust, Inc. ("BKT"), (ii) BlackRock Income Opportunity Trust, Inc. ("BNA" and collectively with BKT, the "Target Funds") and/or (iii) BlackRock Core Bond Trust ("BHK" or the "Acquiring Fund" and collectively with the Target Funds, the "Funds"). BKT and BNA are each organized as a corporation under the laws of the State of Maryland; BHK is organized as a statutory trust under the laws of the State of Delaware. Each Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). A joint special meeting (the "Special Meeting") of shareholders of each Fund will be held at the offices of BlackRock Advisors, LLC (the "Investment Advisor"), 1 University Square Drive, Princeton, New Jersey 08540-6455, on September 30, 2014 at 9:00 a.m. (Eastern time) to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment or postponement thereof, the Board of Directors or Board of Trustees, as applicable, of each Fund (each, a "Board") recommends that you vote your common shares of beneficial interests or shares of common stock ("common shares") by completing and returning the enclosed proxy card or by recording your voting instructions by telephone or via the internet. The approximate mailing date of this Joint Proxy Statement/Prospectus and accompanying form of proxy is August , 2014.

The purposes of the Special Meeting are:

1. The Reorganizations of the Target Funds

Shareholders of BlackRock Income Trust, Inc. ("BKT"):

Proposal 1(A): The shareholders of BKT are being asked to approve an Agreement and Plan of Reorganization between BKT and BHK (the "BKT Reorganization Agreement") and the termination of BKT's registration under the 1940 Act.

Shareholders of BlackRock Income Opportunity Trust, Inc. ("BNA"):

Proposal 1(B): The shareholders of BNA are being asked to approve an Agreement and Plan of Reorganization between BNA and BHK (the "BNA Reorganization Agreement" and together with the BKT Reorganization Agreement, the "Reorganization Agreements") and the termination of BNA's registration under the 1940 Act.

2. The Reorganizations of the Acquiring Fund and the Issuances of the Acquiring Fund's Common Shares

Shareholders of BlackRock Core Bond Trust ("BHK"):

Proposal 2(A): The shareholders of BHK are being asked to approve the BKT Reorganization Agreement, including the issuance of additional common shares of BHK in connection with the BKT Reorganization Agreement.

Proposal 2(B): The shareholders of BHK are being asked to approve the BNA Reorganization Agreement, including the issuance of additional common shares of BHK in connection with the BNA Reorganization Agreement.

Shareholders of record as of the close of business on August 1, 2014 are entitled to vote at the Special Meeting or any adjournment or postponement thereof.

Each Reorganization Agreement that Target Fund shareholders and Acquiring Fund shareholders are being asked to consider involves transactions that will be referred to in this Joint Proxy Statement/Prospectus as a "Reorganization." The Fund surviving any or all Reorganizations is referred to herein as the "Combined Fund."

The Reorganizations seek to combine three funds with income-oriented investment objectives and investment policies to achieve certain economies of scale and other operational efficiencies. BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit policy. Each Target Fund will merge directly with and into the Acquiring Fund. Each Target Fund will terminate its registration under the 1940 Act after the completion of its Reorganization. The Acquiring Fund will continue to operate after the Reorganization as a registered, diversified, closed-end management investment company with the investment objectives and investment policies described in this Joint Proxy Statement/Prospectus.

In each Reorganization, the outstanding common shares of the Target Fund will be exchanged for newly-issued common shares of the Acquiring Fund, par value $0.001 per share ("Acquiring Fund Shares") in the form of book entry interests. The aggregate net asset value ("NAV") (not the market value) of the Acquiring Fund Shares received by the shareholders of the Target Fund in each Reorganization will equal the aggregate NAV (not the market value) of the Target Fund common shares held by such shareholders immediately prior to such Reorganization, less the applicable costs of such Reorganization (although Target Fund shareholders may receive cash for their fractional common shares). The Investment Advisor will bear a portion of the costs of BNA with respect to BNA's Reorganization because the shareholders of BNA are not expected to experience the same level of economic benefits from the Reorganizations as the shareholders of BKT and BHK; therefore, a portion of the costs associated with the Reorganization of BNA will not be directly borne by BNA.

In the Reorganizations, shareholders of each Target Fund will receive Acquiring Fund Shares based on the relative NAV (not the market value) of each respective Fund's common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of a Target Fund prior to the Reorganizations.

In connection with each Reorganization, the shareholders of the Acquiring Fund are being asked to approve such Reorganization, including the issuance of additional Acquiring Fund Shares.

The Board of each Fund has determined that including these proposals in one Joint Proxy Statement/Prospectus will reduce costs and is in the best interests of each Fund's shareholders.

In the event that shareholders of a Target Fund do not approve its Reorganization, such Target Fund would continue to exist and operate on a stand-alone basis. In the event the Acquiring Fund shareholders do not approve a Reorganization, then the affected Target Fund would continue to exist and operate on a stand-alone basis. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with the ongoing management of that Target Fund and its product line, recommend alternative proposals to the Board of that Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganization by the other Target Fund.

This Joint Proxy Statement/Prospectus sets forth concisely the information that shareholders of each Fund should know before voting on the proposals for their Fund and constitutes an offering of Acquiring Fund Shares. Please read it carefully and retain it for future reference. A Statement of Additional Information, dated , 2014, relating to this Joint Proxy Statement/Prospectus (the "Statement of Additional Information") has been filed with the United States Securities and Exchange Commission (the "SEC") and is incorporated herein by reference. Copies of each Fund's most recent annual report and semi-annual report can be obtained on a website maintained by BlackRock, Inc. ("BlackRock") at www.blackrock.com. In addition, each Fund will furnish, without charge, a copy of the Statement of Additional Information, or its most recent annual report or semi-annual report to any shareholder upon request. Any such request should be directed to BlackRock by calling (800) 882-0052 or by writing to the respective Fund at 100 Bellevue Parkway, Wilmington, Delaware 19809. The Statement of Additional Information and the annual and semi-annual reports of each Fund are available on the EDGAR Database on the SEC's website at www.sec.gov. The address of the principal executive offices of the Funds is 100 Bellevue Parkway, Wilmington, Delaware 19809, and the telephone number is (800) 882-0052.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports, proxy statements, proxy materials and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or downloaded from the SEC's website at www.sec.gov. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at (202) 551-8090. You may also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC's e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549-0102.

BlackRock updates performance information for the Funds, as well as certain other information for the Funds, on a monthly basis on its website in the "Closed-End Funds" section of www.blackrock.com. Shareholders are advised to periodically check the website for updated performance information and other information about the Funds.

Please note that only one copy of shareholder documents, including annual or semi-annual reports and proxy materials, may be delivered to two or more shareholders of the Funds who share an address, unless the Funds have received instructions to the contrary. This practice is commonly called "householding" and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded indefinitely unless you instruct us otherwise. To request a separate copy of any shareholder document or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, shareholders should contact the Fund at the address and phone number set forth above.

The common shares of BlackRock Core Bond Trust are listed on the New York Stock Exchange ("NYSE") under the ticker symbol "BHK" and will continue to be so listed after the completion of the Reorganizations. The common shares of BlackRock Income Trust, Inc. are listed on the NYSE under the ticker symbol "BKT." The common shares of BlackRock Income Opportunity Trust, Inc. are listed on the NYSE under the ticker symbol "BNA." Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

This Joint Proxy Statement/Prospectus serves as a prospectus of the Acquiring Fund in connection with the issuance of Acquiring Fund Shares in each of the Reorganizations. No person has been authorized to give any information or make any representation not contained in this Joint Proxy Statement/Prospectus and, if so given or made, such information or representation must not be relied upon as having been authorized. This Joint Proxy Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

Photographic identification and proof of ownership will be required for admission to the meeting. For directions to the meeting, please contact Georgeson Inc., the firm assisting us in the solicitation of proxies, at 1-866-296-5716.

THE SEC HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Joint Proxy Statement/Prospectus is , 2014.

3

TABLE OF CONTENTS

SUMMARY

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement/Prospectus and in the Statement of Additional Information. Shareholders should read the entire Joint Proxy Statement/Prospectus carefully.

The Proposed Reorganizations	The Board of each Fund, including the directors or trustees, as applicable (the "Board Members"), who are not "interested persons" of each Fund (as defined in the 1940 Act) (the "Independent Board Members"), has unanimously approved its Reorganization(s), including its respective Reorganization Agreement(s). Assuming each Target Fund's shareholders approve its respective Target Fund's Reorganization and the Acquiring Fund's shareholders approve the Reorganizations of the Acquiring Fund, each Target Fund will merge directly with and into the Acquiring Fund. Each Target Fund will terminate its registration under the 1940 Act after the completion of its Reorganization.

In connection with each Reorganization, the Acquiring Fund will issue additional Acquiring Fund Shares and list such common shares on the NYSE (each, an "Issuance") and the outstanding common shares of the Target Fund will be exchanged for newly-issued Acquiring Fund Shares in the form of book entry interests. The aggregate NAV (not the market value) of the Acquiring Fund Shares received by the Target Fund shareholders in each Reorganization will equal the aggregate NAV (not the market value) of the Target Fund common shares held by such shareholders immediately prior to such Reorganization, less the applicable costs of such Reorganization (although Target Fund shareholders may receive cash for their fractional common shares). The Investment Advisor will bear a portion of the costs of BNA with respect to BNA's Reorganization because the shareholders of BNA are not expected to experience the same level of economic benefits from the Reorganizations as the shareholders of BKT and BHK; therefore, a portion of the costs associated with the Reorganization of BNA will not be directly borne by BNA.

In the Reorganizations, shareholders of each Target Fund will receive Acquiring Fund Shares based on the relative NAV, not the market value, of each respective Fund's common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of a Target Fund prior to the Reorganizations.

The Reorganizations are not expected to result in any reduction in the NAV of the Acquiring Fund Shares, other than to reflect the applicable costs of the Reorganizations, including, but not limited to, the issuance of additional Acquiring Fund Shares in connection with each of the Reorganizations.

Each Fund's Board has determined that its Reorganization is in the best interests of its Fund and the shareholders of such Fund and that the interests of such shareholders will not be diluted with respect to net asset value as a result of such Fund's Reorganization. As a result of the Reorganizations, however, shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds.

The Board of each Fund recommends that shareholders of such Fund approve their proposed Reorganization at the Special Meeting to be held on September 30, 2014. The Acquiring Fund's Reorganizations include the Issuances.

Subject to the requisite approval of the shareholders of each Fund with regard to each Reorganization, it is expected that the Closing Date will be sometime during the fourth quarter 2014, but it may be at a different time as described herein. For information regarding voting requirements, please see "Voting Information and Requirements."

Please see "Information About the Reorganizations" for additional information.

Background and Reasons for the Proposed Reorganizations

The Reorganizations seek to combine three funds with income-oriented investment objectives and investment policies to achieve certain economies of scale and other operational efficiencies. BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit policy. The Board of each Target Fund (each, a "Target Fund Board") and the Acquiring Fund (the "Acquiring Fund Board"), based upon its evaluation of all relevant information, anticipates that the Reorganization(s) would benefit shareholders of its Fund. Because shareholders of each Fund will vote separately on their Fund's respective Reorganization(s), there are multiple potential combinations of Reorganizations.

The Board of each Fund, including the Independent Board Members, approved its respective Reorganization(s), concluding that such Reorganization(s) is in the best interests of its Fund and that the interests of existing shareholders of its Fund will not be diluted with respect to net asset value as a result of its respective Reorganization(s). This determination was made on the basis of each Board Member's business judgment after consideration of all of the factors and considerations (discussed below) taken as a whole with respect to its Fund and shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

The Board of each Fund considered its respective Reorganization(s) at meetings of the Board of each Fund held on June 5-6, 2014 (the "Meeting"). The Board of each Fund considered a number of factors presented at the time of the Meeting or at a prior meeting in reaching their determinations, including, but not limited to, the following:

· potential for improved economies of scale and a lower Total Expense Ratio with respect to each Fund;

· alternatives to the Reorganizations for each Fund;

· the potential effects of the Reorganizations on the earnings and distributions of each Fund;

· the potential effects of the Reorganizations on each Fund's premium/discount to NAV;

· the compatibility of the Funds' investment objectives, investment policies and related risks and risk profiles;

· consistency of portfolio management and portfolio composition;

· the potential for improved secondary market trading;

· the potential for operating and administrative efficiencies;

· the anticipated tax-free nature of the Reorganizations;

· the potential effects on the Funds' capital loss carryforwards;

· the potential effects on each Fund's undistributed net investment income;

· the expected costs of the Reorganizations;

· the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the Funds;

6

- the effect of the Reorganizations on shareholder rights; and
- any potential benefits of the Reorganizations to the Investment Advisor and its affiliates.

There can be no assurance that future expenses will not increase or that any expense savings will be realized as a result of any Reorganization. Moreover, the level of expense savings (or increases) will vary depending upon the combination of the Funds in the Reorganizations. In addition, a Fund's earnings and net investment income are variables, which depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized by the Fund, the costs of such leverage, the movement of interest rates and general market conditions. There can be no assurance that the future earnings of a Fund, including the Combined Fund after the Reorganizations, will remain constant. In addition, the Combined Fund's future earnings will vary depending on the combination of the Funds in the Reorganizations.

The Board of each Fund recommends that shareholders of such Fund approve its respective Reorganization(s).

If a Reorganization is not approved by a Target Fund's shareholders, such Target Fund will continue to operate for the time being as a stand-alone Maryland corporation and will continue to be advised by the Investment Advisor. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Target Fund and its product line, recommend alternative proposals to the Board of such Target Fund. An unfavorable vote by the shareholders of one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the other Reorganization.

Please see "Information About the Reorganizations—Reasons for the Reorganizations" for additional information.

The Post-Reorganization Repositioning

The Investment Advisor intends to reposition the Combined Fund's portfolio after the completion of the Reorganizations by selling a significant portion of the higher rated assets acquired from BKT that are generally lower yielding than the assets currently held by BHK and using the proceeds to purchase assets with risk/return profiles similar to those assets currently held by BHK and consistent with the Combined Fund's investment objectives and investment policies (the "Repositioning"). The Combined Fund will continue to hold a portion of the assets acquired from BKT after the Repositioning. The Combined Fund generally intends to hold those assets acquired from BKT that have yields higher than or comparable to the assets currently held by BHK. However, the Combined Fund may also hold a portion of BKT's lower yielding assets after the Repositioning. The Investment Advisor anticipates that the Repositioning will enable the Combined Fund to attain a risk/return profile comparable to the current risk/return profiles of BNA and BHK. The Combined Fund's earnings and distribution yields on NAV after the Repositioning are expected to be comparable (i.e., the same or slightly lower or higher) to the current earnings and distribution yields on NAV of BNA and BHK. However, there can be no assurance that the Combined Fund can successfully implement the Repositioning. The Combined Fund's ability to execute the Repositioning depends on many factors, including portfolio transaction costs, market rates of interest, the availability of attractive securities to purchase, market liquidity, regulatory considerations and restrictions, the U.S. federal income tax rules applicable to reorganizations and general economic and market conditions. If the Combined Fund is unable to successfully implement the Repositioning, then the Combined Fund's earnings yield on NAV may be lower than BNA's and BHK's current earnings yield on NAV; and assuming BHK's distribution policy remains in place after the Reorganizations,

7

	shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV after the Reorganizations.
Expenses	For the fiscal year ended August 31, 2013, the Total Expense Ratios of BKT, BNA and BHK were 1.00%, 0.93% and 0.98%, respectively. For the 12-month period ended February 28, 2014, the Total Expense Ratios of BKT, BNA and BHK were 0.98%, 0.92% and 0.98%, respectively. "Total Expenses" means a Fund's total annual operating expenses (including interest expenses and applicable fee waivers). "Total Expense Ratio" means a Fund's Total Expenses expressed as a percentage of its average net assets attributable to its common shares. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 0.89% on a historical and pro forma basis for the 12-month period ended February 28, 2014, representing a reduction in the Total Expense Ratio for the shareholders of BKT, BNA and BHK of 0.09%, 0.03% and 0.09%, respectively. The level of expense savings (or increases) will vary depending upon the combination of the Funds in the Reorganizations, and furthermore, there can be no assurance that future expenses will not increase or that any expense savings for shareholders of any Fund will be realized. The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) compared to each Fund's current Lipper peers. Please see "Summary—Comparison of the Funds' Advisors" and "Expense Table for Shareholders" for additional information.
Appraisal Rights	None of the Funds' shareholders have appraisal rights for their common shares in their respective Fund. Please see "Appraisal Rights" for additional information.
Federal Tax Consequences of the Reorganizations	Each Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). If a Reorganization so qualifies, in general, shareholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund common shares for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Funds will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganizations. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to each Reorganization. It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund receive an opinion from Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps"), dated as of the closing date of such Reorganization (the "Closing Date"), regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code. Please see "Certain Federal Income Tax Consequences of the Reorganizations" for additional information.
	BKT and BNA are each organized as Maryland corporations.

Comparison of the Funds' General Information and History	BHK is organized as a Delaware statutory trust. Each Fund is a diversified, closed-end management investment company registered under the 1940 Act and each Fund's common shares are listed on the New York Stock Exchange. See "The Funds" for additional information about the history of the Funds.

8

Comparison of the Funds' Investment Objectives and Policies	BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions.

BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit quality.

Certain significant differences between BKT and BHK are summarized below.

Investment Objectives.

· The investment objective of each of BHK and BNA is to provide current income and capital appreciation.

· BKT's investment objective is to manage a portfolio of high-quality securities to achieve both preservation of capital and high monthly income.

Investment Grade Securities.

· At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization.

· Each of BHK and BNA invests its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities. Under normal market conditions, each of BHK and BNA invests at least 75% of its total managed assets in investment grade quality bonds. Each of BHK and BNA may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor.

Mortgage-Related Securities.

· BKT invests at least 65% of its assets in mortgage-backed securities.

· Each of BHK and BNA may invest its assets in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities.

A more detailed comparison of the Funds' investment objectives and significant investment strategies and operating policies is set forth in "Comparison of the Funds' Investments."

Comparison of the Funds' Leverage	Each Fund may utilize leverage by borrowing through entering into reverse repurchase agreements and/or treasury roll transactions. As of February 28, 2014, the Funds had aggregate economic leverage from reverse repurchase agreements as a percentage of their total managed assets ("Economic Leverage Ratio") as follows:

9

Ticker	Economic Leverage Ratio
BKT	30%
BNA	31%
BHK	29%

The Combined Fund's Economic Leverage Ratio is expected to be substantially similar to the Acquiring Fund's current Economic Leverage Ratio immediately following the Reorganizations.

As of February 28, 2014, the daily weighted average interest rates for the Funds with borrowings, including reverse repurchase agreements were as follows:

Ticker	Daily Weighted Average Interest Rates
BKT	0.17%
BNA	0.25%
BHK	0.24%

In connection with the Reorganizations, the Combined Fund expects to maintain an Economic Leverage Ratio substantially similar to the Acquiring Fund's current Economic Leverage Ratio immediately following the Reorganizations. The Combined Fund may not be able to maintain the current earnings and distribution yields on NAV of the Acquiring Fund, which may negatively affect the market price and NAV of the Combined Fund. In addition, if the Combined Fund is required to reduce its economic leverage, then it may be required to sell a portion of its assets, which may negatively affect the Combined Fund's portfolio holdings, portfolio allocation, portfolio diversification and investment strategy.

Additional information about the leverage of the Acquiring Fund and the Targets Funds is set forth in "The Acquiring Funds' Investments—Portfolio Contents and Techniques—Borrowings and Preferred Shares" and "Comparison of the Funds' Investments—Investment Objectives and Policies."

Comparison of the Funds' Management

The Board of each Fund is responsible for the overall supervision of the operations of its respective Fund and performs the various duties imposed on the directors of investment companies by the 1940 Act and under applicable state law. Each Fund has the same Board Members and officers. A list of the Board Members and officers of each Fund, a brief biography for each Board Member and officer, and additional information relating to the Board Members and the officers are included in the Statement of Additional Information.

Comparison of the Funds' Advisors

BlackRock Advisors, LLC serves as the investment advisor for each Fund and is expected to continue to serve as investment advisor for the Combined Fund. The Investment Advisor is responsible for the management of each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of each Fund.

Each Target Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of such Target Fund's average weekly net assets:

10

Average Weekly Value of Net Assets:	Annual Rate
BKT	0.65%
BNA	0.60%

In addition, each Target Fund entered into an Administration Agreement with the Investment Advisor to provide certain administrative services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of such Target Fund's average weekly net assets:

Average Weekly Value of Net Assets:	Annual Rate
BKT	0.15%
BNA	0.10%

The Acquiring Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory and administration services. For such services, the Acquiring Fund pays the Investment Advisor a monthly fee at the annual rate of 0.55% of the Acquiring Fund's average weekly Managed Assets. "Managed Assets" means the total assets of the Acquiring Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). The Acquiring Fund is not subject to a separate fee for administration services. The Investment Advisor currently waives a portion of the Acquiring Fund's investment management fee at an annual rate of 0.03% of the Acquiring Fund's average weekly Managed Assets. The waiver is voluntary and may be reduced or discontinued at any time without notice.

If any of the Reorganizations are consummated, the Investment Advisor will reduce the annual contractual investment management fee rate of the Combined Fund to 0.50% of the average weekly Managed Assets of the Combined Fund, which is lower than the annual contractual investment management fee rate of any individual Fund. The Combined Fund will not be subject to a separate fee for administration services or any fee waivers.

The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for contractual management fees compared to each Fund's current Lipper peers.

Additional information about the Investment Advisor and its arrangements with the Acquiring Fund and the Target Funds are set forth in "Management of the Funds" in this Joint Proxy Statement/Prospectus and in the Statement of Additional Information.

Comparison of the Funds' Portfolio Management

BKT is managed by a team of investment professionals comprised of Akiva Dickstein, Managing Director at BlackRock and Tom Musmanno, Managing Director at BlackRock. Messrs. Dickstein and Musmanno are BKT's co-portfolio managers and are responsible for the day-to-day management of BKT's portfolio and the selection of its investments. Messrs. Dickstein and Musmanno have been members of BKT's portfolio management team since 2009 and 2012, respectively.

BNA and BHK are managed by a team of investment professionals comprised of Tom Musmanno, Managing Director at BlackRock, and James E. Keenan, Managing Director at BlackRock. Messrs. Musmanno and Keenan are BNA's and BHK's co-portfolio managers and are responsible for the day-to-day management of BNA's and BHK's portfolios and the selection of their investments. Mr. Musmanno has been a member of BNA's and BHK's portfolio management team since 2012. Mr. Keenan has been a member of BNA's and BHK's portfolio management team since 2007.

After the Reorganizations, it is expected that Messrs. Musmanno and Keenan will comprise the team of investment professionals for the Combined Fund.

Additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers, and the portfolio managers' ownership of securities in the Acquiring Fund and the Target Funds are set forth in the Statement of Additional Information.

Comparison of the Funds' Other Service Providers

The other professional service providers for the Funds are as follows:

Service	Service Providers to the Funds
Custodian	State Street Bank and Trust Company
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company, N.A.
Accounting Services Provider	State Street Bank and Trust Company
Independent Registered Public Accounting Firm	
Fund Counsel	Skadden, Arps, Slate, Meagher & Flom LLP
Counsel to the Independent Board Members	Debevoise & Plimpton LLP

It is not anticipated that the Reorganization(s) will result in any change in the organizations providing services to the Acquiring Fund as set forth above. As a result of the Reorganizations, the service providers to the Acquiring Fund are anticipated to be the service providers to the Combined Fund.

Additional information about the other professional service providers for the Acquiring Fund and the Target Funds are set forth in the Statement of Additional Information.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Comparison of Risks

The Combined Fund will be managed in accordance with the same investment objectives and investment policies, and subject to the same risks, as the Acquiring Fund. Many of the investment risks associated with an investment in the Acquiring Fund are similar to those associated with an investment in the Target Funds. Risks that predominately affect common shares include credit risk, interest rate risk, high yield security risk, leverage risk, derivatives risk, liquidity and market price risk, issuer risk, market risk and non-U.S. securities risk. In addition, as exchange-traded closed-end funds, the Funds are subject to the risk that the Funds' common shares may trade at a discount from the Funds' net asset value. Accordingly, the Funds are primarily designed for long-term investors and should not be considered a vehicle for trading purposes.

The Funds are subject to similar investment risks, except for certain differences. Certain significant differences are summarized below:

- Credit Quality: BKT shareholders are expected to be subject to greater credit risks because of the Combined Fund's broader and more diversified approach to investments and credit quality. BHK and BNA have exposure to below investment grade securities and investment grade securities rated in the lower investment grade categories, whereas, BKT invests substantially all of its assets in securities that at the time of investment are rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization or securities of comparable credit quality.

  - At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization.

  - Under normal market conditions, each of BHK and BNA invests at least 75% of its total managed assets in investment grade quality bonds. Each of BHK and BNA may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor. Below investment grade quality securities (rated Ba/BB or below) are commonly referred to as "high yield" or "junk" bonds and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments.

- Mortgage-Related Securities: BKT has greater exposure to mortgage-related securities than BHK and BNA, including stripped mortgage-backed securities. One type of stripped MBS pays to one class all of the interest from the mortgage assets (the "IO class"), while the other class will receive all of the principal (the "PO class").Risks associated with mortgage-related securities, including stripped mortgage-backed securities, may be greater in the Combined Fund's portfolio than in the portfolios of BHK or BNA because the Combined Fund may have a larger proportion of its portfolio in mortgage-related securities than BHK or BNA as a result of the Combined Fund's acquisition of legacy BKT's assets. On the other hand, because the Combined Fund's portfolio is expected to be more diversified than BKT's portfolio, BKT shareholders may become subject to risks associated with securities that are not currently held by BKT, such as risks associated with corporate bonds and other securities.

