

WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.

Form N-14 8C

March 13, 2007

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 13, 2007

SECURITIES ACT FILE NO. 811-07362

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-14

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. ___ ..

Post-Effective Amendment No. ___ ..

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

(Exact Name of Registrant as Specified in Charter)

125 Broad Street

New York, New York 10004

(Address of Principal Executive Offices: Number, Street, City, State, Zip Code)

1-800-451-2010

(Area Code and Telephone Number)

R. Jay Gerken

Legg Mason & Co., LLC

399 Park Avenue, 4th Floor

New York, New York 10022

(Name and Address of Agent for Services)

with copies to:

Sarah E. Cogan, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
300 First Stamford Place
Stamford, Connecticut 06902

Calculation of Registration Fee under the Securities Act of 1933:

Title of Securities Being	Amount Being	Proposed	Proposed	Amount of
Registered	Registered (1)	Maximum	Maximum	Registration Fee
		Offering Price per	Aggregate	
		Unit (1)	Offering Price (1)	
Common Stock (\$.001 par value)	5,914,117	\$ 14.86	\$ 87,883,785.22	\$ 2,698.03
Preferred Stock (\$.001 par value)	900	\$ 50,000.00(2)	\$ 45,000,000.00	\$ 1,381.50

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- (1) Estimated solely for the purpose of calculating the registration fee.
(2) Represents the liquidation preference of a share of preferred stock after the reorganization.

Registrant proposes that the Registration Statement become effective April 12, 2007

pursuant to Rule 488 under the Securities Act of 1933, as amended.

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

(formerly Salomon Brothers Municipal Partners Fund Inc.)

WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.

(formerly Salomon Brothers Municipal Partners Fund II Inc.)

125 Broad Street

New York, New York 10004

Special Meeting of Shareholders to be held April 30, 2007

April [], 2007

Dear Shareholder:

You are being asked to vote on a proposed transaction related to Western Asset Municipal Partners Fund Inc. (formerly Salomon Brothers Municipal Partners Fund Inc.) (MNP) and Western Asset Municipal Partners Fund II Inc. (formerly Salomon Brothers Municipal Partners Fund II Inc.) (MPT, and together with MNP, the Funds).

Detailed information about the proposed transaction is contained in the enclosed materials.

The Boards of Directors of the Funds have called a special meeting of shareholders (Meeting) for the Funds to be held on April 30, 2007, at 399 Park Avenue, 4th Floor, New York, New York 10022 at [] Eastern time in order to vote on the proposed transaction regarding the Funds. The transaction involves a proposal to merge MPT with and into MNP in accordance with the Maryland General Corporation Law (the Merger). The attached Proxy Statement/Prospectus asks for your approval of the proposed Merger. **After careful consideration, the Board of each Fund recommends that you vote FOR the proposed Merger.**

As a result of the Merger, each share of common stock of MPT would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of MNP, based on the net asset value of each Fund. MNP will not issue fractional shares to MPT shareholders. In lieu of issuing fractional shares, MNP will purchase all shares of MPT at the current net asset value of the shares and remit the cash proceeds to former shareholders. The currently issued and outstanding common and preferred shares of MNP will remain issued and outstanding.

In addition, if separately approved by the holders of MNP preferred stock, each share of MPT preferred stock would convert into one full share of MNP preferred stock. Each share of MNP preferred stock will have the same liquidation preference as a share of MPT preferred stock. Under MNP s charter, the issuance of additional MNP preferred stock must be approved by the current holders of MNP preferred stock. **After careful consideration, the Board of MNP recommends that holders of MNP preferred stock vote FOR the proposed issuance of additional shares of MNP preferred stock to the holders of MPT preferred stock in connection with the merger.**

Both MNP and MPT are closed-end, diversified management investment companies listed on the New York Stock Exchange. The Funds have identical investment objectives and policies, invest in the same markets and present the same risks. Each Fund s primary investment objective is to seek a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital. As a secondary investment objective, each Fund intends to enhance portfolio value by purchasing tax-exempt securities, as defined in the attached Proxy Statement/Prospectus, that, in the opinion of the Fund s investment manager, may appreciate in value relative to other similar obligations in the marketplace. The current investment objectives and policies of MNP will continue unchanged if the Merger occurs.

The Directors of MNP and MPT believe that combining the two Funds could benefit shareholders of each Fund by providing the potential for economies of scale, a lower operating expense ratio and enhanced market liquidity for MNP s shares.