- o BKT invests at least 65% of its assets in mortgage-backed securities.

- o Each of BHK and BNA may invest its assets in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities.

Risks associated with mortgage-backed securities include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution

13

(including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the issuing vehicle and the return to investors in such MBS); whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the MBS) 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 MBS; risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the MBS; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral.

Stripped mortgage-backed securities may be subject to additional risk. The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets and a rapid rate of principal payments may have a material adverse effect on the Combined Fund's yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, the Combined Fund may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

- Governing Law: BHK is a Delaware statutory trust organized under Delaware law, while BKT and BNA are each a Maryland corporation organized under Maryland law. A Maryland corporation generally provides greater certainty with respect to limitation of personal liability than a Delaware statutory trust. See "Governing Law" for additional information.

The foregoing is just a summary of the significant differences in the risks associated with an investment in each Fund's common shares. Please see "Comparison of the Funds' Investments" in this Joint Proxy Statement/Prospectus for a more detailed description of the salient differences among the Funds.

Risks Related to the Reorganizations

Expenses.

While the Funds currently estimate that the Reorganizations will result in reduced aggregate expenses of the Combined Fund by approximately $855,100 per year if all the Reorganizations are completed (which represents the most likely combination of the Reorganizations), approximately $705,300 if only the Reorganization between BKT and BHK is completed, and approximately $261,100 if only the Reorganization of BNA and BHK is completed, the realization of these reduced expenses will not affect holders of the Funds proportionately, and may take longer than expected to be realized or may not be realized at all.

After the Reorganizations, the Combined Fund is expected to incur lower Total Expenses on a per common share basis than is currently incurred by the Acquiring Fund. The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) and contractual management fees compared to each Fund's current Lipper peers.

For the fiscal year ended August 31, 2013, the Total Expense Ratio of BKT, BNA and BHK was 1.00%, 0.93% and 0.98%, respectively. As of February 28, 2014, the historical and pro forma Total Expense Ratios applicable to the Reorganizations are as follows:

BKT	BNA	BHK	Pro Forma Combined Fund (BKT & BHK)	Pro Forma Combined Fund (BNA & BHK)	Pro Forma Combined Fund (All Funds)
0.98%	0.92%	0.98%	0.90%	0.92%	0.89%

No matter which Funds complete their Reorganizations, the Combined Fund may incur higher Total Expenses for a period after the completion of the Reorganizations due to expenses associated with the Reorganizations prior to experiencing any such savings or may never experience such savings if the Combined Fund's fixed costs were to increase or the value of its assets were to decrease.

There can be no assurance that future expenses will not increase or that any expense savings will be realized as a result of any Reorganization. Moreover, the level of expense savings (or increases) will vary depending upon the combination of the Funds in the Reorganizations.

The most likely combination is the Reorganizations of all of the Funds, which is also expected to result in the lowest Total Expense Ratio. The Reorganization of just BNA into the Acquiring Fund is expected to result in the highest Total Expense Ratio of any of the possible combinations of the Reorganizations. The Reorganization of just BKT into the Acquiring Fund is expected to result in a Total Expense Ratio that is lower than the Total Expense Ratio that is expected to result from the Reorganization of just BNA into the Acquiring Fund and higher than the Total Expense Ratio that is expected to result from the Reorganization of all the Funds.

Please see the "Expense Table for Shareholders" for additional information about the Funds' expenses.

Earnings and Distribution Yield.

The Combined Fund's earnings yield on NAV immediately following the Reorganizations is expected to be lower than BNA's and BHK's current earnings yield on NAV and comparable (i.e., the same or slightly lower or higher) to BKT's current earnings yield on NAV; thus, assuming BHK's distribution policy remains in place after the Reorganizations, shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV immediately after the Reorganizations, and shareholders of BKT may experience a distribution yield on NAV comparable (i.e., the same or slightly lower or higher) to their current distribution yield on NAV immediately after the Reorganizations.

The Investment Advisor intends to reposition the Combined Fund's portfolio after the completion of the Reorganizations by selling a significant portion of the higher rated assets acquired from BKT that are generally lower yielding than the assets currently held by BHK and using the proceeds to purchase assets with risk/return profiles similar to those assets currently held by BHK and consistent with the Combined Fund's investment objectives and investment policies (the "Repositioning"). The Combined Fund will continue to hold a portion of the assets acquired from BKT after the Repositioning. The Combined Fund generally intends to hold those assets acquired from BKT that have yields higher than or comparable to the assets currently held by BHK. However, the Combined Fund may also hold a portion of BKT's lower yielding assets after the Repositioning. The Investment Advisor anticipates that the Repositioning will enable the Combined Fund to attain a risk/return profile comparable to the current risk/return profiles of BNA and BHK. The Combined Fund's earnings and distribution yields on NAV after the Repositioning are expected to be comparable (i.e., the same or slightly lower or higher) to the current earnings and distribution yields on NAV of BNA and BHK. However, there can be no assurance that the Combined Fund can successfully implement the Repositioning. The Combined Fund's ability to execute the Repositioning depends on many factors, including portfolio transaction costs, market rates of interest, the availability of attractive securities to purchase, market liquidity, regulatory considerations and restrictions, the U.S. federal income tax rules applicable to reorganizations and general economic and market conditions. If the Combined Fund is unable to successfully implement the Repositioning, then the Combined Fund's earnings yield on NAV may be lower than BNA's and BHK's current earnings yield on NAV; and assuming BHK's distribution policy remains in place after the Reorganizations, shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV after the Reorganizations. Nevertheless, shareholders of BNA and BHK are expected to benefit from a reduction in BNA's and BHK's Total Expense Ratio of approximately 0.03% and 0.09%, respectively. It is also anticipated that shareholders of BNA and BHK may benefit from other potential benefits associated with the Reorganizations (including as a result of the Combined Fund's larger size). See "Information About the Reorganizations—Reasons for the Reorganizations."

The Combined Fund's earnings and distribution yield on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund's earnings and distribution yield on NAV prior to the Reorganizations. A Fund's earnings and net investment income are variables which depend on many factors, including its asset mix, performance of its investments, the amount of leverage utilized by the Fund, the costs of such leverage, the movement of interest rates and general market conditions.

Premium/Discount to NAV.

As with any capital stock, the price of each Fund's common shares will fluctuate based on market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Each Fund's common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of exchange-traded closed-end management investment companies frequently trade at a discount from their NAV. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the Reorganizations.

The common shares of each Fund have historically fluctuated between a discount and a premium. As of May 31, 2014, each Fund traded at a discount to its respective NAV. To the extent that a Target Fund is trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of its Reorganization, such Target Fund's shareholders would have the potential for an economic benefit. To the extent that a Target Fund is trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of its Reorganization, such Target Fund's shareholders may be negatively impacted if the Reorganizations are consummated. The Acquiring Fund's shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves.

There can be no assurance that, after the Reorganizations, common shares of the Combined Fund will trade at, above or below NAV. Upon consummation of the Reorganizations, the common shares of the Combined Fund may trade at a price that is less than the Acquiring Fund's current trading market price. In the Reorganizations, shareholders of each Target Fund will receive Acquiring Fund Shares based on the relative NAVs (not the market values) of each respective Fund's common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of your Fund prior to the Reorganizations.

Tax Considerations.

See "Certain Federal Income Tax Consequences of the Reorganizations" for a summary of certain U.S. federal income tax consequences of the Reorganizations.

General Risks of Investing in the Acquiring Fund

The Combined Fund will be managed in accordance with the same investment objective and investment policies, and subject to the same risks, as the Acquiring Fund. The risks that predominately affect Acquiring Fund Shares include the following:

Investment and Market Discount Risk. An investment in the Acquiring Fund Shares is subject to investment risk, including the possible loss of the entire amount that you invest. As with any stock, the price of the Acquiring Fund Shares will fluctuate with market conditions and other factors. Common shares are designed for long-term investors and the Acquiring Fund should not be treated as a trading vehicle. Shares of closed-end management investment companies frequently trade at a discount from their NAV. This risk is separate and distinct from the risk that the Acquiring Fund's NAV could decrease as a result of its investment activities. At any point in time an investment in the Acquiring Fund Shares may be worth less than the original amount invested, even after taking into account distributions paid by the Acquiring Fund. This risk may be greater for investors who sell their common shares in a relatively short period of time after completion of the Reorganizations. The Acquiring Fund uses leverage, which magnifies the Acquiring Fund's investment risk, market discount risk and certain other risks.

Fixed Income Securities Risks. Fixed income securities in which the Acquiring Fund may invest are generally subject to the following risks:

Interest Rate Risk. The market value of bonds and other fixed-income securities changes in response to interest rate changes and other factors. Interest rate risk is the risk that prices of bonds and other fixed-income securities will increase as interest rates fall and decrease as interest rates rise. The Acquiring Fund may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates. The magnitude of these fluctuations in the market price of bonds and other fixed-income securities is generally greater for those securities with longer maturities. Fluctuations in the market price of the Acquiring Fund's investments will not affect interest income derived from instruments already owned by the Acquiring Fund, but will be reflected in the Acquiring Fund's NAV. The Acquiring Fund may lose money if short-term or long-term interest rates rise sharply in a manner not anticipated by the Acquiring Fund's management. To the extent the Acquiring Fund invests in debt securities that may be prepaid at the option of the obligor (such as mortgage-related securities), the sensitivity of such securities to changes in interest rates may increase (to the detriment of the Acquiring Fund) when interest rates rise. Moreover, because rates on certain floating rate debt securities typically reset only periodically, changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuations in the NAV of the Acquiring Fund to the extent that it invests in floating rate debt securities. These basic principles of bond prices also apply to U.S. government securities. A security backed by the "full faith and credit" of the U.S. government is guaranteed only as to its stated interest rate and face value at maturity, not its current market price. Just like other fixed-income securities, government-guaranteed securities will fluctuate in value when interest rates change.

The Acquiring Fund's use of leverage, as described below, will tend to increase the Acquiring Fund's interest rate risk. The Acquiring Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of fixed income securities held by the Acquiring Fund and decreasing the Acquiring Fund's exposure to interest rate risk. The Acquiring Fund is not required to hedge its exposure to interest rate risk and may choose not to do so. In addition, there is no assurance that any attempts by the Acquiring Fund to reduce interest rate risk will be successful or that any hedges that the Acquiring Fund may establish will perfectly correlate with movements in interest rates.

The Acquiring Fund may invest in variable and floating rate debt instruments, which generally are less sensitive to interest rate changes than longer duration fixed rate instruments, but may decline in value in response to rising interest rates if, for example, the rates at which they pay interest do not rise as much, or as quickly, as market interest rates in general. Conversely, variable and floating rate instruments generally will not increase in value if interest rates decline. The Acquiring Fund also may invest in inverse floating rate debt securities, which may decrease in value if interest rates increase, and which also may exhibit greater price volatility than fixed rate debt obligations with similar credit quality. To the extent the Acquiring Fund holds variable or floating rate instruments, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities, which may adversely affect the NAV of the Acquiring Fund Shares.

Issuer Risk. The value of fixed income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer's goods and services, historical and prospective earnings of the issuer and the value of the assets of the issuer.

Credit Risk. Credit risk is the risk that one or more fixed income securities in the Acquiring Fund's portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. To the extent the Acquiring Fund invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund which only invests in investment grade securities. See "—Below Investment Grade Securities Risk." In addition, to the extent the Acquiring Fund uses credit derivatives, such use will expose it to additional risk in the event that the bonds underlying the derivatives default. The degree of credit risk depends on the issuer's financial condition and on the terms of the securities.

Prepayment Risk. During periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For fixed rate securities, such payments often occur during periods of declining interest rates, forcing the Acquiring Fund to reinvest in lower yielding securities, resulting in a possible decline in the Acquiring Fund's income and distributions to shareholders. This is known as prepayment or "call" risk. Below investment grade securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ("call protection"). For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Acquiring Fund, prepayment risk may be enhanced.

Reinvestment Risk. Reinvestment risk is the risk that income from the Acquiring Fund's portfolio will decline if the Acquiring Fund invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Acquiring Fund portfolio's current earnings rate.

Duration and Maturity Risk. The Acquiring Fund has no set policy regarding portfolio maturity or duration. The Investment Advisor may seek to adjust the portfolio's duration or maturity based on their assessment of current and projected market conditions and all factors that the Investment Advisor deems relevant. Any decisions as to the targeted duration or maturity of any particular category of investments or of the Acquiring Fund's portfolio generally will be made based on all pertinent market factors at any given time. The Acquiring Fund may incur costs in seeking to adjust the portfolio average duration or maturity. There can be no assurance that the Investment Advisor's assessment of current and projected market conditions will be correct or that any strategy to adjust the portfolio's duration or maturity will be successful at any given time. Generally speaking, the longer the duration of the Acquiring Fund's portfolio, the more exposure the Acquiring Fund will have to the interest rate risks described above.

Yield and Ratings Risk. The yields on certain obligations are dependent on a variety of factors, including general market conditions, conditions in the particular market for the obligation, the financial condition of the issuer, the size of the offering, the maturity of the obligation and the ratings of the issue. The ratings of Moody's and S&P, which are described in Appendix E to the Statement of Additional Information, represent their respective opinions as to the quality of the obligations they undertake to rate. Ratings, however, are general and are not absolute standards of quality. Consequently, obligations with the same rating, maturity and interest rate may have different market prices. Subsequent to its purchase by the Acquiring Fund, a rated security may cease to be rated. The Investment Advisor will consider such an event in determining whether the Acquiring Fund should continue to hold the security.

Below Investment Grade Securities Risk. The Acquiring Fund may invest in securities that are rated, at the time of investment, below investment grade quality (rated Ba/BB or below, or unrated but judged to be of comparable quality by the Investment Advisor), which are commonly referred to as "high yield" or "junk" bonds and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. The value of high yield, lower quality bonds is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments. Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely 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. See "—Risk Associated with Recent Market Events."

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 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 Acquiring Fund to sell certain securities or could result in lower prices than those used in calculating the Acquiring Fund's NAV. Because of the substantial risks associated with investments in lower grade securities, you could lose money on your investment in Acquiring Fund Shares, both in the short-term and the long-term.

The prices of fixed income securities generally are inversely related to interest rate changes; however, below investment grade securities historically have been somewhat less sensitive to interest rate changes than higher quality securities of comparable maturity because credit quality is also a significant factor in the valuation of lower grade securities. On the other hand, an increased rate environment results in increased borrowing costs generally, which may impair the credit quality of low-grade issuers and thus have a more significant effect on the value of some lower grade securities. In addition, the current extraordinarily low rate environment has expanded the historic universe of buyers of lower grade securities as traditional investment grade oriented investors have been forced to accept more risk in order to maintain income. As rates rise, these recent entrants to the low-grade securities market may exit the market and reduce demand for lower grade securities, potentially resulting in greater price volatility.

The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Investment Advisor also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Acquiring Fund invests in lower grade securities that have not been rated by a rating agency, the Acquiring Fund's ability to achieve its investment objective will be more dependent on the Investment Advisor's credit analysis than would be the case when the Acquiring Fund invests in rated securities.

The lowest rated bonds in which the Acquiring Fund may invest are securities rated in the category "C" or determined by the Investment Advisor to be of comparable quality. For these securities, the risks associated with below investment grade instruments are more pronounced.

Unrated Securities Risk. Because the Acquiring Fund may purchase securities that are not rated by any rating organization, the Investment Advisor may, after assessing their credit quality, internally assign ratings to certain of those securities in categories similar to those of rating organizations. Some unrated securities may not have an active trading market or may be difficult to value, which means the Acquiring Fund might have difficulty selling them promptly at an acceptable price. To the extent that the Acquiring Fund invests in unrated securities, the Acquiring Fund's ability to achieve its investment objective will be more dependent on the Investment Advisor's credit analysis than would be the case when the Acquiring Fund invests in rated securities.

Mortgage-Related Securities Risks. Investing in mortgage-backed securities ("MBS") entails various risks. MBS represent an interest in a pool of mortgages. The risks associated with MBS include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution (including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the issuing vehicle and the return to investors in such MBS); whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the MBS) 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 MBS; risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the MBS; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral. In addition, the Acquiring Fund's level of investment in MBS of a particular type or in MBS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the Acquiring Fund to additional risk.

When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. During such periods, the reinvestment of prepayment proceeds by the Acquiring Fund will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. When market interest rates increase, the market values of MBS decline. At the same time, however, mortgage refinancings and prepayments slow, lengthening the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of MBS is usually more pronounced than it is for other types of fixed income securities. Moreover, the relationship between borrower prepayments and changes in interest rates may mean some high-yielding MBS and other asset-backed securities have less potential for increases in value if market interest rates were to fall than conventional bonds with comparable maturities.

In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which the Acquiring Fund invests, the Acquiring Fund will not be able to recover all of its investment in the MBS it purchases. MBS in which the Acquiring Fund invests may not contain reserve funds, letters of credit, mezzanine loans and/or junior classes of securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Please see "Mortgage-Related Securities Risk" in the Statement of Additional Information for additional information about the risks associated with mortgage-related securities.

Stripped Mortgage-Backed Securities Risk. Stripped MBS may be subject to additional risks. Stripped MBS includes the IO class, which receives all of the interest from the mortgage assets, and the PO class, which receives all of the principal from the mortgage assets. The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets and a rapid rate of principal payments may have a material adverse effect on the Acquiring Fund's yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, the Acquiring Fund may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

ABS Risk. Asset-backed securities ("ABS") involve certain risks in addition to those presented by MBS. There is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities. Relative to MBS, ABS may provide the Acquiring Fund with a less effective security interest in the underlying collateral and are more dependent on the borrower's ability to pay. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in an ABS transaction. Finally, ABS has structure risk due to a unique characteristic known as early amortization, or early payout, risk. Built into the structure of most ABS are triggers for early payout, designed to protect investors from losses. These triggers are unique to each transaction and can include a significant rise in defaults on the underlying loans, a sharp drop in the credit enhancement level or the bankruptcy of the originator. Once early amortization begins, all incoming loan payments (after expenses are paid) are used to pay investors as quickly as possible based upon a predetermined priority of payment.

The collateral underlying ABS may constitute assets related to a wide range of industries and sectors, such as credit card and automobile receivables. Credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. The Credit CARD Act of 2009 imposes new regulations on the ability of credit card issuers to adjust the interest rates and exercise various other rights with respect to indebtedness extended through credit cards. The Acquiring Fund and the Investment Advisor cannot predict what effect, if any, such regulations might have on the market for ABS and such regulations may adversely affect the value of ABS owned by the Acquiring Fund. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing such receivables. If the economy of the United States deteriorates, defaults on securities backed by credit card, automobile and other receivables may increase, which may adversely affect the value of any ABS owned by the Acquiring Fund. There is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities. In recent years, certain automobile manufacturers have been granted access to emergency loans from the U.S. government and have experienced bankruptcy. As a result of these events, the value of securities backed by receivables from the sale or lease of automobiles may be adversely affected.

Some ABS, particularly home equity loan transactions, are subject to interest rate risk and prepayment risk. A change in interest rates can affect the pace of payments on the underlying loans, which in turn, affects total return on the securities.

Corporate Bonds Risk. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The market value of intermediate and longer-term corporate bonds is generally more sensitive to changes in interest rates than is the market value of shorter-term corporate bonds. The market value of a corporate bond also may be affected by factors directly related to the issuer, such as investors' perceptions of the creditworthiness of the issuer, the issuer's financial performance, perceptions of the issuer in the market place, performance of management of the issuer, the issuer's capital structure and use of financial leverage and demand for the issuer's goods and services. Certain risks associated with investments in corporate bonds are described elsewhere in this Joint Proxy Statement/Prospectus in further detail, including under "—Fixed Income Securities Risk," and in the Statement of Additional Information, including under "Risk Factors and Special Considerations—Inflation Risk" and "Risk Factors and Special Considerations—Deflation Risk." There is a risk that the issuers of corporate bonds may not be able to meet their obligations on interest or principal payments at the time called for by an instrument. Corporate bonds of below investment grade quality are often high risk and have speculative characteristics and may be particularly susceptible to adverse issuer-specific developments. Corporate bonds of below investment grade quality are subject to the risks described herein under "—Below Investment Grade Securities Risk."

U.S. Government Securities Risk. U.S. government debt securities generally involve lower levels of credit risk than other types of fixed income securities of similar maturities, although, as a result, the yields available from U.S.

government debt securities are generally lower than the yields available from such other securities. Like other fixed income securities, the values of U.S. government securities change as interest rates fluctuate. On August 5, 2011, S&P lowered its long-term sovereign credit rating on U.S. government debt to AA+ from AAA with a negative outlook. As of March 31, 2014, this rating remains unchanged, but S&P's outlook has been upgraded to "stable." Moody's affirmed the Aaa long-term sovereign credit rating of U.S. government debt on November 21, 2011 while maintaining its negative outlook, and as of March 31, 2014 this rating remains unchanged, but Moody's outlook has been upgraded to "stable." The downgrade by S&P and any future downgrades by other rating agencies could increase volatility in both stock and bond markets, result in higher interest rates and higher Treasury yields and increase borrowing costs generally. These events could have significant adverse effects on the economy generally and could result in significant adverse impacts on securities issuers and the Acquiring Fund. The Investment Advisor cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on the Acquiring Fund's portfolio.

Preferred Securities Risk. There are special risks associated with investing in preferred securities, including:

Deferral. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Acquiring Fund owns a preferred security that is deferring its distributions, the Acquiring Fund may be required to report income for tax purposes although it has not yet received such income.

Subordination. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than debt instruments.

Limited Voting Rights. Generally, preferred security holders (such as the Acquiring Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In the case of trust preferred securities, holders generally have no voting rights, except if (i) the issuer fails to pay dividends for a specified period of time or (ii) a declaration of default occurs and is continuing.

Special Redemption Rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by certain changes in U.S. federal income tax or securities laws. As with call provisions, a special redemption by the issuer may negatively impact the return of the security held by the Acquiring Fund.

Trust Preferred Securities. Trust preferred securities are typically issued by corporations, generally in the form of interest bearing notes with preferred securities characteristics, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The trust preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates.

Trust preferred securities are typically junior and fully subordinated liabilities of an issuer and benefit from a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, trust preferred securities typically permit an issuer to defer the payment of income for five years or more without triggering an event of default. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without default consequences to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when full cumulative payments on the trust preferred securities have not been made), these trust preferred securities are often treated as close substitutes for traditional preferred securities, both by issuers and investors.

Trust preferred securities include but are not limited to trust originated preferred securities ("TOPRS®"); monthly income preferred securities ("MIPS®"); quarterly income bond securities ("QUIBS®"); quarterly income debt securities ("QUIDS®"); quarterly income preferred securities ("QUIPSSM"); corporate trust securities ("CORTS®"); public income notes ("PINES®"); and other trust preferred securities.

Trust preferred securities are typically issued with a final maturity date, although some are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without default. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to whether all payments have been paid.

Many trust preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. At the time the trust or special purpose entity sells such preferred securities to investors, it purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for tax purposes the interest paid on the debt held by the trust or special purpose entity. The trust or special purpose entity is generally required to be treated as transparent for Federal income tax purposes such that the holders of the trust preferred securities are treated as owning beneficial interests in the underlying debt of the operating company. Accordingly, payments on the trust preferred securities are treated as interest rather than dividends for Federal income tax purposes. The trust or special purpose entity in turn would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common shareholders, but would typically be subordinated to other classes of the operating company's debt. Typically a preferred share has a rating that is slightly below that of its corresponding operating company's senior debt securities.

New Types of Securities. From time to time, preferred securities, including trust preferred securities, have been, and may in the future be, offered having features other than those described herein. The Acquiring Fund reserves the right to invest in these securities if the Investment Advisor believes that doing so would be consistent with the Acquiring Fund's investment objective and investment policies. Since the market for these instruments would be new, the Acquiring Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility.

Restricted and Illiquid Securities Risk. The Acquiring Fund may invest in illiquid or less liquid securities or securities in which no secondary market is readily available or which are otherwise illiquid, including private placement securities. The Acquiring Fund may not be able to readily dispose of such securities at prices that approximate those at which the Acquiring Fund could sell such securities if they were more widely-traded and, as a result of such illiquidity, the Acquiring Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. Limited liquidity can also affect the market price of securities, thereby adversely affecting the Acquiring Fund's NAV and ability to make dividend distributions. The financial markets in general, and certain segments of the mortgage related securities markets in particular, have in recent years experienced periods of extreme secondary market supply and demand imbalance, resulting in a loss of liquidity during which market prices were suddenly and substantially below traditional measures of intrinsic value. During such periods, some securities could be sold only at arbitrary prices and with substantial losses. Periods of such market dislocation may occur again at any time. Privately issued debt securities are often of below investment grade quality, frequently are unrated and present many of the same risks as investing in below investment grade public debt securities.

Restricted securities are securities that may not be sold to the public without an effective registration statement under the Securities Act, or that may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. When registration is required to sell a security, the Acquiring Fund may be obligated to pay all or part of the registration expenses and considerable time may pass before the Acquiring Fund is permitted to sell a security under an effective registration statement. If adverse market conditions develop during this period, the Acquiring Fund might obtain a less favorable price than the price that prevailed when the Acquiring Fund decided to sell. The Acquiring Fund may be unable to sell restricted and other illiquid securities at opportune times or prices.

Non-U.S. Securities Risk. The Acquiring Fund may invest in non-U.S. securities. Such investments involve certain risks not involved in domestic investments. Securities markets in foreign countries often are not as developed, efficient or liquid as securities markets in the United States, and therefore, the prices of non-U.S. securities can be more volatile. Certain foreign countries may impose restrictions on the ability of issuers of non-U.S. securities to make payments of principal and interest to investors located outside the country. In addition, the Acquiring Fund will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Acquiring Fund to lose money on its investments in non-U.S. securities. The Acquiring Fund will be subject to additional risks if it invests in non-U.S. securities, which include seizure or nationalization of foreign deposits. Non-U.S. securities may trade on days when the Acquiring Fund Shares are not priced or traded.

Rules adopted under the 1940 Act permit the Acquiring Fund to maintain its non-U.S. securities and foreign currency in the custody of certain eligible non-U.S. banks and securities depositories, and the Acquiring Fund generally holds its non-U.S. securities and foreign currency in foreign banks and securities depositories. Some foreign banks and securities depositories may be recently organized or new to the foreign custody business. In addition, there may be limited or no regulatory oversight of their operations. Also, the laws of certain countries limit the Acquiring Fund's ability to recover its assets if a foreign bank, depository or issuer of a security, or any of their agents, goes bankrupt. In addition, it is often more expensive for the Acquiring Fund to buy, sell and hold securities in certain foreign markets than in the United States. The increased expense of investing in foreign markets reduces the amount the Acquiring Fund can earn on its investments and typically results in a higher operating expense ratio for the Acquiring Fund than for investment companies invested only in the United States.

Certain banks in foreign countries may not be eligible sub-custodians for the Acquiring Fund, in which event the Acquiring Fund may be precluded from purchasing securities in certain foreign countries in which it otherwise would invest or the Acquiring Fund may incur additional costs and delays in providing transportation and custody services for such securities outside of such countries. The Acquiring Fund may encounter difficulties in effecting portfolio transactions on a timely basis with respect to any securities of issuers held outside their countries.

The economies of certain foreign markets may not compare favorably with the economy of the United States with respect to such issues as growth of gross national product, reinvestment of capital, resources and balance of payments position.

Certain foreign economies may rely heavily on particular industries or foreign capital and are more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Investments in foreign markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investments in their capital markets or in certain industries. Any of these actions could severely affect securities prices or impair the Acquiring Fund's ability to purchase or sell non-U.S. securities or transfer the Acquiring Fund's assets or income back into the United States, or otherwise adversely affect the Acquiring Fund's operations. In addition, the U.S. government has from time to time in the past imposed restrictions, through penalties and otherwise, on foreign investments by U.S. investors such as the Acquiring Fund. If such restrictions should be reinstituted, it might become necessary for the Acquiring Fund to invest all or substantially all of its assets in U.S. securities.

Other potential foreign market risks include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing legal judgments in foreign courts and political and social instability. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Acquiring Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Acquiring Fund's investments.

In general, less information is publicly available with respect to foreign issuers than is available with respect to U.S. companies. Accounting standards in other countries are not necessarily the same as in the United States. If the accounting standards in another country do not require as much detail as U.S. accounting standards, it may be harder for the Investment Advisor to completely and accurately determine a company's financial condition.

Many foreign governments do not supervise and regulate stock exchanges, brokers and the sale of securities to the same extent as such regulations exist in the United States. They also may not have laws to protect investors that are comparable to U.S. securities laws. For example, some foreign countries may have no laws or rules against insider trading. Insider trading occurs when a person buys or sells a company's securities based on material non-public information about that company. In addition, some countries may have legal systems that may make it difficult for the Acquiring Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its non-U.S. securities.

Settlement and clearance procedures in certain foreign markets differ significantly from those in the United States. Foreign settlement and clearance procedures and trade regulations also may involve certain risks (such as delays in payment for or delivery of securities) not typically associated with the settlement of U.S. investments. Communications between the United States and foreign countries may be unreliable, increasing the risk of delayed settlements or losses of security certificates in markets that still rely on physical settlement. At times, settlements in certain foreign countries have not kept pace with the number of securities transactions. These problems may make it difficult for the Acquiring Fund to carry out transactions. If the Acquiring Fund cannot settle or is delayed in settling a purchase of securities, it may miss attractive investment opportunities and certain of its assets may be uninvested with no return earned thereon for some period. If the Acquiring Fund cannot settle or is delayed in settling a sale of securities, it may lose money if the value of the security then declines or, if it has contracted to sell the security to another party, the Acquiring Fund could be liable for any losses incurred.

While the volume of transactions effected on foreign stock exchanges has increased in recent years, it remains appreciably below that of the NYSE. Accordingly, the Acquiring Fund's non-U.S. securities may be less liquid and their prices may be more volatile than comparable investments in securities in U.S. companies.

A number of countries have authorized the formation of closed-end investment companies to facilitate indirect foreign investment in their capital markets. In accordance with the 1940 Act, the Acquiring Fund may invest up to 10% of its total assets in securities of closed-end investment companies, not more than 5% of which may be invested in any one such company. This restriction on investments in securities of closed-end investment companies may limit opportunities for the Acquiring Fund to invest indirectly in certain smaller capital markets. Shares of certain closed-end investment companies may at times be acquired only at market prices representing premiums to their NAVs. If the Acquiring Fund acquires shares in closed-end investment companies, shareholders would bear both their proportionate share of the Acquiring Fund's expenses (including investment advisory fees) and, indirectly, the expenses of such closed-end investment companies. The Acquiring Fund also may seek, at its own cost, to create its own investment entities under the laws of certain countries.

Emerging Markets Risk. The Acquiring Fund may invest in non-U.S. securities of issuers in so-called "emerging markets" (or lesser developed countries). Such investments are particularly speculative and entail all of the risks of investing in non-U.S. securities but to a heightened degree. "Emerging market" countries generally include every nation in the world except developed countries, that is, the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. Investments in the securities of issuers domiciled in countries with emerging capital markets involve certain additional risks that do not generally apply to investments in securities of issuers in more developed capital markets, such as (i) low or non-existent trading volume, resulting in a lack of liquidity and increased volatility in prices for such securities, as compared to securities of comparable issuers in more developed capital markets; (ii) uncertain national policies and social, political and economic instability, increasing the potential for expropriation of assets, confiscatory taxation, high rates of inflation or unfavorable diplomatic developments; (iii) possible fluctuations in exchange rates, differing legal systems and the existence or possible imposition of exchange controls, custodial restrictions or other foreign or U.S. governmental laws or restrictions applicable to such investments; (iv) national policies that may limit the Acquiring Fund's investment opportunities such as restrictions on investment in issuers or industries deemed sensitive to national interests; and (v) the lack or relatively early development of legal structures governing private and foreign investments and private property.

Foreign investment in certain emerging market countries may be restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain emerging market issuers and increase the costs and expenses of the Acquiring Fund. Certain emerging market countries require governmental approval prior to investments by foreign persons in a particular issuer, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors.

Emerging markets are more likely to experience hyperinflation and currency devaluations, which adversely affect returns to U.S. investors. In addition, many emerging markets have far lower trading volumes and less liquidity than developed markets. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. In addition, traditional measures of investment value used in the United States, such as price to earnings ratios, may not apply to certain small markets. Also, there may be less publicly available information about issuers in emerging markets than would be available about issuers in more developed capital markets, and such issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which U.S. companies are subject. In certain countries with emerging capital markets, reporting standards vary widely.

Many emerging markets have histories of political instability and abrupt changes in policies and these countries may lack the social, political and economic stability characteristic of more developed countries. As a result, their governments are more likely to take actions that are hostile or detrimental to private enterprise or foreign investment than those of more developed countries, including expropriation of assets, confiscatory taxation, high rates of inflation or unfavorable diplomatic developments. In the past, governments of such nations have expropriated substantial amounts of private property, and most claims of the property owners have never been fully settled. There is no assurance that such expropriations will not reoccur. In such an event, it is possible that the Acquiring Fund could lose the entire value of its investments in the affected market. Some countries have pervasiveness of corruption and crime that may hinder investments. Certain emerging markets may also face other significant internal or external risks, including the risk of war, and ethnic, religious and racial conflicts. In addition, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth. National policies that may limit the Acquiring Fund's investment opportunities include restrictions on investment in issuers or industries deemed sensitive to national interests. In such a dynamic environment, there can be no assurance that any or all of these capital markets will continue to present viable investment opportunities for the Acquiring Fund.

Emerging markets may also have differing legal systems and the existence or possible imposition of exchange controls, custodial restrictions or other foreign or U.S. governmental laws or restrictions applicable to such investments. Sometimes, they may lack or be in the relatively early development of legal structures governing private and foreign investments and private property. In addition to withholding taxes on investment income, some countries with emerging markets may impose differential capital gains taxes on foreign investors.

Practices in relation to settlement of securities transactions in emerging markets involve higher risks than those in developed markets, in part because the Acquiring Fund will need to use brokers and counterparties that are less well capitalized, and custody and registration of assets in some countries may be unreliable. The possibility of fraud, negligence, undue influence being exerted by the issuer or refusal to recognize ownership exists in some emerging markets, and, along with other factors, could result in ownership registration being completely lost. The Acquiring Fund would absorb any loss resulting from such registration problems and may have no successful claim for compensation. In addition, communications between the United States and emerging market countries may be unreliable, increasing the risk of delayed settlements or losses of security certificates.

Foreign Currency Risk. Because the Acquiring Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Acquiring Fund and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Acquiring Fund's NAV could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. The Investment Advisor may, but is not required to, elect for the Acquiring Fund to seek to protect itself from changes in currency exchange rates through hedging transactions depending on market conditions. In addition, certain countries, particularly emerging market countries, may impose foreign currency exchange controls or other restrictions on the transferability, repatriation or convertibility of currency.

Leverage Risk. The use of leverage creates an opportunity for increased common share net investment income dividends, but also creates risks for the holders of common shares. The Acquiring Fund cannot assure you that the use of leverage will result in a higher yield on the common shares. The Acquiring Fund's leveraging strategy may not be successful.

Leverage involves risks and special considerations for common shareholders, including:

§ the likelihood of greater volatility of NAV, market price and dividend rate of the common shares than a comparable portfolio without leverage;

§ the risk that fluctuations in interest rates on borrowings and short-term debt or in the interest or dividend rates on any leverage that the Acquiring Fund must pay will reduce the return to the common shareholders;

§ the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the common shares than if the Acquiring Fund were not leveraged, which may result in a greater decline in the market price of the common shares;

§ when the Acquiring Fund uses financial leverage, the management fee payable to the Investment Advisor will be higher than if the Acquiring Fund did not use leverage; and

§ leverage may increase operating costs, which may reduce total return.

Any decline in the NAV of the Acquiring Fund's investments will be borne entirely by the holders of common shares. Therefore, if the market value of the Acquiring Fund's portfolio declines, leverage will result in a greater decrease in NAV to the holders of common shares than if the Acquiring Fund were not leveraged. This greater NAV decrease will also tend to cause a greater decline in the market price for the common shares. While the Acquiring Fund may from time to time consider reducing leverage in response to actual or anticipated changes in interest rates in an effort to mitigate the increased volatility of current income and NAV associated with leverage, there can be no assurance that the Acquiring Fund will actually reduce leverage in the future or that any reduction, if undertaken, will benefit the holders of common shares. Changes in the future direction of interest rates are very difficult to predict accurately. If the Acquiring Fund were to reduce leverage based on a prediction about future changes to interest rates, and that prediction turned out to be incorrect, the reduction in leverage would likely operate to reduce the income and/or total returns to holders of common shares relative to the circumstance where the Acquiring Fund had not reduced leverage.

The Acquiring Fund may decide that this risk outweighs the likelihood of achieving the desired reduction to volatility in income and share price if the prediction were to turn out to be correct, and determine not to reduce leverage as described above.

Certain types of leverage used by the Acquiring Fund may result in the Acquiring Fund being subject to covenants relating to asset coverage and portfolio composition requirements. The Acquiring Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for any debt securities or preferred shares issued by the Acquiring Fund. The terms of any borrowings or these rating agency guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. The Investment Advisor does not believe that these covenants or guidelines will impede them from managing the Acquiring Fund's portfolio in accordance with the Acquiring Fund's investment objective and investment policies.

The Acquiring Fund may invest in the securities of other investment companies. Such investment companies may also be leveraged, and will therefore be subject to the leverage risks described above. This additional leverage may in certain market conditions reduce the NAV of the Acquiring Fund Shares and the returns to the holders of Acquiring Fund Shares.

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

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

When-Issued and Forward Commitment Risk. The Acquiring Fund may purchase securities on a when-issued basis (including on a forward commitment or "TBA" (to be announced) basis). When-issued transactions occur when securities are purchased or sold by the Acquiring Fund with payment and delivery taking place in the future to secure an advantageous yield or price. Securities purchased on a when-issued or delayed delivery basis may expose the Acquiring Fund to counterparty risk of default as well as the risk that securities may experience fluctuations in value prior to their actual delivery. The Acquiring Fund will not accrue income with respect to a when-issued security prior to its stated delivery date. Purchasing securities on a when-issued basis can involve the additional risk that the price or yield available in the market when the delivery takes place may not be as favorable as that obtained in the transaction itself.

Strategic Transactions and Derivatives Risks. The Acquiring Fund may engage in various Strategic Transactions (see "The Acquiring Fund's Investments—Portfolio Contents and Techniques—Strategic Transactions" for the definition and description of Strategic Transactions) for duration management and other risk management purposes, including to attempt to protect against possible changes in the market value of the Acquiring Fund's portfolio resulting from trends in the securities markets and changes in interest rates or to protect the Acquiring Fund's unrealized gains in the value of its portfolio securities, to facilitate the sale of portfolio securities for investment purposes or to establish a position in the securities markets as a temporary substitute for purchasing particular securities or, to the extent applicable, to enhance income or gain. Derivatives are financial contracts or instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indices). The Acquiring Fund also may use derivatives to add leverage to the portfolio and/or to hedge against increases in the Acquiring Fund's costs associated with its leverage strategy. The use of Strategic Transactions to enhance current income may be particularly speculative.

Strategic Transactions involve risks. The risks associated with Strategic Transactions include (i) the imperfect correlation between the value of such instruments and the underlying assets, (ii) the possible default of the counterparty to the transaction, (iii) illiquidity of the derivative instruments, and (iv) high volatility losses caused by unanticipated market movements, which are potentially unlimited. Although both over-the-counter and exchange-traded derivatives markets may experience the lack of liquidity, over-the-counter non-standardized derivative transactions are generally less liquid than exchange-traded instruments. Furthermore, the Acquiring Fund's ability to successfully use Strategic Transactions depends on the Investment Advisor's ability to predict pertinent securities prices, interest rates, currency exchange rates and other economic factors, which cannot be assured. The use of Strategic Transactions may result in losses greater than if they had not been used, may require the Acquiring Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Acquiring Fund can realize on an investment or may cause the Acquiring Fund to hold a security that it might otherwise sell. Additionally, liquid assets designated on the Acquiring Fund's books and records, amounts paid by the Acquiring Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Acquiring Fund for investment purposes.

While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Hedges are sometimes subject to imperfect matching between the derivative and the underlying security, and there can be no assurance that the Acquiring Fund's hedging transactions will be effective.

Derivatives may give rise to a form of leverage and may expose the Acquiring Fund to greater risk and increase its costs. Recent legislation calls for new regulation of the derivatives markets. The extent and impact of the regulation is not yet known and may not be known for some time. New regulation may make derivatives more costly, may limit the availability of derivatives, or may otherwise adversely affect the value or performance of derivatives.

The Acquiring Fund's use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks such as credit risk, leverage risk, liquidity risk, correlation risk and index risk as described below:

§ Credit Risk—the risk that the counterparty in a derivative transaction will be unable to honor its financial obligation to the Acquiring Fund, or the risk that the reference entity in a derivative will not be able to honor its financial obligations. In particular, derivatives traded in over-the-counter ("OTC") markets often are not guaranteed by an exchange or clearing corporation and often do not require payment of margin, and to the extent that the Acquiring Fund has unrealized gains in such instruments or has deposited collateral with its counterparties the Acquiring Fund is at risk that its counterparties will become bankrupt or otherwise fail to honor its obligations.

§ Currency Risk—the risk that changes in the exchange rate between two currencies will adversely affect the value (in U.S. dollar terms) of an investment.

§ Leverage Risk—the risk associated with certain types of investments or trading strategies (such as, for example, borrowing money to increase the amount of investments) that relatively small market movements may result in large changes in the value of an investment. Certain transactions in derivatives (such as futures transactions or sales of put options) involve substantial leverage risk and may expose the Acquiring Fund to potential losses that exceed the amount originally invested by the Acquiring Fund. When the Acquiring Fund engages in such a transaction, the Acquiring Fund will designate on its books and records liquid assets with a value at least equal to the Acquiring Fund's exposure, on a mark-to-market basis, to the transaction (as calculated pursuant to requirements of the SEC). Such designation will ensure that the Acquiring Fund has assets available to satisfy its obligations with respect to the transaction, but will not limit the Acquiring Fund's exposure to loss.

§ Liquidity Risk—the risk that certain securities may be difficult or impossible to sell at the time that the Acquiring Fund would like or at the price that the Acquiring Fund as seller believes the security is currently worth. There can be no assurance that, at any specific time, either a liquid secondary market will exist for a derivative or the Acquiring Fund will otherwise be able to sell such instrument at an acceptable price. It may, therefore, not be possible to close a position in a derivative without incurring substantial losses, if at all. The absence of liquidity may also make it more difficult for the Acquiring Fund to ascertain a market value for such instruments. Although both OTC and exchange-traded derivatives markets may experience a lack of liquidity, certain derivatives traded in OTC markets, including indexed securities, swaps and OTC options, involve substantial liquidity risk. The illiquidity of the derivatives markets may be due to various factors, including congestion, disorderly markets, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. In addition, the liquidity of a secondary market in an exchange-traded derivative contract may be adversely affected by "daily price fluctuation limits" established by the exchanges that limit the amount of fluctuation in an exchange-traded contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days. If it is not possible to close an open derivative position entered into by the Acquiring Fund, the

Acquiring Fund would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such a situation, if the Acquiring Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so.

§ Correlation Risk—the risk that changes in the value of a derivative will not match the changes in the value of the portfolio holdings that are being hedged or of the particular market or security to which the Acquiring Fund seeks exposure through the use of the derivative. There are a number of factors which may prevent a derivative instrument from achieving the desired correlation (or inverse correlation) with an underlying asset, rate or index, such as the impact of fees, expenses and transaction costs, the timing of pricing, and disruptions or illiquidity in the markets for such derivative instrument.

§ Index Risk—If the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Acquiring Fund could receive lower interest payments or experience a reduction in the value of the derivative to below the price that the Acquiring Fund paid for such derivative. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

§ Volatility Risk—the risk that the Acquiring Fund's use of derivatives may reduce income or gain and/or increase volatility. Volatility is defined as the characteristic of a security, an index or a market to fluctuate significantly in price over a defined time period. The Acquiring Fund could suffer losses related to its derivative positions as a result of unanticipated market movements, which losses are potentially unlimited.

When a derivative is used as a hedge against a position that the Acquiring Fund holds, any loss generated by the derivative generally should be substantially offset by gains on the hedged investment, and vice versa. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Hedges are sometimes subject to imperfect matching between the derivative and the underlying security, and there can be no assurance that the Acquiring Fund's hedging transactions will be effective. The Acquiring Fund could also suffer losses related to its derivative positions as a result of unanticipated market movements, which losses are potentially unlimited. The Investment Advisor may not be able to predict correctly the direction of securities prices, interest rates and other economic factors, which could cause the Acquiring Fund's derivatives positions to lose value. In addition, some derivatives are more sensitive to interest rate changes and market price fluctuations than other securities. The possible lack of a liquid secondary market for derivatives and the resulting inability of the Acquiring Fund to sell or otherwise close a derivatives position could expose the Acquiring Fund to losses and could make derivatives more difficult for the Acquiring Fund to value accurately.

When engaging in a hedging transaction, the Acquiring Fund may determine not to seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Acquiring Fund from achieving the intended hedge or expose the Acquiring Fund to a risk of loss. The Acquiring Fund may also determine not to hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge or because it does not foresee the occurrence of the risk. It may not be possible for the Acquiring Fund to hedge against a change or event at attractive prices or at a price sufficient to protect the assets of the Acquiring Fund from the decline in value of the portfolio positions anticipated as a result of such change. The Acquiring Fund may also be restricted in its ability to effectively manage the portion of its assets that are segregated to cover its obligations. In addition, it may not be possible to hedge at all against certain risks.

If the Acquiring Fund invests in a derivative instrument it could lose more than the principal amount invested. Moreover, derivatives raise certain tax, legal, regulatory and accounting issues that may not be presented by investments in securities, and there is some risk that certain issues could be resolved in a manner that could adversely impact the performance of the Acquiring Fund.

The Acquiring Fund is not required to use derivatives or other portfolio strategies to seek to increase return or to seek to hedge its portfolio and may choose not to do so. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Acquiring Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. Although the Investment Advisor seeks to use derivatives to further the Acquiring Fund's investment objective, there is no assurance that the use of derivatives will achieve this result.

Counterparty Risk. The Acquiring Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Acquiring Fund. Because derivative transactions in which the Acquiring Fund may engage may involve instruments that are not traded on an exchange but are instead traded between counterparties based on contractual relationships, the Acquiring Fund is subject to the risk that a counterparty will not perform its obligations under the related contracts. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Acquiring Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganization proceedings. The Acquiring Fund may obtain only a limited recovery, or may obtain no recovery, in such circumstances. Although the Acquiring Fund intends to enter into transactions only with counterparties that the Investment Advisor believes to be creditworthy, there can be no assurance that, as a result, a counterparty will not default and that the Acquiring Fund will not sustain a loss on a transaction. In the event of the counterparty's bankruptcy or insolvency, the Acquiring Fund's collateral may be subject to the conflicting claims of the counterparty's creditors, and the Acquiring Fund may be exposed to the risk of a court treating the Acquiring Fund as a general unsecured creditor of the counterparty, rather than as the owner of the collateral.

The counterparty risk for cleared derivatives is generally lower than for uncleared over-the-counter derivative transactions since generally a clearing organization becomes substituted for each counterparty to a cleared derivative contract and, in effect, guarantees the parties' performance under the contract as each party to a trade looks only to the clearing organization for performance of financial obligations under the derivative contract. However, there can be no assurance that a clearing organization, or its members, will satisfy its obligations to the Acquiring Fund.

In addition, the Acquiring Fund is subject to the risk that issuers of the instruments in which it invests and trades may default on their obligations under those instruments, and that certain events may occur that have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which the Acquiring Fund invests will not default, or that an event that has an immediate and significant adverse effect on the value of an instrument will not occur, and that the Acquiring Fund will not sustain a loss on a transaction as a result.

Swaps Risk. Swaps are types of derivatives. Swap agreements involve the risk that the party with which the Acquiring Fund has entered into the swap will default on its obligation to pay the Acquiring Fund and the risk that the Acquiring Fund will not be able to meet its obligations to pay the other party to the agreement. In order to seek to hedge the value of the Acquiring Fund's portfolio, to hedge against increases in the Acquiring Fund's cost associated with the interest payments on its outstanding borrowings or, to the extent applicable, to seek to increase the Acquiring Fund's return, the Acquiring Fund may enter into swaps. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by the Acquiring Fund, which would cause the Acquiring Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. The Acquiring Fund is not required to enter into swap transactions for hedging purposes or to enhance income or gain and may choose not to do so. In addition, the swaps market is subject to a changing regulatory environment. It is possible that regulatory or other developments in the swaps market could adversely affect the Acquiring Fund's ability to successfully use swaps.

Options Risk. There are several risks associated with transactions in options on securities and indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. In addition, a liquid secondary market for particular options, whether traded over-the-counter or on a national securities exchange ("Exchange") may be absent for reasons which include the following: there may be insufficient trading interest in certain options; restrictions may be imposed by an Exchange on opening transactions or closing transactions or both; trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; unusual or unforeseen circumstances may interrupt normal operations on an Exchange; the facilities of an Exchange or the OCC may not at all times be adequate to handle current trading volume; or one or more Exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that Exchange (or in that class or series of options) would cease to exist, although outstanding options that had been issued by the OCC as a result of trades on that Exchange would continue to be exercisable in accordance with their terms.

Futures Transactions and Options Risk. The primary risks associated with the use of futures contracts and options are (a) the imperfect correlation between the change in market value of the instruments held by the Acquiring Fund and the price of the futures contract or option; (b) possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the Investment Advisor's inability to predict correctly the direction of securities prices, interest rates, currency exchange rates and other economic factors; and (e) the possibility that the counterparty will default in the performance of its obligations.

Investment in futures contracts involves the risk of imperfect correlation between movements in the price of the futures contract and the price of the security being hedged. The hedge will not be fully effective when there is imperfect correlation between the movements in the prices of two financial instruments. For example, if the price of the futures contract moves more or less than the price of the hedged security, the Acquiring Fund will experience either a loss or gain on the futures contract which is not completely offset by movements in the price of the hedged securities. To compensate for imperfect correlations, the Acquiring Fund may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the futures contracts. Conversely, the Acquiring Fund may purchase or sell fewer futures contracts if the volatility of the price of the hedged securities is historically lower than that of the futures contracts.

The particular securities comprising the index underlying a securities index financial futures contract may vary from the securities held by the Acquiring Fund. As a result, the Acquiring Fund's ability to hedge effectively all or a portion of the value of its securities through the use of such financial futures contracts will depend in part on the degree to which price movements in the index underlying the financial futures contract correlate with the price movements of the securities held by the Acquiring Fund. The correlation may be affected by disparities in the average maturity, ratings, geographical mix or structure of the Acquiring Fund's investments as compared to those comprising the securities index and general economic or political factors. In addition, the correlation between movements in the value of the securities index may be subject to change over time as additions to and deletions from the securities index alter its structure. The correlation between futures contracts on U.S. government securities and the securities held by the Acquiring Fund may be adversely affected by similar factors and the risk of imperfect correlation between movements in the prices of such futures contracts and the prices of securities held by the Acquiring Fund may be greater. The trading of futures contracts also is subject to certain market risks, such as inadequate trading activity, which could at times make it difficult or impossible to liquidate existing positions.