In addition, shareholders of MNP are being asked to approve an amendment to MNP s charter that would allow the Board to authorize the issuance of additional shares of securities ranking on a parity with MNP preferred stock without the approval of the holders of a majority of the outstanding shares of MNP preferred stock. This proposed charter amendment would provide MNP with greater flexibility in the management of its leverage for the benefit of common stockholders without harming holders of MNP preferred stock. **After careful consideration, the Board of MNP recommends that the stockholders of MNP vote FOR this amendment to MNP s charter.**

Your vote is very important to us regardless of the number of shares you own. Whether or not you plan to attend the Meeting in person, please read the Proxy Statement/Prospectus and cast your vote promptly. To vote, simply date, sign, and return the proxy card in the enclosed postage-paid envelope or follow the instructions on the proxy card for voting by touch-tone telephone or on the Internet.

It is important that your vote be received no later than the time of the Meeting.

Sincerely,

R. Jay Gerken

Chairman, President, Chief Executive Officer

Western Asset Municipal Partners Fund Inc.

Western Asset Municipal Partners Fund II Inc.

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

(formerly Salomon Brothers Municipal Partners Fund Inc.)

WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.

(formerly Salomon Brothers Municipal Partners Fund II Inc.)

IMPORTANT NEWS FOR SHAREHOLDERS

The enclosed combined Proxy Statement/Prospectus describes a proposal to merge Western Asset Municipal Partners Fund II Inc. (formerly Salomon Brothers Municipal Partners Fund II Inc.) (MPT) with and into Western Asset Municipal Partners Fund Inc. (formerly Salomon Brothers Municipal Partners Fund Inc.) (MNP, and together with MPT, the Funds) in accordance with the Maryland General Corporation Law plus a related proposal relating to the issuance of additional preferred stock by MNP in the merger. In addition, the enclosed Proxy Statement/Prospectus describes a proposal to amend the charter of MNP to provide more flexibility in the management of that Fund s leverage.

While we encourage you to read the full text of the enclosed combined Proxy Statement/Prospectus, here is a brief overview of the proposed merger. Please refer to the more complete information contained elsewhere in the combined Proxy Statement/Prospectus about the merger.

COMMON QUESTIONS ABOUT THE PROPOSED MERGER

Q. WHY IS A SHAREHOLDER MEETING BEING HELD?

A. The Board of each Fund has approved a merger, subject to approval by common and preferred shareholders of both Funds, under which MPT would merge with and into MNP in accordance with the Maryland General Corporation Law. If shareholders of both Funds approve the merger, and preferred shareholders of MNP approve the issuance of additional shares of MNP preferred stock in the merger, common and preferred shareholders of MPT would become common and preferred shareholders, respectively, of MNP.

Q. WHAT OTHER MATTERS ARE BEING VOTED ON?

A. In a separate vote, common and preferred shareholders of MNP are being asked to vote on an amendment to MNP s charter to allow the Board to authorize the issuance of securities ranking on a parity with MNP preferred stock without the approval of the holders of a majority of MNP s preferred shareholders.

Q. HOW WILL THE MERGER AFFECT ME?

A. If the merger is approved, MPT will be merged with and into MNP in accordance with the Maryland General Corporation Law. MPT s assets and liabilities will be combined with the assets and liabilities of MNP, and common and preferred shareholders of MPT will become common and preferred shareholders, respectively, of MNP.

As a result of the merger, each share of common stock of MPT would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of MNP, based on the net asset value of each Fund. MNP will not issue fractional shares to MPT shareholders. In lieu of issuing fractional shares, MNP will purchase all fractional shares of MNP at the current net asset value of the shares and remit the cash proceeds to former shareholders. The currently issued and outstanding common and preferred shares of MNP will remain issued and outstanding. In addition, each share of MPT preferred stock would convert into one full share of MNP preferred stock. Each share of MNP preferred stock has a liquidation preference of \$50,000, which is the same liquidation preference as each share of MPT preferred stock.

Q. WHY IS THE MERGER BEING RECOMMENDED?

A. As you may be aware, on December 1, 2005, Legg Mason, Inc. acquired substantially all the asset management businesses of Citigroup Asset Management (the Transaction). As a result of the Transaction, the Funds' previous management agreements with Salomon Brothers Asset Management Inc (SBAM), the Funds' former investment manager, automatically terminated.

The Funds solicited shareholders to approve new management agreements with SBAM (the New Management Agreements) pursuant to a Joint Proxy Statement dated September 21, 2005. At about the same time, Karpus Management, Inc. d/b/a Karpus Investment Management (KIM) initiated a proxy contest with respect to each Fund, soliciting shareholders of the Funds not to approve the New Management Agreements pursuant to a joint proxy statement dated September 22, 2005. On February 13, 2006, the Funds announced the settlement of the proxy contests and related litigation in the Supreme Court of the State of New York and the United States District Court for the Southern District of New York pursuant to a settlement agreement dated February 13, 2006, by and among George W. Karpus, KIM, KIM's directors, officers and affiliates and MNP and a settlement agreement dated the same day by and among George W. Karpus, KIM, KIM's directors, officers and affiliates and MPT (the Settlement Agreements).