The Acquiring Fund may liquidate futures contracts it enters into through offsetting transactions on the applicable contract market. There can be no assurance, however, that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close out a futures position. In the event of adverse price movements, the Acquiring Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Acquiring Fund has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close out futures positions also could have an adverse impact on the Acquiring Fund's ability to hedge effectively its investments in securities. The liquidity of a secondary market in a futures contract may be adversely affected by "daily price fluctuation limits" established by commodity exchanges that limit the amount of fluctuation in a futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days.

The successful use of transactions in futures and related options also depends on the ability of the Investment Advisor to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent interest rates remain stable during the period in which a futures contract or option is held by the Acquiring Fund or such rates move in a direction opposite to that anticipated, the Acquiring Fund may realize a loss on the strategic transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Acquiring Fund's total return for such period may be less than if it had not engaged in the strategic transaction.

Because of low initial margin deposits made upon the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contracts can result in substantial unrealized gains or losses. There is also the risk of loss by the Acquiring Fund of margin deposits in the event of bankruptcy of a broker with which the Acquiring Fund has an open position in a financial futures contract. Because the Acquiring Fund will engage in the purchase and sale of futures contracts for hedging purposes or to seek to enhance the Acquiring Fund's return, any losses incurred in connection therewith may, if the strategy is successful, be offset in whole or in part by increases in the value of securities held by the Acquiring Fund or decreases in the price of securities the Acquiring Fund intends to acquire.

Over-the-Counter Trading Risk. The derivative instruments that may be purchased or sold by the Acquiring Fund may include instruments not traded on an exchange. The risk of nonperformance by the counterparty to an instrument may be greater than, and the ease with which the Acquiring Fund can dispose of or enter into closing transactions with respect to an instrument may be less than, the risk associated with an exchange traded instrument. In addition, significant disparities may exist between "bid" and "asked" prices for derivative instruments that are not traded on an exchange. The absence of liquidity may make it difficult or impossible for the Acquiring Fund to sell such instruments promptly at an acceptable price. Derivative instruments not traded on exchanges also are not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions. Because derivatives traded in OTC markets generally are not guaranteed by an exchange or clearing corporation and generally do not require payment of margin, to the extent that the Acquiring Fund has unrealized gains in such instruments or has deposited collateral with its counterparties the Acquiring Fund is at risk that its counterparties will become bankrupt or otherwise fail to honor its obligations.

Clearing Broker and Central Clearing Counterparty Risks. The Commodity Exchange Act ("CEA") requires swaps and futures clearing brokers registered as "futures commission merchants" to segregate all funds received from customers with respect to any orders for the purchase or sale of U.S. domestic futures contracts and cleared swaps from the brokers' proprietary assets. Similarly, the CEA requires each futures commission merchant to hold in a separate secure account all funds received from customers with respect to any orders for the purchase or sale of foreign futures contracts and segregate any such funds from the funds received with respect to domestic futures contracts. However, all funds and other property received by a clearing broker from its customers are held by the clearing broker on a commingled basis in an omnibus account and may be freely accessed by the clearing broker, which may also invest any such funds in certain instruments permitted under the applicable regulations. There is a risk that assets deposited by the Acquiring Fund with any swaps or futures clearing broker as margin for futures contracts or cleared swaps may, in certain circumstances, be used to satisfy losses of other clients of the Acquiring Fund's clearing broker. In addition, the assets of the Acquiring Fund might not be fully protected in the event of the Acquiring Fund's clearing broker's bankruptcy, as the Acquiring Fund would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker's combined domestic customer accounts.

Similarly, the CEA requires a clearing organization approved by the CFTC as a derivatives clearing organization to segregate all funds and other property received from a clearing member's clients in connection with domestic futures and options contracts from any funds held at the clearing organization to support the clearing member's proprietary trading. Nevertheless, all customer funds held at a clearing organization in connection with any futures or options contracts are held in a commingled omnibus account and are not identified to the name of the clearing member's individual customers. With respect to futures and options contracts, a clearing organization may use assets of a non-defaulting customer held in an omnibus account at the clearing organization to satisfy payment obligations of a defaulting customer of the clearing member to the clearing organization. As a result, in the event of a default of the clearing broker's other clients or the clearing broker's failure to extend its own funds in connection with any such default, the Acquiring Fund would not be able to recover the full amount of assets deposited by the clearing broker on behalf of the Acquiring Fund with the clearing organization.

Dodd-Frank Act Risk. Title VII of the Dodd-Frank Act (the "Derivatives Title") imposes a new regulatory structure on derivatives markets, with particular emphasis on swaps and security-based swaps (collectively "swaps"). This new regulatory framework covers a broad range of swap market participants, including banks, non-banks, credit unions, insurance companies, broker-dealers and investment advisors. The SEC, other U.S. regulators, and to a lesser extent the CFTC (the "Regulators") still are in the process of adopting regulations to implement the Derivatives Title, though certain aspects of the new regulatory structure are substantially complete. Until the Regulators complete their rulemaking efforts, the full extent to which the Derivatives Title and the rules adopted thereunder will impact the Acquiring Fund is unclear. It is possible that the continued development of this new regulatory structure for swaps may jeopardize certain trades and/or trading strategies that may be employed by the Investment Advisor, or at least make them more costly.

Recently, new regulations have required the mandatory central clearing and mandatory exchange trading of particular types of interest rate swaps and index credit default swaps (together, "Covered Swaps"). Together, these new regulatory requirements change the Acquiring Fund's trading of Covered Swaps. With respect to mandatory central clearing, the Acquiring Fund is now required to clear its Covered Swaps through a clearing broker, which requires, among other things, posting initial margin and variation margin to the Acquiring Fund's clearing broker in order to enter into and maintain positions in Covered Swaps. With respect to mandatory exchange trading, the Investment Advisor may be required to become participants of a new type of execution platform called a swap execution facility

("SEF") or may be required to access the SEF through an intermediary (such as an executing broker) in order to be able to trade Covered Swaps for the Acquiring Fund. In either scenario, the Investment Advisor and/or the Acquiring Fund may incur additional legal and compliance costs and transaction fees. Just as with the other regulatory changes imposed as a result of the implementation of the Derivatives Title, the increased costs and fees associated with trading Covered Swaps may jeopardize certain trades and/or trading strategies that may be employed by the Investment Advisor, or at least make them more costly.

Additionally, the Regulators plan to finalize proposed regulations that would require swap dealers to collect from the Acquiring Fund initial margin and variation margin for uncleared derivatives transactions and that would impose upon swap dealers new capital requirements. These requirements, when finalized, may make certain types of trades and/or trading strategies more costly or impermissible.

There may be market dislocations due to uncertainty during the implementation period of any new regulation and the Investment Advisor cannot know how the derivatives market will adjust to new regulations. Until the Regulators complete the rulemaking process for the Derivatives Title, it is unknown the extent to which such risks may materialize.

Legal and Regulatory Risk. At any time after the date hereof, legislation or additional regulations may be enacted that could negatively affect the assets of the Acquiring Fund. Changing approaches to regulation may have a negative impact on the securities in which the Acquiring Fund invests. Legislation or regulation may also change the way in which the Acquiring Fund itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Acquiring Fund or will not impair the ability of the Acquiring Fund to achieve its investment objective. In addition, as new rules and regulations resulting from the passage of the Dodd-Frank Act are implemented and new international capital and liquidity requirements are introduced under the Basel III Accords ("Basel III"), the market may not react the way the Investment Advisor expects. Whether the Acquiring Fund achieves its investment objective may depend on, among other things, whether the Investment Advisor correctly forecasts market reactions to this and other legislation. In the event the Investment Advisor incorrectly forecasts market reaction, the Acquiring Fund may not achieve its investment objective.

Risks Associated with Recent Market Events. In the recent past, the debt and equity capital markets in the United States were negatively impacted by significant write-offs in the financial services sector relating to sub-prime mortgages and the repricing of credit risk in the broadly syndicated market, among other things. These events, along with the downgrade to the United States credit rating, deterioration of the housing market, the failure of major financial institutions and the resulting United States federal government actions led in the recent past, and may lead in the future, to worsening general economic conditions, which did, and could, materially and adversely impact the broader financial and credit markets and reduce the availability of debt and equity capital for the market as a whole and financial firms in particular. These events adversely affected (and could adversely affect in the future) the willingness of some lenders to extend credit in general, which may have made it (and could make it in the future) more difficult for issuers of fixed income securities to obtain financings or refinancings for their investment or lending activities or operations. There is a risk that such issuers would be unable to successfully complete such financings or refinancings. In particular, because of the current conditions in the credit markets, issuers of fixed income securities may be subject to increased cost for debt, tightening underwriting standards and reduced liquidity for loans they make, securities they purchase and securities they issue. These events may increase the volatility of the value of securities owned by the Acquiring Fund and/or result in sudden and significant valuation increases or decreases in its portfolio. These events also may make it more difficult for the Acquiring Fund to accurately value its securities or to sell its securities on a timely basis. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the common shares. These events adversely affected the broader economy, and may continue to do so, which may adversely affect the ability of issuers of securities owned by the Acquiring Fund to make payments of principal and interest when due, lead to lower credit ratings and increase defaults. There is also a risk that developments in sectors of the credit markets in which the Acquiring Fund does not invest may adversely affect the liquidity and the value of securities in sectors of the credit markets in which the Acquiring Fund does invest, including securities owned by the Acquiring Fund.

While the extreme volatility and disruption that U.S. and global markets experienced for an extended period of time beginning in 2007 and 2008 has generally subsided, uncertainty and periods of volatility remain, and risks to a robust resumption of growth persist. In 2010, several EU countries, including Greece, Ireland, Italy, Spain and Portugal, began to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among EMU member countries. Recent downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, Federal Reserve policy, including with respect to certain interest rates and the decision to begin tapering its quantitative easing policy, may adversely affect the value, volatility and liquidity of dividend and interest paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could impair the Acquiring Fund's ability to achieve its investment objective.

General market uncertainty and consequent repricing of risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of securities and significant and rapid value decline in certain instances. Additionally, periods of market volatility remain, and may continue to occur in the future, in response to various political, social and economic events both within and outside of the United States. These conditions resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Acquiring Fund's securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings. If there is a significant decline in the value of the Acquiring Fund's portfolio, this may impact the asset coverage levels for the Acquiring Fund's outstanding leverage.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Egypt, Libya, Syria and the Middle East, possible terrorist attacks in the United States and around the world, growing social and political discord in the United States, the European debt crisis, further downgrades of U.S. government securities and other similar events may result in market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Acquiring Fund does not know how long the securities markets may be affected by these events and cannot predict the effects of these events or similar events in the future on the U.S. economy and securities markets. Non-investment grade and equity securities tend to be more volatile than investment grade fixed income securities; therefore these events and other market disruptions may have a greater impact on the prices and volatility of non-investment grade and equity securities than on investment grade fixed income securities. There can be no assurance that these events and other market disruptions will not have other material and adverse implications.

Regulation and Government Intervention Risk. The recent instability in the financial markets discussed above has led the U.S. government and certain foreign governments 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, including through direct purchases of equity and debt securities. Federal, state, and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the issuers in which the Acquiring Fund invests in ways that are unforeseeable. Legislation or regulation may also change the way in which the Acquiring Fund is regulated. Such legislation or regulation could limit or preclude the Acquiring Fund's ability to achieve its investment objective.

Congress has enacted sweeping financial legislation, the Dodd-Frank Act, signed into law by President Obama on July 21, 2010, regarding the operation of banks, private fund managers and other financial institutions, which includes provisions regarding the regulation of derivatives. Many provisions of the Dodd-Frank Act have been or will be implemented through regulatory rulemakings and similar processes over a period of time. The impact of the Dodd-Frank Act, and of follow-on regulation, on trading strategies and operations is impossible to predict, and may be adverse. Practices and areas of operation subject to significant change based on the impact, direct or indirect, of the Dodd-Frank Act and follow-on regulation, may change in manners that are unforeseeable, with uncertain effects. By way of example and not limitation, direct and indirect changes from the Dodd-Frank Act and follow-on regulation may occur to a significant degree with regard to, among other areas, financial consumer protection, bank ownership of and involvement with private funds, proprietary trading, registration of investment advisors, and the trading and use of many derivative instruments, including swaps. There can be no assurance that such legislation or regulation will not have a material adverse effect on the Acquiring Fund. In addition, Congress may address tax policy, which also could have uncertain direct and indirect impacts on trading and operations, as well as, potentially, the operations and structure of the Acquiring Fund.

Further, the Dodd-Frank Act created the Financial Stability Oversight Council ("FSOC"), an interagency body charged with identifying and monitoring systemic risks to financial markets. The FSOC has the authority to require that non-bank financial companies that are "predominantly engaged in financial activities," such as the Acquiring Fund and the Investment Advisor, whose failure it determines would pose systemic risk, be placed under the supervision of the Board of Governors of the Federal Reserve System ("Federal Reserve"). The FSOC has the authority to recommend that the Federal Reserve adopt more stringent prudential standards and reporting and disclosure requirements for non-bank financial companies supervised by the Federal Reserve. The FSOC also has the authority to make recommendations to the Federal Reserve on various other matters that may affect the Acquiring Fund, including requiring financial firms to submit resolution plans, mandating credit exposure reports, establishing concentration limits and limiting short-term debt. The FSOC may also recommend that other federal financial regulators impose more stringent regulation upon, or ban altogether, financial activities of any financial firm that poses what it determines are significant risks to the financial system. In the event that the FSOC designates the Acquiring Fund or the Investment Advisor as a systemic risk to be placed under the Federal Reserve's supervision, the Acquiring Fund or the Investment Advisor could face stricter prudential standards, including risk-based capital requirements, leverage limits, liquidity requirements, concentration requirements and overall risk management requirements, among other restrictions. Such requirements could hinder the Acquiring Fund's ability to meet its investment objective and may place the Acquiring Fund at a disadvantage with respect to its competitors.

Additionally, BlackRock is, for purposes of the Bank Holding Company Act of 1956, as amended, and any rules or regulations promulgated thereunder from time to time, currently considered a subsidiary of The PNC Financial Services Group, Inc. ("PNC"), which is subject to regulation and supervision as a "financial holding company" by the Federal Reserve. The

"Volcker Rule" contained in Section 619 of the Dodd-Frank Act will limit the ability of banking entities, which would include BlackRock by virtue of its relationship with PNC, to sponsor, invest in or serve as investment manager of certain private investment funds. On December 10, 2013, U.S. financial regulators adopted final regulations (the "Final Regulations") to implement the statutory mandate of the Volcker Rule. Pursuant to the Dodd-Frank Act, the Volcker Rule's effective date was July 21, 2012 and the Final Regulations become effective on April 14, 2014; however, concurrent with the adoption of the Final Regulations the Federal Reserve granted a statutorily permitted conformance period, essentially making the effective date of the Volcker Rule and the Final Regulations July 21, 2015. The Volcker Rule and the Final Regulations could have a significant negative impact on BlackRock and the Investment Advisor. BlackRock may attempt to take certain actions to lessen the impact of the Volcker Rule, although no assurance can be given that such actions would be successful and no assurance can be given that such actions would not have a significant negative impact on the Acquiring Fund. Upon the end of the applicable conformance period, BlackRock's relationship with PNC may require BlackRock to curtail some or all of the Acquiring Fund's activities with respect to PNC (if any).

The continuing implementation of the Dodd-Frank Act could also adversely affect the Investment Advisor and the Acquiring Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny and the implementation of enhanced and new regulatory requirements may increase the Investment Advisor's and the Acquiring Fund's exposure to potential liabilities, and in particular liabilities arising from violating any such enhanced and/or new regulatory requirements. Increased regulatory oversight could also impose administrative burdens on the Investment Advisor and the Acquiring Fund, including, without limitation, responding to investigations and implementing new policies and procedures. The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and the Investment Advisor and the Acquiring Fund may be affected by the new legislation and regulation in ways that are currently unforeseeable.

In connection with an ongoing review by the SEC and its staff of the regulation of investment companies' use of derivatives, on August 31, 2011 the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of the Acquiring Fund's use of derivatives, which could have an adverse impact on the Acquiring Fund. The Investment Advisor cannot predict the effects of these regulations on the Acquiring Fund's portfolio. The Investment Advisor intends to monitor developments and seeks to manage the Acquiring Fund's portfolio in a manner consistent with achieving the Acquiring Fund's investment objective, but there can be no assurance that it will be successful in doing so.

Certain lawmakers support an increase in federal revenue as a component of a plan to address the growing federal budget deficit. Also, comprehensive federal tax reform is the subject of political attention.

In the aftermath of the recent financial crisis, there appears to be a renewed popular, political and judicial focus on finance related consumer protection. Financial institution practices are also subject to greater scrutiny and criticism generally. In the case of transactions between financial institutions and the general public, there may be a greater tendency toward strict interpretation of terms and legal rights in favor of the consuming public, particularly where there is a real or perceived disparity in risk allocation and/or where consumers are perceived as not having had an opportunity to exercise informed consent to the transaction. In the event of conflicting interests between retail investors holding common shares of a closed-end investment company such as the Acquiring Fund and a large financial institution, a court may similarly seek to strictly interpret terms and legal rights in favor of retail investors.

1940 Act Regulation. The Acquiring Fund is a registered closed-end investment company and as such is subject to regulations under the 1940 Act. Generally speaking, any contract or provision thereof that is made, or where performance involves a violation of the 1940 Act or any rule or regulation thereunder is unenforceable by either party unless a court finds otherwise.

Market and Selection Risk. Market risk is the possibility that the market values of securities owned by the Acquiring Fund will decline. There is a risk that equity and/or bond markets will go down in value, including the possibility that such markets will go down sharply and unpredictably.

The prices of fixed income securities tend to fall as interest rates rise, and such declines tend to be greater among fixed income securities with longer maturities. Market risk is often greater among certain types of fixed income securities, such as zero coupon bonds that do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Acquiring Fund to greater market risk than a fund that does not own these types of securities.

Stock markets are volatile, and the price of equity securities fluctuates based on changes in a company's financial condition and overall market and economic conditions. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Acquiring Fund. Also, the price of common stocks is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Acquiring Fund has exposure. Common stock prices fluctuate for several reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur.

When-issued transactions are subject to changes in market conditions from the time of the commitment until settlement, which may adversely affect the prices or yields of the securities being purchased. The greater the Acquiring Fund's outstanding commitments for these securities, the greater the Acquiring Fund's exposure to market price fluctuations.

Selection risk is the risk that the securities that the Acquiring Fund's management selects will underperform the equity and/or bond market, the market relevant indices or other funds with a similar investment objective and investment strategies.

Potential Conflicts of Interest of the Investment Advisor and Others. BlackRock, the ultimate parent company of the Investment Advisor, and its Affiliates (as defined in "Conflicts of Interest" in the Statement of Additional Information) are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Acquiring Fund. BlackRock and its Affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Acquiring Fund. Subject to the requirements of the 1940 Act, BlackRock and its Affiliates intend to engage in such activities and may receive compensation from third parties for their services. Neither BlackRock nor its Affiliates are under any obligation to share any investment opportunity, idea or strategy with the Acquiring Fund. As a result, BlackRock and its Affiliates may compete with the Acquiring Fund for appropriate investment opportunities. The results of the Acquiring Fund's investment activities, therefore, may differ from those of an Affiliate or another account managed by an Affiliate and it is possible that the Acquiring Fund could sustain losses during periods in which one or more Affiliates and other accounts achieve profits on their trading for proprietary or other accounts. The 1940 Act imposes limitations on certain transactions between a registered investment company and affiliated persons of the investment company, as well as affiliated persons of such affiliated persons. Among others, affiliated persons of an investment company include its investment advisor; officers; directors/trustees; any person who directly or indirectly controls, is controlled by or is under common control with such investment company; any person directly or indirectly owning, controlling or holding with power to vote, five percent or more of the outstanding voting securities of such investment company; and any person five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such investment company. BlackRock has adopted policies and procedures designed to address potential conflicts of interests. For additional information about potential conflicts of interest and the way in which BlackRock addresses such conflicts, please see "Conflicts of Interest" in the Statement of Additional Information.

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

Anti-Takeover Provisions Risk. The Acquiring Fund's Agreement and Declaration of Trust and Bylaws include provisions that could limit the ability of other entities or persons to acquire control of the Acquiring Fund or convert the Acquiring Fund to open-end status or to change the composition of the Board. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Acquiring Fund. See "Certain Provisions of the Charter."

Please see "Risk Factors and Special Considerations" in the Statement of Additional Information for additional information about the risks associated with the Acquiring Fund's investments.

EXPENSE TABLE FOR SHAREHOLDERS

Total Expenses Table for Shareholders of the Funds as of February 28, 2014

The following tables illustrate the anticipated reduction or increases in the Total Expense Ratio for the shareholders of each Fund expected as a result of the completion of the Reorganizations. The table sets forth (i) the Total Expense Ratio for each Fund for the 12-month period ended February 28, 2014; (ii) the pro forma Total Expense Ratio for the Combined Fund, assuming all of the Reorganizations had taken place on February 28, 2014, which represents the most likely combination of the Reorganizations and the combination of the Reorganizations resulting in the lowest Total Expense Ratio; (iii) the pro forma Total Expense Ratio for the Combined Fund, assuming only the Reorganization of BKT into BHK had taken place on February 28, 2014; and (iv) the pro forma Total Expense Ratio for the Combined Fund, assuming only the Reorganization of BNA into BHK had taken place on February 28, 2014.

The level of expense savings (or increases) will vary depending upon the combination of the Funds in the Reorganizations. Because each of the Reorganizations may occur whether or not the other Reorganization is approved, several combinations are possible. The scenarios presented illustrate the pro forma effects on operating expenses for all possible combinations.

Shareholder Transaction Expenses	BKT	BNA	BHK	Pro Forma Combined Fund (BKT & BHK)(a)	Pro Forma Combined Fund (BNA & BHK)(a)	Pro Forma Combined Fund (All Funds)(a)
Maximum Sales Load (as a percentage of the offering price) imposed on purchases of common shares(b)	None	None	None	None	None	None
Dividend Reinvestment and Cash Purchase Plan Fees	None	None	None	None	None	None
Annual Total Expenses (as a percentage of average net assets attributable to common shares)						
Investment Management Fees(c)	0.80%	0.70%	0.75%	0.71%	0.73%	0.72%
Other Expenses	0.10%	0.11%	0.12%	0.09%	0.08%	0.07%
Interest Expense(d)	0.08%	0.11%	0.11%	0.10%	0.11%	0.10%
Total Annual Fund Operating Expenses(c)(e)(f)	0.98%	0.92%	0.98%	0.90%	0.92%	0.89%

(a) Assumes the Reorganizations had taken place on February 28, 2014.

(b) No sales load will be charged in connection with the issuance of the Acquiring Fund Shares as part of the Reorganizations. Common shares are not available for purchase from the Funds but may be purchased on the NYSE through a broker-dealer subject to individually negotiated commission rates. Common shares purchased in the secondary market may be subject to brokerage commissions or other charges.

(c) BNA and BKT currently pays the Investment Advisor a contractual management fee at an annual rate of 0.60% an 0.65%, respectively, of such Target Fund's average weekly net assets. In addition, BNA and BKT each have an administration agreement with the Investment Advisor. The administration fee paid to the Investment Advisor is computed weekly and payable monthly based on an annual rate, 0.10% for BNA, and 0.15% for BKT, of each Target Fund's average net assets.

BHK currently pays the Investment Advisor a contractual management fee at an annual rate of 0.55% of BHK's average weekly Managed Assets. "Managed Assets" means the total assets of the Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). The Investment Advisor currently waives a portion of investment advisory fee with respect to BHK at an annual rate of 0.03%, as a percentage of average weekly Managed Assets. This investment advisory fee waiver is voluntary and may be reduced or discontinued at any time without notice. Without this investment advisory fee waiver, BHK's "Investment Management Fees" would be 0.80% and its "Total Annual Fund Operating Expenses" would be 1.02%.

The Combined Fund will not be subject to the investment advisory fee waiver. If any of the Reorganizations are consummated, the annual contractual investment advisory fee rate of the Combined Fund will be 0.50% of the average weekly Managed Assets of the Combined Fund.

BHK uses leverage in the form of reverse repurchase agreements, which as of February 28, 2014 amounted to approximately 29% of the Fund's Managed Assets (approximately 42% of the Fund's net assets). BNA and BKT also use leverage, which as of February 28, 2014 amounted to approximately 31% and 30%, respectively, of the Fund's

Managed Assets (approximately 45% and 42%, respectively, of the Fund's net assets). The Fund's net assets attributable to common shares are the Fund's Managed Assets minus the value of the Fund's assets attributable to money borrowed for investment purposes. Thus, when the Fund uses leverage, its net assets attributable to common shares are less than its Managed Assets and its expenses (including the management fee) stated as a percentage of its net assets attributable to common shares are greater than they would be if stated as a percentage of its Managed Assets. This table reflects the fact that you, as a common shareholder, bear the expenses of the Fund's use of leverage in the form of higher fees as a percentage of the Fund's net assets attributable to common shares than if the Fund did not use leverage.

(d) Reflects leverage. The interest expense borne by each Fund will vary over time in accordance with the level of a Fund's use of leverage and variations in market interest rates. Interest expense is required to be treated as an expense of a Fund for accounting purposes.