Pursuant to the terms of the Settlement Agreements, the Board of each Fund agreed, subject to certain conditions and compliance with applicable laws, rules and regulations, to recommend a merger between MNP and MPT to shareholders of the Funds to be voted upon at a shareholder meeting held in or before April 2007. Under the Settlement Agreements, the merger would be on such terms and conditions as the Boards deemed appropriate, including that no material change in circumstances would cause the Board of either Fund to believe that the merger is no longer in the best interest of shareholders. The Settlement Agreements provide that the merger, if approved by the Board and the shareholders of each Fund, would be completed on, or as soon as practicable after, July 7, 2007.

At a meeting held on March 2, 2007, the Board of each Fund, including all of the Directors who are not interested persons of the Funds under the Investment Company Act of 1940, as amended (the Independent Directors), unanimously approved an Agreement and Plan of Merger with respect to both Funds. The Directors of MNP and MPT believe that combining the two Funds could benefit shareholders of each Fund by providing the potential for economies of scale, a lower operating expense ratio and enhanced market liquidity of MNP's shares.

Q. ARE THE FUNDS' INVESTMENT OBJECTIVES AND POLICIES SIMILAR?

A. The Funds have identical investment objectives and policies, invest in the same markets and present the same risks. Each Fund's primary investment objective is to seek a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital. As a secondary investment objective, each Fund intends to enhance portfolio value by purchasing tax-exempt securities, as defined in the attached Proxy Statement/Prospectus, that, in the opinion of the Fund's investment manager, may appreciate in value relative to other similar obligations in the marketplace. The current investment objectives and policies of MNP will continue unchanged if the merger occurs.

Q. HOW WILL THE MERGER AFFECT FUND FEES AND EXPENSES?

A. For shareholders of both MNP and MPT, the management fee as a percentage of Fund assets will not change as a result of the merger; however, because the fixed expenses of MNP following the merger will be spread over a larger asset base, the per share expense ratio is expected to fall for shareholders of the combined Fund.

Under each Fund's investment management agreement, the Fund pays Legg Mason Partners Fund Advisor, LLC, the investment manager to each Fund, a management fee calculated at an annual rate of 0.55% of the Fund's average weekly net assets. For purposes of calculating the fee, the liquidation value of any outstanding preferred stock of a Fund is not deducted in determining the Fund's average weekly net assets. Following the merger, MNP's management fee will be calculated in this same manner.

Based on data presented by management of the Funds, the Board of each Fund believes that administrative expenses of a larger combined Fund comprised of the assets of both Funds would be less than the aggregate current expenses of the Funds operating separately, resulting in a lower expense ratio for the combined Fund and corresponding higher earnings for its common shareholders.

Q. WILL I HAVE TO PAY ANY TAXES AS A RESULT OF THE MERGER?

A. The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Assuming the merger qualifies for such treatment, you generally will not recognize a gain or loss for federal income tax purposes as a result of the merger. Holders of common stock of MPT may, however, recognize gain or loss with respect to cash such holders receive pursuant to the merger in lieu of fractional shares. As a condition to the closing of the merger, MPT and MNP will each receive an opinion of counsel to the effect that the merger will qualify for such treatment. Opinions of counsel are not binding on the Internal Revenue Service or the courts. You should talk to your tax advisor about any state, local and other tax consequences of the merger. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences.

Q. WHO WILL PAY FOR THE MERGER?

A. The costs of the merger will be borne by MNP and MPT in proportion to their respective total assets.

Q. HOW DOES THE BOARD RECOMMEND THAT I VOTE ON THE MERGER?

A. The Board of each Fund, including all of the Independent Directors, unanimously recommends that you vote **FOR** the merger. In addition, the Board of MNP, including all Directors elected by the preferred shareholders of MNP, unanimously recommends that the preferred shareholders of MNP vote **FOR** the issuance of additional shares of preferred stock to MPT preferred stockholders in connection with the merger.

Q. WHAT HAPPENS IF THE MERGER IS NOT APPROVED?

A. If the merger is not approved, each Fund will continue as a separate investment company, and the Board of each Fund will separately consider such alternatives as it determines to be in the best interests of shareholders, including re-proposing the merger.

Q. WHEN IS THE MERGER EXPECTED TO HAPPEN?

A. If shareholders of both Funds approve the merger, the merger is expected to occur during the second quarter of 2007, but in any case before July 7, 2007.