(e) The Investment Advisor has voluntarily agreed to waive its fee by the amount of investment management fees each Fund pays to the Investment Advisor indirectly through its investment in affiliated money market funds. However, the Investment Advisor does not waive its investment advisory fees by the amount of investment advisory fees paid in connection with the Fund's investment in other affiliated investment companies, if any. See Investment Management Agreements—Advisory fees Paid to Investment Advisor. Taking into account this voluntary waiver, the "Total Annual Fund Operating Expenses" are as follows:

BKT	BNA	BHK	Pro Forma Combined Fund (BKT & BHK)	Pro Forma Combined Fund (BNA & BHK)	Pro Forma Combined Fund (All Funds)
0.98%	0.92%	0.98%	0.90%	0.92%	0.89%

(f) Represents total annual fund operating expenses including interest expense. The total annual fund operating expenses (excluding interest expense) for the Funds are as follows:

BKT	BNA	BHK	Pro Forma Combined Fund (BKT & BHK)	Pro Forma Combined Fund (BNA & BHK)	Pro Forma Combined Fund (All Funds)
0.90%	0.81%	0.87%	0.80%	0.81%	0.79%

The following example is intended to help you compare the costs of investing in the common shares of the Combined Fund pro forma if the Reorganizations are completed with the costs of investing in BKT, BNA and the Acquiring Fund without the Reorganizations. An investor in common shares would pay the following expenses on a $1,000 investment, assuming (1) the "Total Annual Fund Operating Expenses" for each Fund set forth in the total expenses table above and (2) a 5% annual return throughout the period:

	1 Year	3 Years	5 Years	10 Years
BKT	$10	$31	$54	$120
BNA	$9	$29	$51	$113
BHK	$10	$31	$54	$120
Pro Forma Combined Fund (All Funds)	$9	$28	$49	$110

Pro Forma Combined Fund (BKT into BHK)	$9	$29	$50	$111
Pro Forma Combined Fund (BNA into BHK)	$9	$29	$51	$113

The examples set forth above assume common shares of each Fund were owned as of the completion of the Reorganizations and the reinvestment of all dividends and distributions and uses a 5% annual rate of return as mandated by SEC regulations. The examples should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the examples.

The Board of each Fund believes that the completion of the Reorganizations would result in a reduced Total Expense Ratio for the shareholders of each Fund because certain fixed administrative costs would be spread across the Combined Fund's larger asset base. The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) compared to each Fund's current Lipper peers.

Each Fund will bear expenses incurred in connection with the Reorganizations that are not reflected in "Other Expenses," including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund's Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganizations, including legal fees incurred preparing each Fund's Board materials, attending each Fund's Board meetings and preparing the minutes, auditing fees associated with each Fund's financial statements, stock exchange fees, transfer agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate.

Because each Fund has already incurred expenses solely and directly attributable to the Reorganizations and because each Fund (and not the Investment Advisor) is responsible for paying those expenses, except that the Investment Advisor will bear a portion of such expenses for BNA, if a Fund's shareholders do not approve their Fund's respective Reorganization(s), such Fund will continue to be responsible for the expenses arising from its proposed Reorganization(s) even though its proposed Reorganization will not occur and those expenses may be material.

The Investment Advisor will bear a portion of the costs of BNA with respect to BNA's Reorganization because the shareholders of BNA are not expected to experience the same level of economic benefits from the Reorganizations as the shareholders of BKT and BHK; therefore, a portion of the costs associated with the Reorganization of BNA will not be directly borne by BNA. The expenses of the Reorganizations (assuming all of the Reorganizations are consummated) are estimated to be $493,000 for BKT, $441,000 for BNA (without consideration of any amount to be borne by the Investment Advisor) and $423,000 for BHK. The Investment Advisor has agreed to pay $300,000 of BNA's costs of the Reorganizations. The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.

Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (e.g., expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations).

INFORMATION ABOUT THE REORGANIZATIONS

The Reorganizations seek to combine three funds that have the same investment advisor, certain shared portfolio managers and the same Board members. BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit quality. BHK and BNA invests a substantial portion of their respective portfolio in investment grade bonds, including corporate bonds, U.S. government securities and mortgage-related securities. BHK and BNA may also invest up to 25% of their respective total managed assets in below investment grade securities. At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization. See "Comparison of the Funds' Investments" for additional information about the Funds' investment objectives and investment policies.

Under the Reorganization Agreements (a form of which is attached as Appendix A to the Statement of Additional Information), each Target Fund will merge directly with and into the Acquiring Fund. In connection with the Reorganizations, the Acquiring Fund will issue additional Acquiring Fund Shares and list such shares for trading on the NYSE (each, an "Issuance") and the outstanding common shares of each Target Fund will be exchanged for the newly-issued Acquiring Fund Shares in the form of book entry interests. The aggregate NAV (not the market value) of the Acquiring Fund Shares received by the Target Fund shareholders in each Reorganization will equal the aggregate NAV (not the market value) of the Target Fund common shares held by such shareholders immediately prior to such Reorganization, less the applicable costs of such Reorganization (although Target Fund shareholders may receive cash for their fractional common shares). In the Reorganizations, shareholders of each Target Fund will receive Acquiring Fund Shares based on the relative NAV, not the market value, of each respective Target Fund's common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of a Target Fund prior to the Reorganizations.

As soon as practicable after the Closing Date for the Reorganizations, the Target Funds whose Reorganizations were completed will deregister as investment companies under the 1940 Act. The Acquiring Fund will continue to operate as a registered, diversified, closed-end investment company with the investment objectives and investment policies described in this Joint Proxy Statement/Prospectus.

Assuming that a Target Fund's Reorganization is complete, Acquiring Fund Shares will be distributed pro rata to the holders of record of each of the Target Fund's common shares, as applicable. Such distribution of Acquiring Fund Shares to the Target Fund's shareholders will be accomplished by opening new accounts on the books of Acquiring Fund in the names of the shareholders of the Target Fund and transferring to those shareholder accounts Acquiring Fund Shares. Each newly-opened account on the books of the Acquiring Fund for the former shareholders of the Target Funds will represent the respective pro rata number of Acquiring Fund Shares (rounded down, in the case of fractional common shares held other than in a Reinvestment Plan account, to the next largest number of whole common shares) due such shareholder. No fractional Acquiring Fund Shares will be issued (except for common shares held in a Reinvestment Plan account). In the event there are fractional common shares in an account other than a Reinvestment Plan account, the Acquiring Fund's transfer agent will aggregate all such fractional Acquiring Fund Shares and sell the resulting whole common shares on the NYSE, for the account of all holders of such fractional interests, and each such holder will be entitled to the pro rata share of the proceeds from such sale upon surrender of Target Fund common share certificates. See "—Terms of the Reorganization Agreements—Surrender and Exchange of

Share Certificates" for a description of the procedures to be followed by the Target Funds' shareholders to obtain their Acquiring Fund Shares (and cash in lieu of fractional common shares, if any).

As a result of the Reorganizations, each shareholder of a Target Fund will own Acquiring Fund Shares that (except for cash payments received in lieu of fractional common shares) will have an aggregate NAV (not the market value) immediately after the Closing Date equal to the aggregate NAV (not the market value) of that shareholder's Target Fund common shares immediately prior to the Closing Date, less the applicable costs of the Reorganizations. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of a Target Fund prior to the Reorganizations. Since the Acquiring Fund Shares will be issued at NAV in exchange for the common shares of each Target Fund having a value equal to the aggregate NAV of those Acquiring Fund Shares, the NAV per share of Acquiring Fund Shares should remain virtually unchanged by the Reorganizations except for its share of the applicable costs of the Reorganizations. Thus, the

Reorganizations will result in no dilution of the NAV of the Acquiring Fund Shares, other than to reflect the applicable costs of the Reorganization. However, as a result of the Reorganizations, a shareholder of any of the Funds will hold a reduced percentage of ownership in the Combined Fund than such shareholder did in any of the Target Funds. No sales charge or fee of any kind will be charged to shareholders of the Target Funds in connection with their receipt of Acquiring Fund Shares in the Reorganizations.

If a Reorganization is not approved by a Target Fund's shareholders, such Target Fund will continue to operate, for the time being, as a stand-alone Maryland corporation and will continue to be advised by the Investment Advisor. If, however, the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of that Target Fund and its product line, recommend alternative proposals to the Board of such Target Fund. In the event the Acquiring Fund shareholders do not approve a Reorganization, then the affected Target Fund would continue to exist and operate on a stand-alone basis. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the other Reorganization.

The Board's Recommendation

Each Board recommends that shareholders of its Fund approve such Fund's proposed Reorganization(s) at the Special Meeting to be held on September 30, 2014 at 9:00 a.m. (Eastern time). The Acquiring Fund's Reorganizations include the Issuances.

Shareholder approval of the BKT Reorganization requires the affirmative vote of a majority of the outstanding shares of BKT entitled to vote.

Shareholder approval of the BNA Reorganization requires the affirmative vote of a majority of the outstanding shares of BNA entitled to vote.

Shareholder approval of each of BHK's proposed Reorganizations with each of BKT and BNA requires the affirmative vote of a 1940 Act Majority.

A 1940 Act Majority means the affirmative vote of either (i) 67% or more of the voting securities present at the Special Meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (ii) more than 50% of the outstanding voting securities of the Fund, whichever is less.

Subject to the requisite approval of the shareholders of each Fund with regard to its Reorganization(s), it is expected that the Closing Date will be sometime during the fourth quarter of 2014, but it may be at a different time as described herein.

The BKT Board recommends that shareholders of BKT vote "FOR" BKT's proposed Reorganization.

The BNA Board recommends that shareholders of BNA vote "FOR" BNA's proposed Reorganization.

The Acquiring Fund Board recommends that shareholders of the Acquiring Fund vote "FOR" each of BHK's proposed Reorganizations with each of BKT and BNA.

For additional information regarding voting requirements, see "Voting Information and Requirements." Investing in the Combined Fund following the Reorganization involves risks. For additional information, see "Risk Factors and Special Considerations."

Reasons for the Reorganizations

The Board of each Fund, including the Independent Board Members, has unanimously approved its Reorganization(s) including its respective Reorganization Agreement(s), at meetings held on June 5-6, 2014. Based on the considerations below, the Board of each Fund, including the Independent Board Members, has determined that its Reorganization(s) would be in the best interests of such Fund and that the interests of its existing shareholders would not be diluted with respect to net asset value as a result of the Reorganization(s). As a result of the Reorganizations, however, shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds. This determination was made on the basis of each Board Member's business judgment after consideration of all of the factors taken as a whole with respect to each Fund and its shareholders, although individual Board Members may have placed different weight and assigned different degrees of materiality to various factors. Before reaching these conclusions, the Board of each Fund, including the Independent Board Members, engaged in a thorough review process relating to its proposed Reorganization(s). The Board of each Fund also received a memorandum outlining, among other things, the legal standards and certain other considerations relevant to the Board's deliberations.

The Board of each Fund considered its Reorganization(s) over a series of meetings. In preparation for the meetings of each Board held on June 5-6, 2014 (the "Meeting") at which the Reorganizations were approved, the Investment Advisor provided each Board with information regarding the proposed Reorganizations, including the rationale therefor and alternatives considered to the Reorganizations.

Each Board considered a number of factors presented at the time of the Meeting or prior meetings in reaching their determinations, including, but not limited to, the following, which are discussed in further detail below:

- potential for improved economies of scale and a lower Total Expense Ratio with respect to each Fund;
- alternatives to the Reorganizations for each Fund;
- the potential effects of the Reorganizations on the earnings and distributions of each Fund;
- the potential effects of the Reorganizations on each Fund's premium/discount to NAV;
- the compatibility of the Funds' investment objectives, investment policies and related risks and risk profiles;
- consistency of portfolio management and portfolio composition;
- the potential for improved secondary market trading;
- the potential for operating and administrative efficiencies;
- the anticipated tax-free nature of the Reorganizations;
- the potential effects on the Funds' capital loss carryforwards;
- the potential effects on each Fund's undistributed net investment income;
- the expected costs of the Reorganizations;
- the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the Funds;
- the effect of the Reorganizations on shareholder rights; and
- any potential benefits of the Reorganizations to the Investment Advisor and its affiliates.

Potential for Improved Economies of Scale and Potential for a Lower Expense Ratio. Each Board considered the fees and Total Expense Ratio of its Fund (including estimated expenses of the Combined Fund after the Reorganizations). The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 0.89% on a historical and pro forma basis for the 12-month period ended February 28, 2014, representing a reduction in the Total Expense Ratio for the shareholders of BKT, BNA and BHK of 0.09%, 0.03% and 0.09%, respectively, as a percentage of average net assets attributable to common shares. The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for total expenses (excluding interest expense) compared to each Fund's current Lipper peers. There can be no assurance that future expenses will not increase or that any expense savings will be realized as a result of any Reorganization. Moreover, the level of expense savings (or increases) will vary depending upon the combination of the Funds in the Reorganizations.

Potential Effects of the Reorganizations on Earnings and Distributions. The Board noted that the Combined Fund's earnings yield on NAV immediately following the Reorganizations is expected to be lower than BNA's and BHK's current earnings yield on NAV and comparable (i.e., the same or slightly lower or higher) to BKT's current earnings yield on NAV; thus, assuming BHK's distribution policy remains in place after the Reorganizations, shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV immediately after the Reorganizations, and immediately after the Reorganizations shareholders of BKT may experience a distribution yield on NAV comparable (i.e., the same or slightly lower or higher) to their current distribution yield on NAV .

The Board noted that the Investment Advisor intends to reposition the Combined Fund's portfolio after the completion of the Reorganizations by selling a significant portion of the higher rated assets acquired from BKT that are generally lower yielding than the assets currently held by BHK and using the proceeds to purchase assets with risk/return profiles similar to those assets currently held by BHK and consistent with the Combined Fund's investment objectives and investment policies (the "Repositioning"). The Combined Fund will continue to hold a portion of the assets acquired from BKT after the Repositioning. The Combined Fund generally intends to hold those assets acquired from BKT that have yields higher than or comparable to the assets currently held by BHK. However, the Combined Fund may also hold a portion of BKT's lower yielding assets after the Repositioning. The Investment Advisor anticipates that the Repositioning will enable the Combined Fund to attain a risk/return profile comparable to the current risk/return profiles of BNA and BHK. The Combined Fund's earnings and distribution yields on NAV after the Repositioning are expected to be comparable (i.e., the same or slightly lower or higher) to the current earnings and distribution yields on NAV of BNA and BHK. However, there can be no assurance that the Combined Fund can successfully implement the Repositioning. The Combined Fund's ability to execute the Repositioning depends on many factors, including portfolio transaction costs, market rates of interest, the availability of attractive securities to purchase, market liquidity, regulatory considerations and restrictions, the U.S. federal income tax rules applicable to reorganizations and general economic and market conditions. If the Combined Fund is unable to successfully implement the Repositioning, then the Combined Fund's earnings yield on NAV may be lower than BNA's and BHK's current earnings yield on NAV; and assuming BHK's distribution policy remains in place after the Reorganizations, shareholders of BNA and BHK may experience a decrease in their distribution yield on NAV after the Reorganizations. Nevertheless, shareholders of BNA and BHK are expected to benefit from a reduction in BNA's and BHK's Total Expense Ratio of approximately 0.03% and 0.09%, respectively. It is also anticipated that shareholders of BNA and BHK may benefit from other potential benefits associated with the Reorganizations (including as a result of the Combined Fund's larger size) as more fully discussed below.

The Combined Fund's earnings and distribution yield on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund's earnings and distribution yield on NAV prior to the Reorganizations. A Fund's earnings and net investment income are variables which depend on many factors, including its asset mix, performance of its investments, the amount of leverage utilized by the Fund, the costs of such leverage, the movement of interest rates and general market conditions.

Potential Effects of the Reorganizations on Premium/Discount to NAV. Each Board noted that the common shares of its Fund have historically fluctuated between a discount and a premium. Each Target Fund Board noted that to the extent its Target Fund is trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganizations, the Target Fund's shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. Each Target Fund's Board also noted that to the extent its Target Fund is trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganizations, the Target Fund's shareholders may be negatively impacted if the Reorganizations are consummated. The Board of the Acquiring Fund noted that Acquiring Fund shareholders would only benefit from a premium/discount perspective to the extent the post-Reorganizations discount (or premium) improves.

Compatibility of Investment Objectives, Investment Policies and Related Risks and Risk Profiles. Each Board noted that its Fund's shareholders will remain invested in a NYSE-listed, closed-end management investment company that will have substantially greater net assets and compatible investment objectives and investment policies, subject to the differences described below and in "Comparison of the Funds' Investments."

BNA and BHK have substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. Each of BNA and BHK invests its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities.

BNA and BHK may also invest up to 25% of its total managed assets in below investment grade securities. BNA and BHK may invest in a diversified portfolio of corporate bonds, U.S. government and agency securities and mortgage-related securities.

BKT and BHK each has income-oriented investment policies and restrictions, however, BHK's investment objective and investment policies permit a more diversified portfolio than BKT in terms of investments and credit quality. While BHK may invest in below investment grade securities and lower rated investment grade securities, BKT invests substantially all of its assets in securities rated in the two highest ratings categories or securities determined by the Investment Advisor to be of comparable credit quality. At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization. In addition, BKT invests at least 65% of its assets in mortgage-backed securities.

The style and risk/return profile of the Combined Fund is expected to remain at least in the near-to-medium term comparable to those of BNA and BHK because of the substantial similarities in the investment policies and portfolio compositions of BNA and BHK. However, risks associated with mortgage-related securities, including the IO class or PO class of stripped mortgage-backed securities, may be greater in the Combined Fund's portfolio than in the portfolios of BNA or BHK because the Combined Fund may have a larger portion of its portfolio in mortgage-related securities than BNA or BHK as a result of the Combined Fund's acquisition of legacy BKT assets. See "Comparison of Risks," "General Risks of Investing in the Acquiring Fund—Mortgage-Related Securities Risks" and "General Risks of Investing in the Acquiring Fund—Stripped Mortgage-Backed Securities Risk" under the section entitled "Risk Factors and Special Considerations."

BKT shareholders will be subject to greater credit risks because of the Combined Fund's broader and more diversified approach to investments and credit quality, which could also provide the potential for greater return. BKT shareholders may also become subject to risks associated with securities that are not currently held by BKT, such as risks associated with corporate bonds and other securities. The foregoing risks to BKT shareholders will be heightened as a result of the Repositioning. See "Comparison of Risks" and "General Risks of Investing in the Acquiring Fund" under the section entitled "Risk Factors and Special Considerations."

Consistency of Portfolio Management and Portfolio Composition. Each Board noted that its Fund will continue to have the same investment advisor. In addition, each Fund will continue to have at least one of its current portfolio managers on the Combined Fund's portfolio management team (one of BKT's portfolio managers, Mr. Akiva Dickstein, will not be part of the Combined Fund's portfolio management team); thus, each Fund's shareholders will benefit from the continuing experience and expertise of at least one portfolio manager from such Fund's current portfolio management team. BKT is currently managed by a team of investment professionals comprised of Messrs. Akiva Dickstein and Tom Musmanno. BNA and BHK are currently managed by a team of investment professionals comprised of Messrs. Tom Musmanno and James E. Keenan. After the Reorganizations, it is expected that Messrs. Musmanno and Keenan will comprise the team of investment professionals for the Combined Fund.

Each Board also considered the portfolio composition of its Fund and the impact of the Reorganizations on the Fund's portfolio. The Boards noted the substantial similarities between the portfolio holdings of BNA and BHK. The Boards also noted that while there is not substantial overlap in the portfolio holdings of BKT and BHK, the portfolio holdings of BKT are generally consistent with the portfolio guidelines of BHK. The Boards of BNA and BHK noted that the Combined Fund may have a larger portion of its portfolio in mortgage-related securities, including the IO class or PO class of stripped mortgage-backed securities, than BNA or BHK because of the Combined Fund's holdings of legacy

BKT assets.

The Board of BKT noted that the Combined Fund may have a large portion of its portfolio in lower rated investment grade securities and securities other than mortgage-related securities because the portfolios of BNA and BHK are more diversified than BKT.

See "—Compatibility of Investment Objectives, Investment Policies and Related Risks and Risk Profiles" above for a discussion regarding the Funds' investment objectives, investment policies and related risks and risk profiles.

Potential for Improved Secondary Market Trading. While it is not possible to predict trading levels at the time the Reorganizations close, each Board considered that the Combined Fund may provide greater secondary market liquidity for its common shares as it would be larger than any of the Funds, which may result in tighter bid-ask spreads, better trade execution for the Combined Fund's shareholders when purchasing or selling Combined Fund common shares and potential for improved premium/discount levels for the Combined Fund's common shares.

Potential for Operating and Administrative Efficiencies. Each Board noted that the Combined Fund may achieve certain operating and administrative efficiencies from its larger net asset size, including greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, additional sources of leverage or more competitive leverage terms, greater flexibility managing leverage, more favorable transaction terms and better trade execution.

Each Board also noted that the Combined Fund may experience potential benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage.

Each Board also noted that the Combined Fund may experience potential benefits from having fewer similar funds in the same fund complex, including a simplified operational model and a reduction in potential benefits from the elimination of complexities involved with having duplicative funds, easier product differentiation for shareholders (including shareholders of the Combined Fund) and reduced risk of operational, legal and financial errors.

Anticipated Tax-Free Reorganization. Each Board noted that it is anticipated that shareholders of its Fund will recognize no gain or loss for U.S. federal income tax purposes as a result of the Reorganizations (except with respect to cash received in lieu of fractional shares), as each Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the United States Internal Revenue Code of 1986, as amended.

Capital Loss Carryforwards Considerations. Each Board considered that capital loss carryforwards of the Combined Fund attributable to each Target Fund that participates in a Reorganization will be subject to tax loss limitation rules by reason of such Fund undergoing an ownership change in the Reorganization. Each Board also considered that the ability of its Fund to fully utilize its existing capital loss carryforwards and that the actual effect of the loss limitation rules depends on many variables and assumptions, including projected performance, and is, therefore, highly uncertain.

Potential Effects of the Reorganizations on Undistributed Net Investment Income. Each Board noted that all of the undistributed net investment income ("UNII"), if any, of its Fund is expected to be distributed to such Fund's respective shareholders prior to the Reorganizations if such Fund's Reorganization is approved by shareholders. Each Board also noted that although the Combined Fund will not have the benefit of a positive UNII balance immediately after the completion of the Reorganizations, the Combined Fund's future distributions are expected to be aligned with sustainable earnings. However, there can be no assurance that such alignment will occur immediately following the Reorganizations or in the future. The Combined Fund's earnings and distribution yield on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund's earnings and distribution yield on NAV prior to the Reorganizations.

Expected Costs of the Reorganization. Each Board considered the terms and conditions of its Reorganization Agreement(s), including the estimated costs associated with each Reorganization, and the allocation of such costs among the Funds. Each Board noted, however, that the Investment Advisor anticipated that the projected costs of a consummated Reorganization may be recovered over time. The Board of BNA noted that the Investment Advisor would bear a portion of the costs of the Reorganizations for BNA because the shareholders of BNA are not expected to experience the same level of economic benefits from the Reorganizations as the shareholders of BKT and BHK.

Terms of the Reorganization and Impact on Shareholders. Each Board noted that the aggregate NAV (not the market value) of the shares of the Combined Fund that Target Fund shareholders will receive in the Reorganizations is expected to equal the aggregate NAV (not the market value) of the Target Fund shares that Target Fund shareholders owned immediately prior to the Reorganizations, and the NAV of Target Fund shares will not be diluted as a result of the Reorganizations. Fractional Acquiring Fund Shares will generally not be issued to shareholders in connection with the Reorganizations, and Target Fund shareholders should expect to receive cash in lieu of such fractional shares.

Effect on Shareholder Rights. Each Board noted that the Acquiring Fund is organized as a Delaware statutory trust, while BNA and BKT are each organized as a Maryland corporation. Each Board also noted that the common shareholders of each Fund have substantially similar voting rights and rights with respect to the payment of dividends and distribution of assets upon liquidation of their respective Fund and have no preemptive, conversion or exchange rights.

Potential Benefits to the Investment Advisor and its Affiliates. Each Board recognized that the Reorganizations may result in some benefits and economies of scale for the Investment Advisor and its affiliates. These may include, for example, administrative and operational efficiencies or a reduction in certain operational expenses as a result of the elimination of a Target Fund as a separate fund in the BlackRock closed-end fund complex.

Each Board noted that the Investment Advisor will reduce the annual contractual investment management fee rate of the Combined Fund to 0.50% of the Combined Fund's average weekly Managed Assets if any of the Reorganizations are consummated, which is lower than the current contractual management fee rate of each Fund. The Combined Fund will not be subject to any separate administration fee payable to the Investment Advisor or any fee waivers. The Combined Fund is expected to be competitively priced relative to peers, and equal to or below the median for contractual management fees compared to each Fund's current Lipper peers.

The current combined advisory and administration fee rate payable to the Investment Advisor for each Fund is as follows: 0.80% (including administration fee of 0.15%) for BKT, 0.70% (including administration fee of 0.10%) for BNA and 0.55% for BHK. The Investment Advisor currently waives a portion of the Acquiring Fund's investment management fee at an annual rate of 0.03% of the Acquiring Fund's average weekly Managed Assets. The waiver is voluntary and may be reduced or discontinued at any time without notice.

Alternatives to the Reorganizations. In reaching its decision to approve each Fund's respective Reorganization, the Board of such Fund considered various alternatives, including continuing to operate such Fund as a separate Fund and other reorganization combinations involving such Fund. The Board of BKT also considered recommending amendments to BKT's investment objectives and investment policies and operating BKT as a separate Fund.

Conclusion. Each Board, including the Independent Board Members, approved its Reorganization(s), concluding that such Reorganization(s) is in the best interests of its Fund and that the interests of existing shareholders of its Fund will not be diluted with respect to net asset value as a result of such Reorganization. This determination was made on the basis of each Board Member's business judgment after consideration of all of the factors taken as a whole with respect to its Fund and the Fund's shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

Terms of the Reorganization Agreements

The following is a summary of the significant terms of the Reorganization Agreements. This summary is qualified in its entirety by reference to the Form of Reorganization Agreement attached as Appendix A to the Statement of Additional Information.

Valuation of Assets and Liabilities

The respective assets of each of the Funds will be valued on the business day prior to the Closing Date (the "Valuation Time"). The valuation procedures are the same for each Fund: the NAV per common share of each Fund will be determined after the close of business on the NYSE (generally, 4:00 p.m., Eastern time) at the Valuation Time. For the purpose of determining the NAV of a common share of each Fund, the value of the securities held by the such Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses) of such Fund is divided by the total number of common shares of such Fund outstanding at such time. Daily expenses, including the fees payable to the Investment Advisor, will accrue at the Valuation Time.

Amendments and Conditions

The Reorganization Agreements may be amended at any time prior to the Closing Date with respect to any of the terms therein upon mutual agreement. However, after adoption of the Reorganization Agreements and approval of the Reorganizations, no amendment or modification may be made which by law requires further approval by shareholders without such further approval. The obligations of each Fund pursuant to the applicable Reorganization Agreement are subject to various conditions, including a registration statement on Form N-14 being declared effective by the SEC, approval of the Reorganization Agreement by the shareholders of the respective Target Funds, approval of the Reorganizations by the shareholders of the Acquiring Fund, receipt of an opinion of counsel as to tax matters, receipt of an opinion of counsel as to corporate and securities matters and the continuing accuracy of various representations and warranties of the Funds being confirmed by the respective parties.

Postponement; Termination

Under the Reorganization Agreements, the Board of any Fund may cause its Reorganization to be postponed or abandoned under certain circumstances should the Board of such determine that it is in the best interests of the shareholders of such Fund to do so. A Reorganization Agreement may be terminated, and the corresponding Reorganization abandoned at any time (whether before or after adoption thereof by the shareholders of the Funds that are parties to such Reorganization Agreement) prior to the Closing Date, or the Closing Date may be postponed: (i) by mutual consent of the Boards of such Funds and (ii) by the Board of any such Fund if any condition to that Fund's obligations set forth in the pertinent Reorganization Agreement has not been fulfilled or waived by such Board.

Surrender and Exchange of Share Certificates

The Acquiring Fund will issue to Target Fund shareholders book entry interests for the Acquiring Fund Shares registered in the name of on the basis of each holder's proportionate interest in the aggregate NAV (not the market value) of Target Fund common shares. With respect to any Target Fund shareholder holding certificates evidencing ownership of Target Fund shares as of the Closing Date, and subject to the Acquiring Fund being informed thereof in writing by the Target Fund, the Acquiring Fund will not permit such shareholder to receive new book entry interests of the Acquiring Fund Shares, until notified by the Target Fund or its agent that such shareholder has surrendered his or her outstanding certificates evidencing ownership of Target Fund shares or, in the event of lost certificates, posted adequate bond. The Target Funds, at their own expense, will request their shareholders to surrender their outstanding certificates evidencing ownership of Target Fund shares or post adequate bond.

Please do not send in any share certificates at this time. Upon consummation of the Reorganizations, shareholders of the Target Funds will be furnished with instructions for exchanging their share certificates for book entry interests representing Acquiring Fund Shares and, if applicable, cash in lieu of fractional common shares.

From and after the Closing Date, there will be no transfers on the stock transfer books of the Target Funds. If, after the Closing Date, certificates representing common shares of the Target Funds are presented to the Acquiring Fund, they will be cancelled and exchanged for book entry interests representing Acquiring Fund Shares and cash in lieu of fractional common shares, if applicable, distributable with respect to the Target Funds' common shares in the Reorganizations.

Expenses of the Reorganization

Each Fund will bear expenses incurred in connection with the Reorganizations. The expenses incurred in connection with the Reorganizations include but are not limited to, costs related to the preparation and distribution of materials distributed to each Fund's Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees, and legal and audit fees in connection with the Reorganizations, including legal fees incurred preparing each Fund's Board materials, attending each Fund's Board meetings and preparing the minutes, auditing fees associated with each Fund's financial statements, stock exchange fees, transfer agency fees, rating agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate. The Investment Advisor will bear a portion of the costs of BNA with respect to BNA's Reorganization because the shareholders of BNA are not expected to experience the same level of economic benefits from the Reorganizations as the shareholders of BKT and BHK; therefore, a portion of the costs associated with the Reorganization of BNA will not be directly borne by BNA. The expenses of the Reorganizations (assuming all of the Reorganizations are consummated) are estimated to be $493,000 for BKT, $441,000 for BNA (without consideration of any amount to be borne by the Investment Advisor) and $423,000 for BHK. The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein. Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (e.g., expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations).

THE FUNDS

BHK is organized as a Delaware statutory trust pursuant to its Agreement and Declaration of Trust governed by the laws of the State of Delaware. BHK was organized on October 12, 2001 and commenced investment operations on November 27, 2001.

Each of BNA and BKT is organized as a Maryland corporation pursuant to its Articles of Incorporation governed by the laws of the State of Maryland. BNA was incorporated on October 17, 1991 and commenced operations on December 20, 1991. BKT was incorporated on April 22, 1988 and commenced operations on July 22, 1988.

THE ACQUIRING FUND'S INVESTMENTS

Investment Objectives

The Acquiring Fund's investment objective is to provide current income and capital appreciation. No assurance can be given that the Acquiring Fund will achieve its investment objective.

The Acquiring Fund cannot change its investment objective without the approval of the holders of a majority of the outstanding common shares and, if any preferred shares are issued, the preferred shares voting together as a single class, and of the holders of a majority of the outstanding preferred shares voting as a separate class. Under the 1940 Act, a "majority of the outstanding" means (1) 67% or more of the outstanding shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (2) more than 50% of the outstanding shares, whichever is less.

Investment Policies

Bonds. As a non-fundamental policy, under normal market conditions, the Acquiring Fund invests at least 80% of its assets in bonds. Bonds held by the Acquiring Fund may take the form of bonds, notes, bills, debentures, convertible securities, warrants attached to bonds, bank debt obligations, loan participations and assignments, trust preferred securities and securities issued by entities organized and operated for the purpose of restructuring the investment characteristics of securities. Under current market conditions, the Acquiring Fund intends to invest its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, mortgage-related securities and U.S. government and agency debt securities.

The Acquiring Fund will also invest in bonds that, in the Investment Advisor's opinion, are underrated or undervalued or have the potential for above-average current income and capital appreciation. Underrated bonds are those whose ratings do not, in the Investment Advisor's opinion, reflect their true creditworthiness. Undervalued bonds are bonds that, in the opinion of the Investment Advisor, are worth more than the value assigned to them in the marketplace. The Investment Advisor may at times believe that bonds associated with a particular market sector (for example, mortgage-related securities), or issued by a particular issuer, are undervalued. The Investment Advisor may purchase those bonds for the Acquiring Fund's portfolio because they represent a market sector or issuer that the Investment Advisor considers undervalued, even if the value of those particular bonds appears to be consistent with the value of similar bonds. Bonds of particular issuers (for example, the Federal Home Loan Mortgage Association) may be undervalued because there is a temporary excess of supply in that market sector, or because of a general decline in the market price of bonds of the market sector for reasons that do not apply to the particular bonds that are considered undervalued. The Acquiring Fund's investment in underrated or undervalued bonds will be based on the Investment Advisor's belief that their yield is higher than that available on bonds bearing equivalent levels of interest rate risk, credit risk and other forms of risk, and that their prices will ultimately rise, relative to the market, to reflect their true value. The Acquiring Fund may engage in active and frequent trading of portfolio securities to achieve its principal investment strategies.

Investment Grade Bonds. The Acquiring Fund invests primarily in investment grade bonds. Under normal market conditions, the Acquiring Fund invests at least 75% of its total managed assets in investment grade quality bonds. Investment grade quality means that such bonds are rated, at the time of investment, within the four highest grades (Baa or BBB or better by Moody's, S&P, Fitch or another nationally recognized rating agency) by one nationally recognized rating agency or are unrated but judged to be of comparable quality by the Investment Advisor. Bonds that are rated by two or more nationally recognized rating agencies will be considered to have the higher credit rating. Changes in economic conditions or other circumstances are more likely to lead to a weakened capacity for bonds that are rated BBB or Baa (or that have equivalent ratings) to make principal and interest payments than is the case for higher rated bonds. The Acquiring Fund may invest up to 25% of its total managed assets in bonds that are rated, at the time of investment, Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or that are unrated but judged to be of comparable quality by the Investment Advisor. Bonds of below investment grade quality are commonly referred to as "junk bonds." Bonds of below investment grade quality are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. The lowest rated bonds in which the Acquiring Fund may invest are securities rated in the category "C" or determined by the Investment Advisor to be of comparable quality. Securities rated "C" are considered highly speculative and may be used to cover a situation where the issuer has filed a bankruptcy petition but debt service payments are continued. While such debt will likely have some quality and protective characteristics, those are outweighed by large uncertainties or major risk exposure to adverse conditions. These credit quality policies apply only at the time a security is purchased, and the Acquiring Fund is not required to dispose of a security if a rating agency downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell a security that a rating agency has downgraded, the Investment Advisor may consider such factors as the Investment Advisor's assessment of the credit quality of the issuer of the security, the price at which the security could be sold and the rating, if any, assigned to the security by other rating agencies. Appendix E to the Statement of Additional Information contains a general description of Moody's and S&P's ratings of debt securities.

Foreign Securities. The Acquiring Fund may invest up to 10% of its total managed assets in bonds denominated in currencies other than the U.S. dollar.

Other Investment Companies. The Acquiring Fund may also invest in securities of other open- or closed-end investment companies that invest primarily in bonds of the types in which the Acquiring Fund may invest directly.

Duration. As part of the management of the Acquiring Fund, the Investment Advisor manages the effective duration of the Acquiring Fund's portfolio. The target duration of the Acquiring Fund's portfolio may change from time to time. For further information on duration, See "Duration Management and Other Management Techniques" in the Statement of Additional Information.

Leverage. The Acquiring Fund can borrow money to buy additional securities. This practice is known as "leverage." The Acquiring Fund may borrow from banks or other financial institutions or through reverse repurchase agreements, dollar rolls and other investment techniques. The Acquiring Fund may lend some of its securities in order to earn income. The Acquiring Fund will receive collateral in cash or high quality securities equal to the current value of the loaned securities. The Acquiring Fund earns interest on the securities it lends and income when it invests the collateral for the loaned securities. These loans will be limited to 33 1/3% of the value of the Acquiring Fund's total managed assets.

Strategic Transactions. The Investment Advisor may, but is not required to, when consistent with the Acquiring Fund's investment objective, use various strategic investment transactions described below to earn income, facilitate portfolio management and mitigate risks, including currency risk. See "Portfolio Contents and Techniques—Strategic Transactions."

Temporary Defensive Periods. During temporary defensive periods and in order to keep the Acquiring Fund fully invested, the Acquiring Fund may invest up to 100% of its total managed assets in short-term investments. The Acquiring Fund may not achieve its investment objective under these circumstances.

Portfolio Contents and Techniques

The Acquiring Fund may invest in the following instruments and use the following investment techniques, subject to any limitations set forth in "—Investment Policies." There is no guarantee the Acquiring Fund will buy all of the types of securities or use all of the investment techniques that are described herein.

Corporate Bonds. The Acquiring Fund may invest in corporate bonds. The investment return of corporate bonds reflects interest on the security and changes in the market value of the security. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The market value of a corporate bond also may be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the market place. There is a risk that the issuers of the securities may not be able to meet their obligations on interest or principal payments at the time called for by an instrument.

Corporate bonds are debt obligations issued by corporations. Corporate bonds may be either secured or unsecured. Collateral used for secured debt includes real property, machinery, equipment, accounts receivable, stocks, bonds or notes. If a bond is unsecured, it is known as a debenture. Bondholders, as creditors, have a prior legal claim over common and preferred stockholders as to both income and assets of the corporation for the principal and interest due them and may have a prior claim over other creditors if liens or mortgages are involved. Interest on corporate bonds may be fixed or floating, or the bonds may be zero coupons. Interest on corporate bonds is typically paid semi-annually and is fully taxable to the bondholder. Corporate bonds contain elements of both interest rate risk and credit risk. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates and may also be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the marketplace. Corporate bonds usually yield more than government or agency bonds due to the presence of credit risk.

U.S. Government Securities. The Acquiring Fund may invest in debt securities issued or guaranteed by the U.S. government, its agencies or instrumentalities including: (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuance, such as U.S. Treasury bills (maturity of one year or less), U.S. Treasury notes (maturity of one to ten years), and U.S. Treasury bonds (generally maturities of greater than ten years), including the principal components or the interest components issued by the U.S. government under the Separate Trading of Registered Interest and Principal Securities program (i.e., "STRIPS"), all of which are backed by the full faith and credit of the United States; and (2) obligations issued or guaranteed by U.S. government agencies or instrumentalities, including government guaranteed mortgage-related securities, some of which are backed by the full faith and credit of the U.S. Treasury, some of which are supported by the right of the issuer to borrow from the U.S. government and some of which are backed only by the credit of the issuer itself.

Mortgage-Related Securities. The Acquiring Fund may invest in mortgage-related securities.

Mortgage-related securities are a form of security collateralized by pools of commercial or residential mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private issuers. These securities may include complex instruments such as collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits, adjustable rate mortgages, real estate investment trusts ("REITs"), including debt and preferred stock issued by REITs, as well as other real estate-related securities. The mortgage-related securities in which the Acquiring Fund may invest include those with fixed interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest.

Interests in pools of mortgage-related securities differ from other forms of bonds, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a "pass-through" of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs which may be incurred. Some mortgage-related securities (such as securities issued by the "Government National Mortgage Association," or "GNMA") are described as "modified pass-through." These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually makes the payment.

The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective maturity of the security beyond what was anticipated at the time of purchase. To the extent that unanticipated rates of prepayment on underlying mortgages increase in the effective maturity of a mortgage-related security, the volatility of such security can be expected to increase.

The yield and maturity characteristics of mortgage-related securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (i.e., loans) generally may be prepaid at any time. The relationship between prepayments and interest rates may give some mortgage-related securities less potential for growth in value than conventional fixed-income securities with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Acquiring Fund will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, a mortgage-related security's total return and maturity may be difficult to predict precisely. To the extent that the Acquiring Fund purchases mortgage-related securities at a premium, prepayments (which may be made without penalty) may result in loss of the Acquiring Fund's principal investment to the extent of premium paid.

Mortgage-related securities come in different classes that have different risks. The Acquiring Fund may invest in lower, or junior, classes of mortgage-related securities which may have a rating below investment grade and therefore are riskier investments than higher rated securities. Junior classes of mortgage-related securities protect the senior class investors against losses on the underlying mortgage loans by taking the first loss if there are liquidations among the underlying loans. Junior classes generally receive principal and interest payments only after all required payments have been made to more senior classes. Because the Acquiring Fund may invest in junior classes of mortgage-related securities, it may not be able to recover all of its investment in the securities it purchases. In addition, if the underlying mortgage portfolio has been overvalued, or if mortgage values subsequently decline, the Acquiring Fund may suffer significant losses.

Investments in mortgage-related securities, especially lower rated securities, involve the risks of interruptions in the payment of interest and principal (delinquency) and the potential for loss of principal if the property underlying the security is sold as a result of foreclosure on the mortgage (default). These risks include the risks associated with direct ownership of real estate, such as the effects of general and local economic conditions on real estate values, the conditions of specific industry segments, the ability of tenants to make lease payments and the ability of a property to attract and retain tenants, which in turn may be affected by local market conditions such as oversupply of space or a reduction of available space, the ability of the owner to provide adequate maintenance and insurance, energy costs, government regulations with respect to environmental, zoning, rent control and other matters, and real estate and other taxes. The risks associated with the real estate industry will be more significant for the Acquiring Fund to the extent that it invests in mortgage-related securities. These risks are heightened in the case of mortgage-related securities related to a relatively small pool of mortgage loans. If the underlying borrowers cannot pay their mortgage loans, they may default and the lenders may foreclose on the property. Finally, the ability of borrowers to repay mortgage loans underlying mortgage-related securities will typically depend upon the future availability of financing and the stability of real estate values.

For mortgage loans not guaranteed by a government agency or other party, the only remedy of the lender in the event of a default is to foreclose upon the property. If borrowers are not able or willing to pay the principal balance on the loans, there is a good chance that payments on the related mortgage-related securities will not be made. Certain borrowers on underlying mortgages may become subject to bankruptcy proceedings, in which case the value of the mortgage-related securities may be hurt.

Stripped Mortgage-Backed Securities. Stripped MBS are derivative multi-class mortgage securities. Stripped MBS may be issued by agencies or instrumentalities of the U.S. government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks and special purpose entities of the foregoing. Stripped MBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of Stripped MBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the "IO" class), while the other class will receive all of the principal (the principal- only or "PO" class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may have a material adverse effect on the Acquiring Fund's yield to maturity from these securities. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Acquiring Fund may fail to recoup some or all of its initial investment in these securities even if the security has received the highest rating from one or more nationally recognized statistical ratings organizations.

Lower Grade Securities. The Acquiring Fund may invest up to 25% of its total managed assets in bonds that are rated, at the time of investment, Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or that are unrated but judged to be of comparable quality by the Investment Advisor. Bonds of below investment grade quality are commonly referred to as "junk bonds." Bonds of below investment grade quality are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal.

The values of lower grade securities often reflect individual corporate developments and have a high sensitivity to economic changes to a greater extent than do higher rated securities. Issuers of lower grade securities are often in the growth stage of their development and/or involved in a reorganization or takeover. The companies are often highly leveraged (have a significant amount of debt relative to shareholders' equity) and may not have available to them more traditional financing methods, thereby increasing the risk associated with acquiring these types of securities. In some cases, obligations with respect to lower grade securities are subordinated to the prior repayment of senior indebtedness, which will potentially limit the Acquiring Fund's ability to fully recover principal or to receive interest payments when senior securities are in default. Thus, investors in lower grade securities have a lower degree of protection with respect to principal and interest payments than do investors in higher rated securities.

During an economic downturn, a substantial period of rising interest rates or a recession, issuers of lower grade securities may experience financial distress possibly resulting in insufficient revenues to meet their principal and interest payment obligations, to meet projected business goals and to obtain additional financing. An economic downturn could also disrupt the market for lower-rated securities and adversely affect the ability of the issuers to repay principal and interest. If the issuer of a security held generally by the Acquiring Fund defaults, the Acquiring Fund may not receive full interest and principal payments due to it and could incur additional expenses if it chose to seek recovery of its investment. Under certain economic and/or market conditions, the Acquiring Fund may have difficulty disposing of certain lower grade securities due to the limited number of investors in that sector of the market.

The secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Fund to sell certain securities or could result in lower prices than those used in calculating the Fund's NAV.

An illiquid secondary market may adversely affect the market price of the lower grade securities, which may result in increased difficulty selling the particular issue and obtaining accurate market quotations on the issue when valuing the Acquiring Fund's assets.

The high yield markets may react strongly to adverse news about an issuer or the economy, or to the perception or expectation of adverse news, whether or not it is based on fundamental analysis. Additionally, prices for lower grade securities may be affected by legislative and regulatory developments. These developments could adversely affect the Acquiring Fund's net asset value and investment practices, the secondary market for lower grade securities, the financial condition of issuers of these securities and the value and liquidity of outstanding lower grade securities, especially in a thinly traded market. For example, federal legislation requiring the divestiture by federally insured savings and loan associations of their investments in lower grade securities and limiting the deductibility of interest by certain corporate issuers of lower grade securities adversely affected the lower grade securities market in the past.

When the secondary market for lower grade securities becomes more illiquid, or in the absence of readily available market quotations for such securities, the relative lack of reliable objective data makes it more difficult to value the Acquiring Fund's securities, and judgment plays a more important role in determining such valuations. Increased illiquidity in the junk bond market, in combination with the relative youth and growth of the market for such securities, also may affect the ability of the Acquiring Fund to dispose of such securities at a desirable price. Additionally, if the secondary markets for lower grade securities contract due to adverse economic conditions or for other reasons, certain of the Acquiring Fund's liquid securities may become illiquid and the proportion of the Acquiring Fund's assets invested in illiquid securities may significantly increase.

The prices of fixed income securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupons of such securities. Accordingly, below investment grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity because of their higher coupon. The investor receives this higher coupon in return for bearing greater credit risk. The higher credit risk associated with below investment grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity.

The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Investment Advisor also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Acquiring Fund invests in lower grade securities that have not been rated by a rating agency, the Acquiring Fund's ability to achieve its investment objective will be more dependent on the Investment Advisor's credit analysis than would be the case when the Acquiring Fund invests in rated securities.

Foreign Securities. The Acquiring Fund may invest up to 10% of its total managed assets in bonds issued in foreign currencies. The value of the Acquiring Fund's investments may be adversely affected by changes in political or social conditions, diplomatic relations, confiscatory taxation, expropriation, nationalization, limitation on the removal of funds or assets, or imposition of (or change in) exchange control or tax regulations in those foreign countries. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of Acquiring Fund securities and could favorably or unfavorably affect the Acquiring Fund's operations. Furthermore, the economies of individual foreign nations may differ from the U.S. economy, whether favorably or unfavorably, in areas such as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. In general, less information is publicly available with respect to foreign issuers than is available with respect to U.S. companies. Most foreign companies are also not subject to the uniform accounting and financial reporting requirements applicable to issuers in the United States. Any foreign investments made by the Acquiring Fund must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Some foreign securities may be less liquid and more volatile than securities of comparable U.S. issuers. Similarly, there is less volume and liquidity in most foreign securities markets than in the United States and, at times, greater price volatility than in the United States. Foreign securities may trade on days when the common shares are not priced or traded.

Because foreign securities generally are denominated and pay dividends or interest in foreign currencies, and the Acquiring Fund may hold various foreign currencies from time to time, the value of the net assets of the Acquiring Fund as measured in U.S. dollars will be affected favorably or unfavorably by changes in exchange rates. Generally, the Acquiring Fund's currency exchange transactions will be conducted on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market. The cost of the Acquiring Fund's currency exchange transactions will generally be the difference between the bid and offer spot rate of the currency being purchased or sold. In order to protect against uncertainty in the level of future foreign currency exchange, the Acquiring Fund is authorized to enter into certain foreign currency exchange transactions.

The Acquiring Fund may also invest in issuers located in emerging market countries. Investment in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of foreign issuers outlined in the above section to a heightened degree.

Emerging market countries generally include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. These issuers may be subject to risks that do not apply to issuers in larger, more developed countries. These risks are more pronounced to the extent the Acquiring Fund invests significantly in one country. Less information about non-U.S. issuers or markets may be available due to less rigorous disclosure and accounting standards or regulatory practices. Many non-U.S. markets are smaller, less liquid and more volatile than U.S. markets. In a changing market, the Investment Advisor may not be able to sell the Acquiring Fund's portfolio securities in amounts and at prices they consider reasonable. The U.S. dollar may appreciate against non-U.S. currencies or an emerging market government may impose restrictions on currency conversion or trading. The economies of non-U.S. countries may grow at a slower rate than expected or may experience a downturn or recession. Economic, political and social developments may adversely affect non-U.S. securities markets.

In addition to brokerage commissions, custodial services and other costs relating to investment in emerging markets are generally more expensive than in the United States. Such markets have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. The inability of the Acquiring Fund to make intended securities purchases due to settlement problems could cause the Acquiring Fund to miss attractive investment opportunities. An inability to dispose of a security due to settlement problems could result in losses to the Acquiring Fund due to subsequent declines in the value of the security.

Strategic Transactions. The Acquiring Fund may, but is not required to, use various strategic transactions described below to earn income, facilitate portfolio management and mitigate risks. Such strategic transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds and other institutional investors. Although the Investment Advisor seeks to use the practices to further the Acquiring Fund's investment objective, no assurance can be given that these practices will achieve this result.

The Acquiring Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, enter into various interest rate transactions such as swaps, caps, floors or collars and enter into various currency transactions such as currency forward contracts, currency futures contracts, currency swaps or options on currency or currency futures or credit transactions and credit default swaps. The Acquiring Fund also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Acquiring Fund generally seeks to 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 Acquiring Fund's portfolio, protect the value of the Acquiring Fund's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Acquiring Fund, protect against changes in currency exchange rates, manage the effective maturity or duration of the Acquiring Fund's portfolio, or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The Acquiring Fund may use Strategic Transactions to enhance potential gain, although no more than 5% of the Acquiring Fund's total managed assets will be committed to variation margin for Strategic Transactions for non-hedging purposes.

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 Investment Advisor's ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Acquiring Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Acquiring Fund can realize on an investment, or may cause the Acquiring Fund to hold a security that it might otherwise sell. The use of currency transactions can result in the Acquiring Fund incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Acquiring Fund to deliver or receive a specified currency. Additionally, amounts paid by the Acquiring Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Acquiring Fund for investment purposes.

A more complete discussion of Strategic Transactions and their risks is contained in the Statement of Additional Information.

When-Issued and Forward Commitment Securities. The Acquiring Fund may buy and sell bonds on a when-issued basis and may purchase or sell bonds on a "forward commitment" basis. When such transactions are negotiated, the price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities takes place at a later date. This type of transaction may involve an element of risk because no interest accrues on the bonds prior to settlement and, because bonds are subject to market fluctuations, the value of the bonds at the time of delivery may be less or more than cost.

Other Investment Companies. The Acquiring Fund may invest up to 10% of its total managed assets in securities of other open- or closed-end investment companies that invest primarily in bonds of the types in which the Acquiring Fund may invest directly. The Acquiring Fund generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Acquiring Fund receives the proceeds of the offering of its common shares, or during periods when there is a shortage of attractive opportunities in the fixed-income market. As a shareholder in an investment company, the Acquiring Fund would bear its ratable share of that investment company's expenses, and would remain subject to payment of the Acquiring Fund's advisory and other fees and expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Acquiring Fund invests in other investment companies. The Investment Advisor will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available bond investments. The securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks to which the Acquiring Fund is subject. As described in this Joint Proxy

Statement/Prospectus in "Risk Factors and Special Considerations—Leverage Risks," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. Investment companies may have investment policies that differ from those of the Acquiring Fund. In addition, to the extent the Acquiring Fund invests in other investment companies, the Acquiring Fund will be dependent upon the investment and research abilities of persons other than the Investment Advisor. The Acquiring Fund treats its investments in such open- or closed-end investment companies as investments in bonds.