Q. MAY DISSENTING STOCKHOLDERS SEEK APPRAISAL RIGHTS IN THE MERGER?

A. MPT preferred stockholders have appraisal rights under Maryland law in the merger. To perfect their appraisal rights, MPT preferred stockholders must strictly comply with the procedures in Sections 3-201 *et seq.* of the Maryland General Corporation Law. Failure to strictly comply with these procedures will result in the loss of appraisal rights. We have attached a copy of Sections 3-201 *et seq.* of the Maryland General Corporation Law as Appendix G.

MPT common stockholders, MNP common stockholders and MNP preferred stockholders have no appraisal rights under Maryland law.

Q. HOW DOES THE BOARD RECOMMEND I VOTE ON THE PROPOSED AMENDMENT TO MNP'S CHARTER?

A. The Board of MNP, including all of the Independent Directors, unanimously recommends that common and preferred stockholders vote **FOR** the proposed amendment to MNP's charter.

Q. I AM AN INVESTOR WHO HOLDS A SMALL NUMBER OF SHARES. WHY SHOULD I VOTE?

A. Your vote makes a difference. If many shareholders just like you fail to vote their proxies, the Funds may not receive enough votes to go forward with the shareholder meeting.

Q. HOW CAN I VOTE?

A. In addition to voting by mail by returning the enclosed proxy card, you may also vote by either touch-tone telephone or online via the Internet, as follows:

To vote by touch-tone telephone:

- (1) Read the Proxy Statement/Prospectus and have your proxy card at hand.
- (2) Call the toll-free number that appears on your proxy card.
- (3) Enter the control number set out on the proxy card and

follow the simple instructions.

Q. WHO GETS TO VOTE?

A. If you owned common or preferred shares of MNP or MPT at the close of business on March 23, 2007, you are entitled to vote those shares, even if you are no longer a shareholder of either Fund.

Q. WHOM DO I CALL IF I HAVE QUESTIONS?

A. If you need more information or have any questions on how to cast your vote, please call [], the Funds proxy solicitor, at [].

To vote by Internet:

- (1) Read the Proxy Statement/Prospectus and have your proxy card at hand.
- (2) Go to the website that appears on your proxy card.
- (3) Enter the control number set out on the proxy card

and follow the simple instructions.

Your vote is important. Please vote promptly to avoid the expense of additional solicitation.

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

(formerly Salomon Brothers Municipal Partners Fund Inc.)

WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.

(formerly Salomon Brothers Municipal Partners Fund II Inc.)

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held on April 30, 2007

Please take notice that a Special Meeting of Shareholders (the Meeting) of each of the above-referenced Funds (the Funds), will be held on April 30, 2007 at 399 Park Avenue, 4th Floor, New York, New York 10022 at [] Eastern time, for the following purposes:

PROPOSAL 1: To approve the merger of Western Asset Municipal Partners Fund II Inc. (MPT) with and into Western Asset Municipal Partners Fund Inc. (MNP) in accordance with the Maryland General Corporation Law (the Merger) (*common and preferred shareholders of both Funds*);

PROPOSAL 2: To approve the issuance of 900 shares of Auction Rate Preferred Stock, Series M, of MNP to holders of Auction Rate Preferred Stock, Series M, of MPT in connection with the Merger (*preferred shareholders of MNP*); and

PROPOSAL 3: To approve the amendment of the charter of MNP to allow the Board of Directors to authorize, create or issue, or increase the authorized or issued amount of, preferred stock ranking on a parity with MNP s Auction Rate Preferred Stock, Series M, without separate approval by the holders of a majority of the shares of MNP s outstanding preferred stock (*common and preferred shareholders of MNP voting together as one class plus preferred shareholders of MNP voting separately*).

The appointed proxies will vote in their discretion on any other business as may properly come before the Meeting or any adjournments or postponements thereof.

Holders of record of common and preferred shares of each Fund at the close of business on March 23, 2007 are entitled to vote at the Meeting and at any adjournments or postponements thereof.

Your vote on these matters is important. Please vote promptly by signing and dating the enclosed proxy card and returning it in the accompanying postage-paid return envelope or by following the enclosed instructions to vote by telephone or over the Internet.

By order of the Board of Directors,

Robert I. Frenkel
Secretary
Western Asset Municipal Partners Fund Inc.
Western Asset Municipal Partners Fund II Inc.