Borrowings and Preferred Shares

The Acquiring Fund currently utilizes leverage for investment purposes in the form of reverse repurchase agreements. As of February 28, 2014, this leverage represented approximately 29% of the Acquiring Fund's total managed assets (approximately 42% of the Acquiring Fund's net assets).

The Acquiring Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques and in such amounts as the Investment Advisor may from time to time determine. Changes in the value of the Acquiring Fund's bond portfolio, including bonds bought with the proceeds of the leverage, will be borne entirely by the holders of common shares. If there is a net decrease, or increase, in the value of the Acquiring Fund's investment portfolio, the leverage will decrease, or increase (as the case may be), the net asset value per common share to a greater extent than if the Acquiring Fund were not leveraged. During periods in which the Acquiring Fund is using leverage, the fees paid to the Investment Advisor for advisory services will be higher than if the Acquiring Fund did not use leverage because the fees paid will be calculated on the basis of the Acquiring Fund's total managed assets, including the proceeds from the issuance of preferred shares and other leverage. Leverage involves greater risks. The Acquiring Fund's leveraging strategy may not be successful. The Acquiring Fund intends to limit its borrowings to 33 1/3% of its total managed assets.

The Acquiring Fund generally will not utilize leverage if it anticipates that the Acquiring Fund's leveraged capital structure would result in a lower return to shareholders than that obtainable over time with an unleveraged capital structure. Use of financial leverage creates an opportunity for total return for the shareholders, but at the same time, creates special risks and there can be no assurance that a leveraging strategy will be successful during any period in which it is employed. There can be no assurance that the Acquiring Fund will borrow in order to leverage its assets or, if it does, what percentage of the Acquiring Fund's assets such borrowings will represent.

Certain types of leverage by the Acquiring Fund may result in the Acquiring Fund being subject to covenants relating to asset coverage and portfolio composition requirements. The Acquiring Fund may be subject to certain restrictions on investments imposed by one or more lenders or by guidelines of one or more rating agencies, which may issue ratings for any short-term debt securities or preferred shares issued by the Acquiring Fund. The terms of any borrowings or rating agency guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. The Investment Advisor do not believe that these covenants or guidelines will impede them from managing the Acquiring Fund's portfolio in accordance with its investment objective and investment policies if the Acquiring Fund were to utilize leverage.

Under the 1940 Act, the Acquiring Fund is not permitted to issue senior securities if, immediately after the issuance of such senior securities, the Acquiring Fund would have an asset coverage ratio (as defined in the 1940 Act) of less than 300% with respect to senior securities representing indebtedness or less than 200% with respect to senior securities representing preferred stock. The 1940 Act also provides that the Acquiring Fund may not declare distributions or purchase its stock (including through tender offers), if immediately after doing so it will have an asset coverage ratio of less than 300% or 200%, as applicable. Under the 1940 Act, certain short-term borrowings (such as for cash management purposes) are not subject to these limitations if (i) repaid within 60 days, (ii) not extended or renewed and (iii) not in excess of 5% of the total assets of the Acquiring Fund.

In cases where the Acquiring Fund enters into certain investments (e.g., financial futures contracts, foreign currency exchange contracts and swaps) or certain borrowings (e.g., reverse repurchase agreements) that would be senior securities for 1940 Act purposes, the Acquiring Fund may segregate or designate on its books and records cash or liquid assets having a market value at least equal to the amount of the Acquiring Fund's future obligations under such investments or borrowings. Doing so allows the Acquiring Fund to not treat the investment or borrowing as a senior security. Furthermore, if required by an exchange or counterparty agreement, the Acquiring Fund may deliver/deposit cash and/or securities to/with an exchange, or broker-dealer or custodian as collateral for certain investments or obligations.

Reverse Repurchase Agreements. Borrowings may be made by the Acquiring Fund through reverse repurchase agreements under which the Acquiring Fund sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. The Acquiring Fund 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.

Reverse repurchase agreements involve the sale of securities held by the Acquiring Fund with an agreement by the Acquiring Fund to repurchase the securities at an agreed upon price, date and interest payment. At the time the Acquiring Fund enters into a reverse repurchase agreement, it may designate on its books and records cash and/or liquid assets having a value not less than the repurchase price (including accrued interest). If the Acquiring Fund earmarks such assets, a reverse repurchase agreement will not be considered a senior security under the 1940 Act and therefore will not be considered a borrowing by the Acquiring Fund; however, under certain circumstances in which the Acquiring Fund does not earmark such assets, such reverse repurchase agreement will be considered a borrowing for the purpose of the Acquiring Fund's limitation on borrowings.

Dollar Roll Transactions. Borrowings may be made by the Acquiring Fund through dollar roll transactions. A dollar roll transaction involves a sale by the Acquiring Fund of a mortgage-backed or other security concurrently with an agreement by the Acquiring Fund to repurchase a similar security at a later date at an agreed-upon price. The securities that are repurchased 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 Acquiring Fund 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 Acquiring Fund, and the income from these investments will generate income for the Acquiring Fund. 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 Acquiring Fund compared with what the performance would have been without the use of dollar rolls.

As with reverse repurchase agreements, to the extent that positions in dollar roll agreements are not covered by liquid assets designated on the Acquiring Fund's books and records at least equal to the amount of any forward purchase commitment, such transactions would be deemed senior securities representing indebtedness for purposes of the 1940 Act. At the time the Acquiring Fund enters into a dollar roll transaction, it will designate on its books and records cash, U.S. government securities or other liquid assets having a value equal to the repurchase price (including accrued interest).

Preferred Shares. Although the Acquiring Fund is authorized, under the Investment Company Act, to issue preferred shares in an amount up to 50% of its total assets less its liabilities and indebtedness, the Acquiring Fund anticipates that under current market conditions it will not offer preferred shares. If as a result of market conditions, or any other reason, the Acquiring Fund does not issue preferred shares, the Acquiring Fund will limit its borrowing to 331/3% of the Acquiring Fund's total managed assets.

The preferred shares would have complete priority upon distribution of assets over the common shares. The issuance of preferred shares will leverage the common shares. Although the timing and other terms of the offering of preferred shares and the terms of the preferred shares would be determined by the Acquiring Fund's board of trustees, the Acquiring Fund expects to invest the proceeds of any preferred shares offering in intermediate and long-term bonds. The preferred shares will pay adjustable rate dividends based on shorter-term interest rates, which would be redetermined periodically by an auction process. The adjustment period for preferred share dividends could be as short as one day or as long as a year or more. So long as the Acquiring Fund's portfolio is invested in securities that provide a higher rate of return than the dividend rate of the preferred shares, after taking expenses into consideration, the leverage will cause you to receive a higher rate of income than if the Acquiring Fund were not leveraged.

Under the Investment Company Act, the Acquiring Fund is not permitted to issue preferred shares unless immediately after such issuance the value of the Acquiring Fund's total assets, less all liabilities and indebtedness of the Acquiring Fund, is at least 200% of the liquidation value of the outstanding preferred shares (i.e., the liquidation value may not exceed 50% of the Acquiring Fund's total assets less all liabilities and indebtedness of the Acquiring Fund). In addition, the Acquiring Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the value of the Acquiring Fund's total assets is at least 200% of the liquidation value of its outstanding preferred shares plus its outstanding liabilities and indebtedness. If preferred shares are issued, the Acquiring Fund intends, to the extent possible, to purchase or redeem preferred shares from time to time to the extent necessary in order to maintain coverage of any preferred shares of at least 200%. In addition, as a condition to obtaining ratings on the preferred shares, the terms of any preferred shares issued are expected to include asset coverage maintenance provisions which will require a reduction of indebtedness or the redemption of the preferred shares in the event of non-compliance by the Acquiring Fund and may also prohibit dividends and other distributions on the common shares in such circumstances. In order to meet redemption requirements, the Acquiring Fund may have to liquidate portfolio securities. Such liquidations and redemptions, or reductions in indebtedness, would cause the Acquiring Fund to incur related transaction costs and could result in capital losses to the Acquiring Fund. Prohibitions on dividends and other distributions on the common shares could impair the Acquiring Fund's ability to qualify as a regulated investment company under the Internal Revenue Code of 1986. If the Acquiring Fund has preferred shares outstanding, two of the Acquiring Fund's trustees will be elected by the holders of preferred shares voting separately as a class. The remaining trustees of the Acquiring Fund will be elected by holders of common shares and preferred shares voting together as a single class. In the event the Acquiring Fund failed to pay dividends on preferred shares for two years, holders of preferred shares would be entitled to elect a majority of the directors of the Acquiring Fund.

The Acquiring Fund may apply for ratings for any preferred shares issued by the Acquiring Fund from Moody's and/or S&P. No minimum rating is required for the issuance of preferred shares by the Acquiring Fund. Moody's and S&P receive fees in connection with their ratings issuances. The Acquiring Fund will be subject to certain restrictions imposed by guidelines of one or more rating agencies that may issue ratings for preferred shares issued by the Acquiring Fund. These guidelines are expected to impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Acquiring Fund by the Investment Company Act or the Acquiring Fund's investment policies and restrictions set forth herein and may limit the ability of the Acquiring Fund to borrow money through the use of reverse repurchase agreements and dollar rolls and may limit the ability of the Acquiring Fund to engage in Strategic Transactions. It is not anticipated that these covenants or guidelines will impede the Investment Advisor from managing the Acquiring Fund's portfolio in accordance with the Acquiring Fund's investment objective and investment policies. The Acquiring Fund may also borrow money in an amount equal to 5% of its total assets as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Acquiring Fund securities.

Assuming the utilization of leverage by borrowings in the amount of approximately 30% of the Acquiring Fund's Managed Assets, and an annual interest rate of 0.23% payable on such leverage based on market rates as of the date of February 28, 2014, the annual return that the Acquiring Fund's portfolio must experience (net of expenses) in order to cover such interest payments would be 0.07%.

The following table is designed to illustrate the effect on the return to a holder of Acquiring Fund Shares of the leverage obtained by borrowings in the amount of approximately 30% of the Acquiring Fund's Managed Assets, assuming hypothetical annual returns on the Acquiring Fund's portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed Portfolio Return (net of expenses)	(10)%	(5)%	0	5%	10%
Corresponding Common Stock Return	(14.46)%	(7.28)%	(0.10)%	7.08%	14.26%

Common share total return is composed of two elements: the common share dividends paid by the Acquiring Fund (the amount of which is largely determined by the net investment income of the Acquiring Fund) and gains or losses on the value of the securities the Acquiring Fund owns. As required by SEC rules, the table assumes that the Acquiring Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0% the Acquiring Fund must assume that the interest it receives on its securities investments is entirely offset by losses in the value of those securities.

Investment Restrictions

Except as described below, the Acquiring Fund, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding common shares and any preferred shares voting together as a single class, and of the holders of a majority of any outstanding preferred shares voting as a separate class:

(1) invest 25% or more of the value of its total managed assets in any one industry.

(2)

with respect to 75% of its total managed assets, invest more than 5% of the value of its total managed assets in the securities of any single issuer or purchase more than 10% of the outstanding voting securities of any one issuer.

(3) issue senior securities or borrow money other than as permitted by the 1940 Act or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies;

(4) make loans of money or property to any person, except through loans of portfolio securities, the purchase of fixed-income securities consistent with the Acquiring Fund's investment objective and investment policies or the entry into repurchase agreements;

(5) underwrite the securities of other issuers, except to the extent that in connection with the disposition of portfolio securities or the sale of its own securities the Acquiring Fund may be deemed to be an underwriter;

(6) purchase or sell real estate or interests therein other than bonds secured by real estate or interests therein, provided that the Acquiring Fund may hold and sell any real estate acquired in connection with its investment in portfolio securities; or

(7) purchase or sell commodities or commodity contracts for any purposes except as, and to the extent, permitted by applicable law without the Acquiring Fund becoming subject to registration with the Commodity Futures Trading Commission (the "CFTC") as a commodity pool.

When used with respect to particular shares of the Acquiring Fund, "majority of the outstanding" means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less.

For purposes of applying the limitation set forth in subparagraph (1) and (2) above, securities of the U.S. government, its agencies, or instrumentalities, and securities backed by the credit of a governmental entity are not considered to represent industries. However, obligations backed only by the assets and revenues of non-governmental issuers may for this purpose be deemed to be issued by such non-governmental issuers.

Under the 1940 Act, the Acquiring Fund may invest up to 10% of its total managed assets in the aggregate in shares of other investment companies and up to 5% of its total managed assets in any one investment company, provided the investment does not represent more than 3% of the voting stock of the acquired investment company at the time such shares are purchased. As a shareholder in any investment company, the Acquiring Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Acquiring Fund's advisory fees and other expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Acquiring Fund invests in other investment companies. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the Joint Proxy Statement/Prospectus in the section entitled "Risk Factors and Special Considerations," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

In addition to the foregoing fundamental investment policies, the Acquiring Fund is also subject to the following non-fundamental restrictions and policies, which may be changed by the board of trustees. The Acquiring Fund may not:

(1) make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Acquiring Fund's total managed assets and the Acquiring Fund's aggregate short sales of a particular class of securities does not exceed 25% of the then outstanding securities of that class. The Acquiring Fund may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Acquiring Fund owns or has the immediate and unconditional right to acquire at no additional cost the identical security;

(2) purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or any exemptive relief obtained thereunder; or

(3) purchase securities of companies for the purpose of exercising control.

As a non-fundamental policy, under normal market conditions, the Acquiring Fund invests at least 80% of its assets in bonds. Bonds held by the Acquiring Fund may take the form of bonds, notes, bills, debentures, convertible securities, warrants attached to bonds, bank debt obligations, loan participations and assignments, trust preferred securities and securities issued by entities organized and operated for the purpose of restructuring the investment characteristics of securities. The Acquiring Fund has adopted a policy to provide shareholders of the Acquiring Fund at least 60 days prior notice of any change in this investment policy.

The restrictions and other limitations set forth above will apply only at the time of purchase of securities and will not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of the acquisition of securities.

The percentage limitations applicable to the Acquiring Fund's portfolio described herein apply only at the time of investment, and the Acquiring Fund will not be required to sell securities due to subsequent changes in the value of securities it owns.

In addition, to comply with Federal tax requirements for qualification as a "regulated investment company," the Acquiring Fund's investments will be limited in a manner such that at the close of each quarter of each tax year, (a) no more than 25% of the value of the Acquiring Fund's total managed assets are invested in the securities (other than United States government securities or securities of other regulated investment companies) of a single issuer or two or more issuers controlled by the Acquiring Fund and engaged in the same, similar or related trades or businesses and (b) with regard to at least 50% of the Acquiring Fund's total managed assets, no more than 5% of its total managed assets are invested in the securities (other than United States government securities or securities of other regulated investment companies) of a single issuer. These tax-related limitations may be changed by the Acquiring Fund's Board to the extent appropriate in light of changes to applicable tax requirements.

COMPARISON OF THE FUNDS' INVESTMENTS

The investment objectives, significant investment strategies and operating policies, and investment restrictions of the Combined Fund will be those of the Acquiring Fund. A comparison of the Funds' investment objectives, policies and restrictions is set forth below.

Summary of Significant Differences in the Funds' Investment Objectives and Policies

Investment Objectives. The investment objective of each of BHK and BNA is to provide current income and capital appreciation. BKT's investment objective is to manage a portfolio of high-quality securities to achieve both preservation of capital and high monthly income.

Investment Grade Securities. At least 80% of BKT's assets are invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. BKT may invest up to 20% of its assets in other securities that have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization.

Each of BHK and BNA invests its assets primarily in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities. Under normal market conditions, each of BHK and BNA invests at least 75% of its total managed assets in investment grade quality bonds.

Each of BHK and BNA may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor. BKT may not invest in below investment grade securities. Below investment grade quality securities (rated Ba/BB or below) are commonly referred to as "high yield" or "junk" bonds and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments.

BKT shareholders are expected to be subject to greater credit risks because of the Combined Fund's broader and more diversified approach to investments and credit quality. In addition, BKT shareholders may become subject to risks associated with securities that are not currently held by BKT, such as risks associated with corporate bonds and other securities.

Mortgage-Related Securities. BKT invests at least 65% of its assets in mortgage-backed securities. Each of BHK and BNA may invest its assets in a diversified portfolio of investment grade bonds, which may include, but are not limited to, corporate bonds, U.S. government and agency securities and mortgage-related securities.

BKT has greater exposure to mortgage-related securities than BHK and BNA, including stripped mortgage-backed securities such as the IO class and PO class. Risks associated with mortgage-related securities, including stripped mortgage-backed securities, may be greater in the Combined Fund's portfolio than in the portfolios of BHK or BNA because the Combined Fund may have a larger proportion of its portfolio in mortgage-related securities than BHK or BNA as a result of the Combined Fund's acquisition of legacy BKT's assets.

Risks associated with mortgage-backed securities include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution (including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the issuing vehicle and the return to investors in such MBS); whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the MBS) 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 MBS; risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the MBS; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral.

Stripped mortgage-backed securities may be subject to additional risk. The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets and a rapid rate of principal payments may have a material adverse effect on the Combined Fund's yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, the Combined Fund may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

Please see "—Investment Objectives and Policies" and "—Investment Restrictions" below for a more detailed comparison of the Funds' investment objectives, policies and restrictions.

Investment Objectives and Policies

A more detailed comparison of the Funds' investment objectives and investment policies is set forth in the table below.

BKT	BNA	BHK
Investment Objective	Investment Objective	Investment Objective
The Fund's investment objective is to manage a portfolio of high-quality securities to achieve both preservation of capital and high monthly income.	Same as BHK	The Fund's investment objective is to provide current income and capital appreciation.
Investment Grade Securities	Investment Grade Securities	Investment Grade Securities
At least 80% of the Fund's assets will be invested in securities that are (i) issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or (ii) rated at the time of investment either AAA by S&P or Aaa by Moody's. No more than 20% of the Fund's assets may be invested other securities, all of which have been determined by the Investment Advisor to be of comparable credit quality to the rated securities described above. BKT may also invest up to 15% of its assets in securities rated at least AA/Aa by Moody's, S&P, Fitch or other nationally recognized statistical rating organization.	The Fund invests primarily in U.S. investment grade bonds. Bonds held by the Fund may take the form of bonds, notes, bills, debentures, convertible securities, warrants attached to debt securities, bank debt obligations, loan participations and assignments, trust preferred securities and securities issued by entities organized and operated for the purpose of restructuring the investment characteristics of securities. The Fund may invest in corporate bonds, mortgage-related securities and U.S. government and agency debt securities. Under normal market conditions, the Fund invests at least 75% of its total managed assets in investment grade quality bonds. The Fund may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch	The Fund invests primarily in investment grade bonds. As a non-fundamental policy, under normal market conditions, the Fund invests at least 80% of its assets in bonds. Bonds held by the Fund may take the form of bonds, notes, bills, debentures, convertible securities, warrants attached to debt securities, bank debt obligations, loan participations and assignments, trust preferred securities and securities issued by entities organized and operated for the purpose of restructuring the investment characteristics of securities. The Fund may invest in corporate bonds, mortgage-related securities and U.S. government and agency debt securities. Under normal market conditions, the Fund invests at least 75% of its total managed assets in investment grade quality bonds.

or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor. The lowest rated bonds in which the Fund may invest are securities rated in the category "C" or determined by the Investment Advisor to be of comparable quality.	The Fund may invest up to 25% of its total managed assets in bonds that at the time of investment are rated Ba/BB or below by Moody's, S&P, Fitch or another nationally recognized rating agency or bonds that are unrated but judged to be of comparable quality by the Investment Advisor. The lowest rated bonds in which the Fund may invest are securities rated in the category "C" or determined by the Investment Advisor to be of comparable quality.

61

BKT	BNA	BHK
Asset-Backed Securities, Mortgage-Backed, Securities and Related Securities The Fund invests at least 65% of its assets in mortgage-backed securities. The Fund may also invest in various derivative mortgage-backed and asset-backed securities, such as collateralized mortgage obligation residuals, asset-backed security residual interests and stripped mortgage-backed securities.	Asset-Backed Securities, Mortgage-Backed, Securities and Related Securities Same as BHK	Asset-Backed Securities, Mortgage-Backed, Securities and Related Securities The Fund may invest in mortgage-related securities. These securities may include complex instruments such as collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits, adjustable rate mortgages, real estate investment trusts ("REITs"), including debt and preferred stock issued by REITs, as well as other real estate-related securities. The mortgage-related securities in which the Fund may invest include those with fixed interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Fund may invest in lower, or junior, classes of mortgage-related securities which may have a rating below investment grade.
Leverage The Fund is authorized to borrow money from banks or otherwise in an amount up to 33 1/3% of the Acquiring Fund's total assets (including the amount borrowed), less all liabilities and indebtedness other than the bank or other borrowing. The Acquiring Fund is also authorized to borrow an additional 5% of its total assets without regard to the foregoing limitation for temporary purposes such as clearance of portfolio	Leverage The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques and in such amounts as the Investment Advisor may from time to time determine. Of these investment techniques, the Fund expects primarily to use reverse repurchase agreements and dollar roll transactions. The Fund may not issue senior	Leverage The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques and in such amounts as the Investment Advisor may from time to time determine. Of these investment techniques, the Acquiring Fund expects primarily to use reverse repurchase agreements and dollar roll transactions.

BKT	BNA	BHK
transactions and share repurchases. The Fund may not issue senior securities (including on margin if margin securities are owned) in excess of 33 1/3% of its total assets (including the amount of senior securities issued and money borrowed) or pledge its assets other than to secure such issuances or borrowings or in connection with hedging transactions, short sales, reverse repurchase agreements, when-issued and forward commitment transactions and similar investment strategies. The Fund's obligations under interest rate swaps are not treated as senior securities. The Fund may borrow by entering into reverse repurchase agreements with (i) member banks of the Federal Reserve System having total assets in excess of $500 million and (ii) securities dealers, provided that such banks or dealers meet the creditworthiness standards established by the Fund's board of	securities (including borrowing money, including on margin if margin securities are owned) in excess of 33 1/3% of its total assets (including the amount of senior securities issued but excluding any liabilities and indebtedness not constituting senior securities) except that the Fund may borrow up to an additional 5% of its total assets for temporary purposes; or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, currency transactions, when-issued and forward commitment transactions and similar investment strategies.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies. The Acquiring Fund intends to limit its borrowings to 33 1/3% of its total managed assets. The Fund may borrow money in an amount equal to 5% of its total assets as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

directors.

The Fund may also enter into dollar rolls.		
Non-U.S. Securities	Non-U.S. Securities	Non-U.S. Securities
No Stated Policy	Same as BHK	The Fund may invest up to 10% of its total managed assets in bonds issued in foreign currencies.
Other Investment Companies	Other Investment Companies	Other Investment Companies
No Stated Policy	The Fund may invest up to 10% of its total assets in securities of other open- or closed-end investment companies that invest primarily in bonds of the types in which the Fund may invest directly. The Fund treats its investments in such open- or closed-end investment companies as investments in bonds.	The Fund may invest up to 10% of its total managed assets in securities of other open- or closed-end investment companies that invest primarily in bonds of the types in which the Fund may invest directly. The Fund treats its investments in such open- or closed-end investment companies as investments in bonds.
When-Issued and Forward Commitment Securities	When-Issued and Forward Commitment Securities	When-Issued and Forward Commitment Securities
Same as BHK	Same as BHK	The Fund may buy and sell bonds on a when-issued basis and may purchase or sell bonds on a "forward commitment" basis.

BKT	BNA	BHK
Securities Lending The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceed 33 1/3% of the value of the Fund's total assets (including such loans).	Securities Lending The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceed 33 1/3% of the value of the Fund's total assets (including such loans).	Securities Lending The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceed 33 1/3% of the value of the Fund's total managed assets (including such loans).
Short Sales The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total assets and the Fund's aggregate short sales of a particular class of securities do not exceed 25% of then outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations.	Short Sales The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total assets and the Fund's aggregate short sales of a particular class of securities do not exceed 25% of then outstanding securities of that class; provided that the Fund may engage in short sales without limitation for hedging purposes.	Short Sales The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total managed assets and the Fund's aggregate short sales of a particular class of securities does not exceed 25% of the then outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations.
Illiquid Securities The Fund may invest in securities the disposition of which is subject to substantial legal or contractual restrictions or the markets for which are illiquid. Although the Fund may invest without limitation in restricted and illiquid securities, it does not anticipate that more than 15% of its assets will be invested in such securities at a particular time.	Illiquid Securities The Fund may invest in securities the disposition of which is subject to substantial legal or contractual restrictions or the markets for which are illiquid.	Illiquid Securities Certain of the Fund's investments may be illiquid.
Defensive Measures	Defensive Measures	Defensive Measures

No Stated Policy	Same as BHK	For temporary defensive purposes or to keep cash on hand fully invested, the Fund may invest up to 100% of its total managed assets in cash equivalents and short-term fixed-income securities.
Inverse Floating Rate Debt Instruments	Inverse Floating Rate Debt Instruments	Inverse Floating Rate Debt Instruments
No Stated Policy	No Stated Policy	The Fund may invest up to 5% of its total managed assets in leveraged inverse floating rate debt instruments.

BKT	BNA	BHK
Strategic Transactions	Strategic Transactions	Strategic Transactions
The Fund may purchase and sell futures contracts, enter into various interest rate transactions and may purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities and futures contracts (collectively, "Hedging Transactions"). Hedging Transactions may be used to attempt to protect against possible changes in the market value of the Fund's portfolio resulting from trends in the debt securities markets, to protect the Fund's unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes, to manage the dollar-weighted average life of the Fund's portfolio or to establish a position in the securities markets as a temporary substitute for purchasing particular securities.	Same as BHK	The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, enter into various interest rate transactions such as swaps, caps, floors or collars and enter into various currency transactions such as currency forward contracts, currency futures contracts, currency swaps or options on currency or currency futures or credit transactions and credit default swaps. The Fund also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Fund generally seeks to 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 Fund's portfolio, protect the value of the Fund's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, protect against changes in currency exchange rates, manage the

effective maturity or duration of the Fund's portfolio, or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities.

The Fund may use Strategic Transactions to enhance potential gain, although no more than 5% of the Fund's total managed assets will be committed to variation margin for Strategic Transactions for non-hedging purposes.

BKT	BNA	BHK
Options	Options	Options
The Fund may sell or purchase call options ("calls") on US treasury securities, mortgage-backed and Eurodollar instruments that are traded on US and foreign securities exchanges and in the over-the-counter markets and related futures on such securities. All such calls sold by the Fund must be "covered" as long as the call is outstanding (i.e., the Fund must own the securities or futures contract subject to the call or other securities acceptable for applicable escrow requirements). The Fund may purchase and sell put options ("puts") that relate to US Treasury securities, mortgage-backed and Eurodollar instruments (whether or not it holds such securities in its portfolio) or futures on such securities. The Fund may also sell puts on US Treasury securities, mortgage-backed, Eurodollar instruments or futures on such securities if the Fund's contingent obligations on such puts are covered by segregated assets consisting of cash or liquid high grade debt securities having a value not less than the exercise price. The Fund will not sell puts if, as a result, more than 50% of the Fund's assets would be required to be segregated to cover its potential obligations under its hedging and other investment	The Fund may sell or purchase call options ("calls") on US treasury securities, mortgage-backed securities, and US dollar-denominated Eurodollar instruments that are traded on US and foreign securities exchanges and in the over-the-counter markets and related futures on such securities. All such calls sold by the Fund must be "covered" as long as the call is outstanding (i.e., the Fund must own the securities or futures contract subject to the call or other securities acceptable for applicable escrow requirements). The Fund may purchase put options ("puts") that relate to US Treasury Securities, mortgage-backed securities, corporate debt securities and Eurodollar instruments (whether or not it holds such securities in its portfolio) or futures on such securities. The Fund may also sell puts on US Treasury securities, US mortgage-backed securities, and Eurodollar instruments, corporate debt securities or futures on such securities if the Fund's contingent obligations on such puts are secured by segregated assets consisting of cash or liquid high grade debt securities having a value not less than the exercise price. The Fund will not sell puts if, as a result, more than 50% of the	The Fund may sell or purchase call options ("calls") on bonds and indices based upon the prices of futures contracts and debt securities that are traded on U.S. and foreign securities exchanges and in the over-the-counter markets. All such calls sold by the Fund must be "covered" as long as the call is outstanding (i.e., the Fund must own the securities or futures contract subject to the call or other securities acceptable for applicable escrow requirements). Calls on futures on bonds must also be covered by deliverable securities or the futures contract or by liquid high grade debt securities segregated to satisfy the Fund's obligations pursuant to such instruments. The Fund may purchase put options ("puts") that relate to bonds (whether or not it holds such securities in its portfolio), indices or futures contracts. The Fund may also sell puts on bonds, indices or futures contracts on such securities if the Fund's contingent obligations on such puts are secured by segregated assets consisting of cash or liquid high grade debt securities having a value not less than the exercise price. The Fund will not sell puts if, as a result, more than 50% of the Fund's assets would be required to cover its potential obligations under its hedging and other investment

transactions.	Fund's assets would be required to cover its potential obligations under its hedging and other investment transactions.	transactions.
Interest Rate Transactions	Interest Rate Transactions	Interest Rate Transactions
Same as BNA	The Fund may enter into interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund will not sell interest rate caps or floors	The Fund may enter into interest rate swaps and the purchase or sale of interest rate caps and floors.

BKT	BNA	BHK
	that it does not own. The Fund will only enter into interest rate swap, cap or floor transactions with counterparties the Investment Advisor believes to be creditworthy at the time they enter into such transactions.	The Fund will only enter into interest rate swap, cap or floor transactions with counterparties the Investment Advisor believes to be creditworthy at the time they enter into such transactions.
Diversification	Diversification	Diversification
Same as BHK	Same as BHK	The Fund is classified as a "diversified" investment company. As a diversified investment company, the Fund may not, with respect to 75% of its total assets, invest more than 5% of the value of its total assets in the securities of any single issuer or purchase more than 10% of the outstanding voting securities of any one issuer.

Investment Restrictions

A comparison of the Funds' investment restrictions is set forth in the table below. The investment restrictions of the Combined Fund will be those of the Acquiring Fund.

BKT	BNA	BHK
Control or Management*	Control or Management*	Control or Management
The Fund may not invest for the purpose of exercising control over management of any company.	The Fund may not invest for the purpose of exercising control over management of any company other than CMO issuers.	The Fund may not purchase securities of companies for the purpose of exercising control.
Commodities and Real Estate*	Commodities and Real Estate*	Commodities and Real Estate*
The Fund may not purchase real estate or interests therein other than mortgage-backed securities and similar instruments. The Fund may not purchase or sell commodities or commodity contracts except for purposes, and only to the extent, permitted by applicable law without the Fund becoming subject to registration with the Commodity Futures Trading Commission as a commodity pool.	The Fund may not purchase real estate or interests therein other than bonds secured by real estate or interests therein, provided that the Fund may hold and sell any real estate acquired in connection with its investment in portfolio securities The Fund may not purchase or sell commodities or commodity contracts except for purposes, and only to the extent, permitted by applicable law without the Fund becoming subject to registration with the Commodity Futures Trading Commission as a commodity pool.	The Fund may not purchase or sell real estate or interests therein other than bonds secured by real estate or interests therein, provided that the Fund may hold and sell any real estate acquired in connection with its investment in portfolio securities. The Fund may not purchase or sell commodities or commodity contracts for any purposes except as, and to the extent, permitted by applicable law without the Fund becoming subject to registration with the Commodity Futures Trading Commission as a commodity pool.

∗ A fundamental investment restriction.

BKT	BNA	BHK
Senior Securities and Borrowings*	Senior Securities and Borrowings*	Senior Securities and Borrowings*
The Fund may not issue senior securities or borrow money (including on margin if marginable securities are owned) in excess of 33 1/3% of its total assets (including the amount of senior securities issued and money borrowed) or pledge its assets other than to secure such issuances or borrowings or in connection with hedging transactions, short sales, reverse repurchase agreements, when-issued and forward commitment transactions and similar investment strategies. The Fund's obligations under interest rate swaps are not treated as senior securities.	The Fund may not issue senior securities (including borrowing money, including on margin if margin securities are owned) in excess of 33 1/3% of its total assets (including the amount of senior securities issued but excluding any liabilities and indebtedness not constituting senior securities) except that the Fund may borrow up to an additional 5% of its total assets for temporary purposes; or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, currency transactions, when-issued and forward commitment transactions and similar investment strategies. The Fund's obligations under interest rate swaps, reverse repurchase agreements and dollar rolls are not considered senior securities or borrowings to the extent assets in an amount at least equal to the obligation are segregated.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.
Underwriting*	Underwriting*	Underwriting*
Same as BHK	Same as BHK	The Fund may not underwrite the securities of other issuers, except to the extent that in connection with the disposition of portfolio securities or the sale of its own securities the Fund may be deemed to be an underwriter.
Lending*	Lending*	Lending*
Same as BHK	Same as BHK	The Fund may not make loans of money or property to any person, except through loans of portfolio securities, the purchase of fixed-income securities consistent with the Fund's investment objective and investment policies

or the entry into repurchase agreements.

* A fundamental investment restriction.

BKT	BNA	BHK
Industry Concentration*	Industry Concentration*	Industry Concentration*
The Fund may not invest 25% or more of the value of its total managed assets in any one industry. The Fund may not with respect to 75% of its total assets, invest more than 5% of the value of its total assets (taken at market value at time of purchase) in the outstanding securities of any one issuer or own more than 10% of the outstanding voting securities of any one issuer, in each case other than securities issued or guaranteed by the U.S. government or any agency or instrumentality thereof.	The Fund may not invest 25% or more of the value of its total assets in any one industry (Government Securities and mortgage-backed securities are not treated as industries).	The Fund may not invest 25% or more of the value of its total managed assets in any one industry. The Fund may not, with respect to 75% of its total managed assets, invest more than 5% of the value of its total managed assets in the securities of any single issuer or purchase more than 10% of the outstanding voting securities of any one issuer. For purposes of applying the limitation set forth above, securities of the U.S. government, its agencies, or instrumentalities, and securities backed by the credit of a governmental entity are not considered to represent industries. However, obligations backed only by the assets and revenues of non-governmental issuers may for this purpose be deemed to be issued by such non-governmental issuers.
Investments in Investment Companies	Investments in Investment Companies	Investments in Investment Companies
No stated restriction.	No stated restriction.	The Fund may not purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or any exemptive relief obtained thereunder.
Short Sales*	Short Sales*	Short Sales
The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total assets	The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total assets	The Fund may not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total

and the Fund's aggregate short sales of a particular class of securities do not exceed 25% of then outstanding securities of that class.	and the Fund's aggregate short sales of a particular class of securities do not exceed 25% of then outstanding securities of that class; provided that the Fund may engage in short sales without limitation for hedging purposes.	managed assets and the Fund's aggregate short sales of a particular class of securities does not exceed 25% of the then outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations.

* A fundamental investment restriction.

70

MANAGEMENT OF THE FUNDS

The Board of Directors and Officers

The Board of the Acquiring Fund is responsible for the overall supervision of the operations of the Acquiring Fund and performs the various duties imposed on the directors of investment companies by the 1940 Act and under applicable state law. A list of the Board Members and officers of the Acquiring Fund, a brief biography of each Board Member and officer and additional information relating to the Board and officers are included in "Management of the Fund" in the Statement of Additional Information.

The Investment Advisors

BlackRock Advisors, LLC serves as the investment advisor for each Fund and is expected to continue to serve as investment advisor for the Combined Fund. The Investment Advisor is responsible for the management of each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of each Fund.

Each Target Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of such Target Fund's average weekly net assets:

Average Weekly Value of Net Assets:

	Annual Rate
BKT	0.65%
BNA	0.60%

In addition, each Target Fund entered into an Administration Agreement with the Investment Advisor to provide certain administrative services. For such services, each Target Fund pays the Investment Advisor a monthly fee at the following annual rates of such Target Fund's average weekly net assets:

Average Weekly Value of Net Assets:

	Annual Rate
BKT	0.15%
BNA	0.10%

The Acquiring Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory and administration services. For such services, the Acquiring Fund pays the Investment Advisor a monthly fee at the annual rate of 0.55% of the Acquiring Fund's average weekly Managed Assets. "Managed Assets" means the total assets of the Acquiring Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). The Acquiring Fund is not subject to a separate fee for administration services. The Investment Advisor currently waives a portion of the Acquiring Fund's investment management fee at an annual rate of 0.03% of the Acquiring Fund's average weekly Managed Assets. This voluntary waiver is voluntary and may be reduced or discontinued at any time without notice.

If any of the Reorganizations are consummated, the Investment Advisor will reduce the annual contractual investment management fee rate of the Combined Fund to 0.50% of the average weekly Managed Assets of the Combined Fund, which is lower than the annual contractual investment management fee rate of any individual Fund. The Combined

Fund will not be subject to a separate fee for administration services or any fee waivers.

A discussion regarding the basis for the approval of the Investment Management Agreement by the Board of each Fund is provided in such Fund's Form N-CSR for such Fund's most recent fiscal year end available at www.sec.gov or by visiting www.blackrock.com.

BlackRock Financial Management, Inc. served as the sub-advisor for each Fund until July 1, 2014.

The Investment Advisor is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and BlackRock Financial Management, Inc. is located at 55 East 52nd Street, New York, New York 10055 and each are wholly owned subsidiaries of BlackRock. BlackRock is one of the world's largest publicly-traded investment management firms and has over 20 years of experience managing closed-end products. As of March 31, 2014, BlackRock's assets under management were approximately $4.324 trillion, including approximately $46.0 billion in exchange-listed active funds.

BlackRock helps clients meet their goals and overcome challenges with a range of products that include separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. Headquartered in New York City, as of March 31, 2014, the firm has approximately 11,500 employees in 30 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa.

Portfolio Management

The Acquiring Fund and BNA are each managed by a team of investment professionals comprised of Tom Musmanno, Managing Director at BlackRock, and James E. Keenan, Managing Director at BlackRock. Messrs. Musmanno and Keenan are each Fund's co-portfolio managers and are jointly responsible for the day-to-day management of each Fund's portfolios, which includes setting the Fund's overall investment strategy, overseeing the management of the Fund and/or selection of its investments. Mr. Musmanno has been a member of each Fund's portfolio management team since 2012. Mr. Keenan has been a member of each Fund's portfolio management team since 2007.

BKT is managed by a team of investment professionals comprised of Akiva Dickstein, Managing Director at BlackRock and Tom Musmanno, Managing Director at BlackRock. Messrs. Dickstein and Musmanno are BKT's co-portfolio managers and are jointly responsible for the day-to-day management of BKT's portfolios, which includes setting BKT's overall investment strategy, overseeing the management of BKT and/or selection of its investments. Messrs. Dickstein and Musmanno have been members of BKT's portfolio management team since 2009 and 2012, respectively.

Portfolio Manager	Biography
Akiva Dickstein	Managing Director of BlackRock since 2009; Managing Director of Merrill Lynch Investment Managers, L.P. from 2003 to 2009 and Head of the U.S. Rates & Structured Credit Research Group.
James E. Keenan	Managing Director of BlackRock since 2008 and Head of the Leveraged Finance Portfolio team; Director of BlackRock from 2006 to 2007; Vice President of BlackRock from 2004 to 2005.
Tom Musmanno	Managing Director of BlackRock since 2010; Director of BlackRock from 2006 to 2009.

The Statement of Additional Information provides additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers, and the portfolio managers' ownership of securities in each Fund.

Portfolio Transactions with Affiliates

The Investment Advisor may place portfolio transactions, to the extent permitted by law, with brokerage firms affiliated with the Funds and the Investment Advisor, if they reasonably believe that the quality of execution and the commission are comparable to that available from other qualified brokerage firms. None of the Funds paid brokerage commissions to affiliated broker-dealers during their three most recent fiscal years.

Legal Proceedings

None.

72

Other Service Providers

The professional service providers for the Funds are as follows:

Service	Service Providers to the Funds
Custodian	State Street Bank and Trust Company
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company, N.A.
Accounting Services Provider	State Street Bank and Trust Company
Independent Registered Public Accounting Firm	
Fund Counsel	Skadden, Arps, Slate, Meagher & Flom LLP
Counsel to the Independent Board Members	Debevoise & Plimpton LLP

It is not anticipated that the Reorganization(s) will result in any change in the organizations providing services to the Acquiring Fund as set forth above. As a result of the Reorganizations, the service providers to the Acquiring Fund are anticipated to be the service providers to the Combined Fund.

All securities owned by each Fund and all cash, including proceeds from the sale of securities in each Fund's investment portfolio, are currently held by State Street Bank and Trust Company ("State Street"), 225 Franklin Street, Boston, Massachusetts 02110, as custodian. Computershare Trust Company, N.A., 250 Royall Street, Canton, Massachusetts 02021 serves as each Fund's transfer agent with respect to each Fund's common shares.

INFORMATION ABOUT THE COMMON SHARES OF THE FUNDS

General

Shareholders of each Fund are entitled to share equally in dividends declared by such Fund's Board as payable to holders of the Fund's common shares and in the net assets of the Fund available for distribution to holders of the common shares. Shareholders do not have preemptive or conversion rights and each Fund's common shares are not redeemable. The outstanding common shares of each Fund are fully paid and nonassessable, except as provided under such Fund's charter.

Purchase and Sale

Purchase and sale procedures for the common shares of each of the Funds are identical. Investors typically purchase and sell common shares of the Funds through a registered broker-dealer on the NYSE, thereby incurring a brokerage commission set by the broker-dealer. Alternatively, investors may purchase or sell common shares of each of the Funds through privately negotiated transactions with existing shareholders.

Outstanding Common Shares as of May 31, 2014

Fund	Title of Class	Amount Authorized	Amount Held by Fund for its Own Account	Amount Outstanding Exclusive of Amount Shown in Previous Column
BKT	Common Shares	200,000,000	None	63,942,535
BNA	Common Shares	200,000,000	None	34,456,370
BHK	Common Shares	Unlimited	None	27,041,847

Share Price Data

The following tables set forth the high and low market prices for common shares of each Fund on the NYSE, for each full quarterly period within each Fund's two most recent fiscal years and each full quarter since the beginning of each Fund's current fiscal year, along with the NAV and discount or premium to NAV for each quotation.

BKT	Market Price		NAV		Premium/(Discount) to NAV	
Period Ended	High	Low	High	Low	High	Low
May 31, 2014	$6.69	$6.49	$7.31	$7.23	(8.48)%	(10.24)%
February 28, 2014	$6.65	$6.38	$7.27	$7.32	(8.53)%	(12.84)%
November 30, 2013	$6.70	$6.32	$7.41	$7.27	(9.58)%	(13.07)%
August 31, 2013	$6.97	$6.34	$7.50	$7.27	(7.07)%	(12.79)%
May 31, 2013	$7.34	$7.04	$7.54	$7.57	(2.65)%	(7.00)%
February 28, 2013	$7.49	$7.13	$7.73	$7.64	(3.10)%	(6.68)%
November 30, 2012	$7.74	$7.32	$7.87	$7.77	(1.65)%	(5.79)%
August 31, 2012	$7.71	$7.40	$8.00	$7.99	(3.63)%	(7.38)%
May 31, 2012	$7.60	$7.30	$7.94	$7.89	(4.28)%	(7.48)%
February 29, 2012	$7.56	$7.28	$7.97	$8.00	(5.14)%	(9.00)%
November 30, 2011	$7.46	$7.15	$8.04	$8.00	(7.21)%	(10.63)%

BNA Period Ended	Market Price High	Market Price Low	NAV High	NAV Low	Premium/(Discount) to NAV High	Premium/(Discount) to NAV Low
May 31, 2014	$10.81	$10.12	$11.58	$11.35	(6.65)%	(10.84)%
February 28, 2014	$10.45	$9.63	$11.29	$11.05	(7.44)%	(12.85)%
November 30, 2013	$10.04	$9.57	$11.15	$10.80	(9.96)%	(11.39)%
August 31, 2013	$10.59	$9.51	$11.66	$10.78	(9.18)%	(11.78)%
May 31, 2013	$11.80	$10.66	$12.26	$11.73	(3.75)%	(9.12)%
February 28, 2013	$11.90	$11.02	$12.05	$11.77	(1.24)%	(6.37)%
November 30, 2012	$11.99	$11.20	$12.11	$12.02	(0.99)%	(6.82)%
August 31, 2012	$11.58	$10.66	$11.85	$11.38	(2.28)%	(6.33)%
May 31, 2012	$10.79	$10.21	$11.37	$10.89	(5.10)%	(6.24)%
February 29, 2012	$10.78	$10.15	$11.36	$10.95	(5.11)%	(7.31)%
November 30, 2011	$10.23	$9.70	$10.98	$10.82	(6.83)%	(10.35)%

BHK Period Ended	Market Price High	Market Price Low	NAV High	NAV Low	Premium/(Discount) to NAV High	Premium/(Discount) to NAV Low
May 31, 2014	$13.86	$13.08	$15.11	$14.54	(8.27)%	(10.04)%
February 28, 2014	$13.39	$12.60	$14.69	$14.16	(8.85)%	(11.02)%
November 30, 2013	$13.12	$12.30	$14.40	$13.83	(8.89)%	(11.06)%
August 31, 2013	$13.93	$12.35	$14.93	$13.81	(6.70)%	(10.57)%
May 31, 2013	$15.06	$13.87	$15.67	$15.02	(3.89)%	(7.66)%
February 28, 2013	$15.83	$14.69	$15.23	$15.07	3.94%	(2.52)%
November 30, 2012	$16.20	$14.52	$15.56	$15.44	4.11%	(5.96)%
August 31, 2012	$15.41	$14.01	$15.22	$14.61	1.25%	(4.11)%
May 31, 2012	$14.19	$13.22	$14.48	$13.99	(2.00)%	(5.50)%
February 29, 2012	$14.19	$12.99	$14.54	$13.85	(2.41)%	(6.21)%
November 30, 2011	$13.40	$12.75	$14.28	$13.82	(6.16)%	(7.74)%

As of May 31, 2014, the NAV per common share of BHK was $15.11 and the market price per common share was $13.86, representing a discount to NAV of (8.27)%, the NAV per common share of BKT was $7.34 and the market price per common share was $6.64, representing a discount to NAV of 9.54% and the NAV per common share of BNA was $11.81 and the market price per common share was $10.71, representing a discount to NAV of (9.31)%.

For the periods shown in the tables above, the common shares of each Fund have traded at both a premium and discount to NAV.

Performance Information

The performance table below illustrates the past performance of an investment in common shares of each Fund by setting forth the average total returns for the Funds for the periods indicated. A Fund's past performance does not necessarily indicate how its common shares will perform in the future.

Average Annual Total Returns as of April 30, 2014

Fund	Trailing 12-month Distribution Yield based on April 30, 2014 NAV	One Year ended April 30, 2014 based on NAV	One Year ended April 30, 2014 based on Market Price	Five Years ended April 30, 2014 based on NAV	Five Years ended April 30, 2014 based on Market Price	Ten Years ended pril 30, 2014 based on NAV	Ten Years ended April 30, 2014 based on Market Price
BKT	6.14%	3.43%	(4.30)%	7.28%	7.21%	6.72%	5.59%
BNA	6.11%	2.23%	(1.87)%	12.54%	11.67%	7.27%	7.60%
BHK	6.06%	2.08%	(3.36)%	13.51%	12.83%	7.77%	7.91%

FINANCIAL HIGHLIGHTS

BlackRock Income Trust, Inc. (BKT)

The Financial Highlights table is intended to help you understand BKT's financial performance for the periods shown. Certain information reflects the financial results for a single common share of BKT. The total returns in the table represent the rate an investor would have earned or lost on an investment in BKT (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six months ended February 28, 2014 is unaudited. The information for the remaining periods shown has been audited by , BKT's independent registered public accounting firm. Financial statements for the fiscal year ended August 31, 2013 and the Report of the Independent Registered Public Accounting Firm thereon appear in BKT's Annual Report for the fiscal year ended August 31, 2013, which is available upon request.

	Six Months Ended February 28, 2014 (Unaudited)	Year Ended August 31, 2013	2012	2011	2010	2009	Period November 1, 2007 to August 31, 2008	Year Ended October 31, 2007	2006	2005	2
Per Share Operating Performance											
Net asset value, beginning of period	$7.32	$7.94	$7.96	$7.76	$7.12	$6.94	$6.53	$6.48	$6.54	$6.95	$
Net investment income	0.18 1	0.32 1	0.39 1	0.35 1	0.20 1	0.28 1	0.26 1	0.30	0.32	0.44	
Net realized and unrealized gain (loss)	0.03	(0.46)	0.06	0.19	0.73	0.19	0.40	0.12	0.05	(0.30)	
Net increase (decrease) from investment operations	0.21	(0.14)	0.45	0.54	0.93	0.47	0.66	0.42	0.37	0.14	
Dividends and distributions from:											
Net investment income	(0.22)	(0.48)2	(0.27)2	(0.34)2	(0.26)2	(0.29)2	(0.25)2	(0.29)2	(0.34)2	(0.48)2	
	-	-	(0.20)2	-	(0.03)2	-	-	-	-	-	

Net realized gain											
Return of capital	-	-	-	-	-	-	-	(0.08)2	(0.09)2	(0.07)2	
Total dividends and distributions	(0.22)	(0.48)	(0.47)	(0.34)	(0.29)	(0.29)	(0.25)	(0.37)	(0.43)	(0.55)	
Net asset value, end of period	$7.31	$7.32	$7.94	$7.96	$7.76	$7.12	$6.94	$6.53	$6.48	$6.54	$
Market price, end of period	$6.60	$6.40	$7.63	$7.18	$6.95	$6.53	$6.07	$5.81	$6.07	$5.90	$
Total Investment Return3											
Based on net asset value	3.29 %4	(1.45)%	6.24 %	7.70 %	13.86%	7.64 %	10.82%4	7.06 %	6.06 %	2.12 %	
Based on market price	6.66 %4	(10.34)%	13.19%	8.47 %	11.19%	12.87%	8.94 %4	1.69 %	10.18%	(14.63)%	
Ratios to Average Net Assets											
Total expenses	0.97 %5	1.00 %	0.97 %	1.06 %	1.05 %	1.09 %	1.63 %5	2.77 %	2.85 %	2.80 %	
Total expenses after fees waived and paid indirectly	0.97 %5	1.00 %	0.97 %	1.05 %	1.02 %	1.08 %	1.63 %5	2.76 %	2.84 %	2.79 %	
Total expenses after fees waived and paid indirectly and excluding interest expense	0.90 %5	0.90 %	0.90 %	0.94 %	0.92 %	0.93 %	0.91 %5	0.98 %	1.00 %	0.99 %	
Net investment income	4.83 %5	4.18 %	4.86 %	4.43 %	2.72 %	4.09 %	4.67 %5	4.60 %	4.92 %	6.54 %	
Supplemental Data										&#1	