April [], 2007

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. *Individual Accounts*: Sign your name exactly as it appears in the registration on the proxy card.
2. *Joint Accounts*: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. *Other Accounts*: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

<u>Registration</u>	<u>Valid Signature</u>
<u>Corporate Accounts</u>	
(1) ABC Corp.	ABC Corp. (by John Doe, Treasurer)
(2) ABC Corp.	John Doe, Treasurer
(3) ABC Corp., c/o John Doe, Treasurer	John Doe
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee
<u>Trust Accounts</u>	
(1) ABC Trust	Jane B. Doe, Trustee
(2) Jane B. Doe, Trustee, u/t/d 12/28/78	Jane B. Doe
<u>Custodial or Estate Accounts</u>	
(1) John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA	John B. Smith
(2) John B. Smith	John B. Smith, Jr., Executor

The information in this 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 Proxy Statement/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 March 13, 2007

PROXY STATEMENT/PROSPECTUS

April [], 2007

PROXY STATEMENT/PROSPECTUS FOR:

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.

125 Broad Street

New York, New York 10004

800-451-2010

PROSPECTUS FOR:

WESTERN ASSET MUNICIPAL PARTNERS FUND INC.

125 Broad Street

New York, New York 10004

800-451-2010

This combined Proxy Statement and Prospectus (the Proxy Statement/Prospectus) is being furnished in connection with the solicitation of proxies by the Boards of Directors (each, a Board, and collectively, the Boards) of Western Asset Municipal Partners Fund Inc. (formerly Salomon Brothers Municipal Partners Fund Inc.) (MNP) and Western Asset Municipal Partners Fund II Inc. (formerly Salomon Brothers Municipal Partners Fund II Inc.) (MPT, and together with MNP, the Funds) for a Joint Special Meeting of Shareholders of each Fund (the Meeting). The Meeting will be held on April 30, 2007 at 399 Park Avenue, 4th Floor, New York, New York 10022 at [] Eastern time. At the Meeting, common and preferred shareholders of each Fund will be asked to consider and act upon the following:

PROPOSAL 1: To approve the merger of MPT with and into MNP in accordance with the Maryland General Corporation Law (the Merger) (common and preferred shareholders of both Funds);

PROPOSAL 2: To approve the issuance of 900 shares of Auction Rate Preferred Stock, Series M, of MNP to holders of Auction Rate Preferred Stock, Series M, of MPT in connection with the Merger (preferred shareholders of MNP); and

PROPOSAL 3: To approve the amendment of the charter of MNP to allow the Board of Directors to authorize, create or issue, or increase the authorized or issued amount of, preferred stock ranking on a parity with MNP's Auction Rate Preferred Stock, Series M,

without separate approval by the holders of a majority of the shares of MNP's outstanding preferred stock (*common and preferred shareholders of MNP voting together as one class plus preferred shareholders of MNP voting separately*).

If Proposals 1 and 2 are approved, as a result of the Merger, each share of common stock of MPT (the MPT Common Shares) would convert into an equivalent dollar amount (to the nearest \$0.001) of full shares of common stock of MNP (the MNP Common Shares), based on the net asset value of each Fund. MNP will not issue fractional shares of MNP Common Shares to holders of MPT Common Shares. In lieu of issuing fractional shares, MNP will purchase all fractional shares of MPT Common Shares at the current net asset value of the shares and remit the cash proceeds to former holders of MPT Common Shares. Although the MNP Common Shares received in the Merger will have the same total net asset value as the MPT Common Shares held immediately before the Merger (disregarding fractional shares), their stock price on the New York Stock Exchange (NYSE) may be greater or less than that of the MPT Common Shares, based on current market prices persisting at the time of the Merger. In addition, each share of MPT's Auction Rate Preferred Stock, Series M (the MPT Preferred Shares), would convert into one full share of Auction Rate Preferred Stock, Series M, of MNP (the MNP Preferred Stock). All MNP Common Shares and MNP Preferred Shares currently issued and outstanding will remain issued and outstanding following the Merger.

The Board of each Fund believes that combining the two Funds could benefit the shareholders of both Funds by providing the potential for economies of scale, a lower operating expense ratio and enhanced market liquidity of the Common Shares and Preferred Shares of the combined Fund following the Merger.

In addition, holders of MNP Common Shares and MNP Preferred Shares are being asked to approve an amendment to MNP's charter that would allow for the issuance of additional MNP Preferred Shares without prior approval of the holders of a majority of the outstanding MNP Preferred Shares. This proposed charter amendment would provide MNP with greater flexibility in the management of its leverage for the benefit of the holders of MNP Common Shares without harming holders of MNP Preferred Shares.

MNP was incorporated in Maryland on November 24, 1992; MPT was incorporated in Maryland on June 21, 1993. Both MNP and MPT are closed-end, diversified management investment companies listed on the NYSE. Each Fund's primary investment objective is to seek a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital. As a secondary investment objective, each Fund intends to enhance portfolio value by purchasing tax-exempt securities, as defined below, that, in the opinion of the Fund's investment manager or the investment manager's delegate (the Investment Manager), may appreciate in value relative to other similar obligations in the marketplace. The current investment objectives and policies of MNP will continue unchanged if the Merger occurs.

The terms and conditions of the Merger and related transactions are more fully described in this Proxy Statement/Prospectus and in the Agreement and Plan of Merger, a form of which is attached as Appendix A.

This Proxy Statement/Prospectus serves as a prospectus for MNP Common Shares and MNP Preferred Shares under the Securities Act of 1933, as amended (the Securities Act), in connection with the issuance of MNP Common Shares and MNP Preferred Shares in the Merger.

Assuming the holders of Common Shares and Preferred Shares of both Funds approve the Merger and all other conditions to the consummation of the Merger are satisfied or waived, the Funds will jointly file articles of merger (the Articles of Merger) with the State Department of Assessments and Taxation in Maryland (the SDAT). The Merger will become effective when the SDAT accepts for record the Articles of Merger or at such later time, which may not exceed 30 days after the Articles of Merger are accepted for record, as specified in the Articles of Merger. The date when the Articles of Merger are accepted for record, or the later date, is referred to in this Proxy Statement/Prospectus as the Closing Date. MPT, as soon as practical after the Closing Date, will terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act).

The Merger is being structured as a reorganization for federal income tax purposes. See Proposal 1 Information About the Proposed Merger Federal Income Tax Consequences. Shareholders should consult their tax advisors to determine the actual impact of the Merger on them in light of their individual tax circumstances.

The investment objectives and strategies of MNP are identical to those of MPT. Please see Proposal 1 Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds in this Proxy Statement/Prospectus.

You should retain this Proxy Statement/Prospectus for future reference as it sets forth concisely information about MNP and MPT that you should know before voting on the proposed Merger described below.

A Statement of Additional Information (SAI) dated April [], 2007, which contains additional information about the Merger and the Funds, has been filed with the Securities and Exchange Commission (SEC). The SAI and the most recent annual report and the semi-annual report next succeeding such annual report, if any, for each Fund, which highlight certain important information such as investment performance and expense and financial information and which have been filed with the SEC, are incorporated by reference into this Proxy Statement/Prospectus. You may receive a copy of the SAI, or the annual report and semi-annual report for either Fund, by contacting Legg Mason Shareholder Services at 800-822-5544, by writing the Fund at the address listed above or by visiting our website at www.leggmason.com/InvestorServices.

In addition, you can copy and review this Proxy Statement/Prospectus and the complete filing on Form N-14 containing the Proxy Statement/Prospectus and any of the above-referenced documents at the SEC's Public Reference Room in Washington, DC. You may obtain information about the operation of the Public Reference Room by calling the SEC at 202-551-8090. Reports and other information about each Fund are available on the EDGAR Database on the SEC's Internet site at www.sec.gov. You may also obtain copies of this information, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

MNP Common Shares are listed on the NYSE under the symbol MNP, and MPT Common Shares are listed on the NYSE under the symbol MPT. After the Closing Date, MNP Common Shares will continue to be listed on the NYSE under the symbol MNP.

Prior to October 9, 2006, MNP was known as Salomon Brothers Municipal Partners Fund Inc. and MNP was known as Salomon Brothers Municipal Partners Fund II Inc.

The information contained herein concerning MNP and MPT has been provided by, and is included herein in reliance upon, MNP and MPT, respectively.

The Securities and Exchange Commission has not approved or disapproved these securities nor passed upon the accuracy or adequacy of this Proxy Statement/Prospectus. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

	Page
PROPOSAL 1 TO APPROVE THE MERGER OF MPT WITH AND INTO MNP IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW	
Summary	
Background	
Proposed Merger	
Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks	
Effect on Expenses	
Fee Table and Expense Example	
Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds	
Investment Objectives, Strategies and Principal Risks	
Additional Investment Activities	
Risk Factors	
Special Leverage Considerations	
Investment Restrictions	
Rating Agency Guidelines	
Information About the Proposed Merger	
The Agreement and Plan of Merger	
Reasons for the Merger and Board Considerations	
Federal Income Tax Considerations	
Portfolio Securities	
Information About Management of the Funds	
Information About Directors and Officers	
Investment Manager and Sub-Adviser	
Codes of Ethics	
Proxy Voting Policies	
Certain Legal Proceedings	
Portfolio Managers of the Funds	
Additional Information About the Funds	
Financial Highlights	
Management's Discussion of Fund Performance	
Net Asset Value, Market Price and Premium/Discount	
Capitalization	
Portfolio Composition	
Portfolio Transactions	
Dividends and Distributions	
Distributions	
Dividend Reinvestment Plan	
Taxation	
Federal Income Tax Matters	
State and Local Tax Matters	
Net Asset Value	
Description of the Funds Capital Stock	
Common Shares	
Preferred Shares	
The Auction	
PROPOSAL 2 TO APPROVE THE ISSUANCE OF 900 MNP PREFERRED SHARES TO HOLDERS OF MPT PREFERRED SHARES IN CONNECTION WITH THE MERGER	
PROPOSAL 3 TO APPROVE THE AMENDMENT OF THE CHARTER OF MNP TO ALLOW THE BOARD OF DIRECTORS TO AUTHORIZE, CREATE OR ISSUE, OR INCREASE THE AUTHORIZED OR ISSUED AMOUNT OF, PREFERRED STOCK RANKING ON A PARITY WITH MNP PREFERRED SHARES, WITHOUT SEPARATE APPROVAL BY THE HOLDERS OF A MAJORITY OF THE SHARES OF MNP'S OUTSTANDING PREFERRED STOCK	
OTHER BUSINESS	
SUBMISSION OF SHAREHOLDER PROPOSALS	
SHAREHOLDER COMMUNICATIONS WITH THE BOARDS	
VOTING INFORMATION	

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Proxy Solicitation	
Quorum	
Votes Required	
Effect of Abstentions and Broker Non-Votes	
Adjournments and Postponements	
Appraisal Rights	
Record Date and Outstanding Shares	
SERVICE PROVIDERS	
LIST OF APPENDICES	
Appendix A: Form of Agreement and Plan of Merger	A-1
Appendix B: Description of Moody's and S&P Ratings	B-1
Appendix C: Legg Mason Partners Fund Advisor, LLC Proxy Voting Policy	C-1
Appendix D: Glossary	D-1
Appendix E: Auction Procedures	E-1
Appendix F: Settlement Procedures	F-1
Appendix G: Sections 2-201 <i>et seq.</i> of the Maryland General Corporation Law	G-1

PROPOSAL 1 TO APPROVE THE MERGER OF MPT WITH AND INTO MNP IN ACCORDANCE WITH THE MARYLAND GENERAL CORPORATION LAW

(COMMON AND PREFERRED SHAREHOLDERS OF BOTH FUNDS)

SUMMARY

This summary is qualified in its entirety by reference to the additional information contained elsewhere in this Proxy Statement/Prospectus and the Agreement and Plan of Merger, a form of which is attached to this Proxy Statement/Prospectus as Appendix A.

Background

In June 2005, Citigroup Inc. (Citigroup), the former parent company of Salomon Brothers Asset Management Inc (SBAM), the Funds' former investment manager, announced that it had entered into a definitive agreement with Legg Mason, Inc. (Legg Mason), under which Citigroup would sell substantially all of its asset management business, Citigroup Asset Management, which included SBAM, to Legg Mason (the Transaction). The Transaction, which is more fully described in the Funds' Joint Proxy Statement dated September 21, 2005, was consummated on December 1, 2005, on which date SBAM became a wholly-owned subsidiary of Legg Mason.

As a result of the Transaction, the Funds' previous management agreements with SBAM automatically terminated on December 1, 2005, in accordance with their terms and as required by the 1940 Act. On August 12, 2005, the Board of each Fund, including all of the Directors who are not interested persons of the Funds under the 1940 Act (the Independent Directors), approved, subject to shareholder approval, a new management agreement between each Fund and SBAM (the New Management Agreements) to take effect upon the closing of the Transaction.

Pursuant to a Joint Proxy Statement dated September 21, 2005, the Funds solicited shareholders to approve the New Management Agreements at a special meeting of shareholders originally scheduled for October 21, 2005. At about the same time, Karpus Management, Inc. d/b/a Karpus Investment Management (KIM) initiated a proxy contest with respect to each Fund, soliciting shareholders of the Funds not to approve the New Management Agreements pursuant to a joint proxy statement dated September 22, 2005. On February 13, 2006, the Funds announced the settlement of the proxy contests and related litigation in the Supreme Court of the State of New York and the United States District Court for the Southern District of New York pursuant to a settlement agreement dated February 13, 2006, by and among George W. Karpus, KIM, KIM's directors, officers and affiliates and MNP (the MNP Settlement Agreement) and a settlement agreement dated the same date by and among George W. Karpus, KIM, KIM's directors, officers and affiliates and MPT (the MPT Settlement Agreement, and together with the MNP Settlement Agreement, the Settlement Agreements).

Pursuant to the terms of the Settlement Agreements, the Board of each Fund agreed, subject to certain conditions and compliance with applicable laws, rules and regulations, to recommend a Merger between MNP and MPT to shareholders of the Funds to be voted upon at a shareholder meeting held in or before April 2007. Under the Settlement Agreements, the Merger would be on such terms and conditions as the Boards deemed appropriate, including that no material change in circumstances would cause the Board of either Fund to believe that the Merger is no longer in the best interest of shareholders. The Settlement Agreements provided that the Merger, if approved by the Board and the shareholders of each Fund, would be completed on, or as soon as practicable after, July 7, 2007.

In addition, pursuant to the MNP Settlement Agreement, the Board of MNP agreed to conduct a series of tender offers, subject to certain conditions.

The foregoing summary of the settlements reached by George W. Karpus, KIM and the Fund is qualified in its entirety by reference to the full text of both Settlement Agreements. The full text of the MNP Settlement Agreement and a related announcement were filed with the SEC by MNP on a Form 8-K dated February 13, 2006. The full text of the MPT Settlement Agreement and a related announcement were filed with the SEC by MPT on a Form 8-K dated February 13, 2006.

The shareholder meeting originally scheduled for October 21, 2005 was postponed to November 15, 2005 and adjourned thereafter in order to extend the solicitation period. Shareholders of MPT approved a New Management Agreement on November 29, 2005, and the agreement took effect on December 1, 2005. Also on December 1, 2005, because MNP's previous management agreement automatically terminated on that date in connection with the closing of the Transaction but shareholders of MNP had not approved a New Management Agreement as of that date, an interim management agreement between MNP and SBAM took effect. Shareholders of MNP approved a New Management Agreement with SBAM on February 23, 2006, and the agreement took effect on that date.

Effective August 1, 2006, Legg Mason Partners Fund Advisor, LLC (LMPFA) became each Fund's investment manager and Western Asset Management Company (Western Asset) became each Fund's subadvisor under a new sub-advisory agreement between LMPFA and Western Asset. LMPFA and Western Asset are wholly-owned subsidiaries of Legg Mason.

The portfolio manager who is responsible for the day-to-day management of each Fund remained the same immediately prior to and immediately after the date of these changes. LMPFA provides administrative and certain oversight services to each Fund. LMPFA has delegated to the subadvisor the day-to-day management of each Fund.

Proposed Merger

At a meeting held on March 2, 2007, the Funds' Boards, including all of the Independent Directors, unanimously approved the Agreement and Plan of Merger with respect to each Fund. As a result of the Merger:

each MPT Common Share will convert into an equivalent dollar amount (to the nearest \$0.001) of full MNP Common Shares, based on the net asset value per share of each Fund calculated at 4:00 p.m. on the Business Day preceding the Closing Date;

each holder of MPT Common Shares will become a holder of MNP Common Shares and will receive, on the Closing Date, that number of MNP Common Shares having an aggregate net asset value (disregarding fractional shares) equal to the aggregate net asset value of such shareholder's MPT Common Shares as of the close of business on the Business Day preceding the Closing Date;

MNP will not issue any fractional Common Shares to its shareholders. In lieu thereof, MNP will purchase all fractional MNP Common Shares at the current net asset value of the shares and remit the cash proceeds to former holders of MPT Common Shares in proportion to their fractional shares; and

each MPT Preferred Share will convert into one full MNP Preferred Share.

A Business Day is any day on which the NYSE is open for trading.

If the Merger is not approved, each Fund will continue as a separate investment company, and the Board of each Fund will separately consider such alternatives as it determines to be in the best interests of shareholders, including re-proposing the Merger.

For the reasons set forth below in Information About the Proposed Merger Reasons for the Merger and Board Considerations, the Boards of both Funds, including all of the Independent Directors, have concluded that the Merger would be in the best interests of both MNP and MPT, and that the interests of the holders of Common Shares and Preferred Shares of MNP and MPT would not be diluted as a result of the Merger. **The Boards, therefore, are hereby submitting the Merger to the holders of Common Shares and Preferred Shares of MNP and MPT and recommend that shareholders of each Fund vote FOR the Merger.**

Because the Merger has been approved unanimously by the Board of each Fund, including all of the Independent Directors of each Fund, under the Funds' Charters, approval of the Merger requires the affirmative vote of the holders of a majority of the Common Shares and Preferred Shares of each Fund, voting together as a single class. See Voting Information below. In addition, approval of the Merger is conditioned on the approval by a majority of the holders of MNP Preferred Shares of Proposal 2. If shareholders of both Funds approve the Merger, and if holders of MNP Preferred Shares approve Proposal 2, the closing date of the Merger is expected to be on or before July 7, 2007.

Prior to completion of the Merger, MPT and MNP will each have received an opinion of Simpson Thacher & Bartlett LLP to the effect that the Merger will qualify as a reorganization for federal income tax purposes. Accordingly, no gain or loss will generally be recognized by MPT or the holders of MPT Common Shares or MPT Preferred Shares as a result of the Merger, and the aggregate tax basis of the MNP Common Shares

and MNP Preferred Shares received by the holders of MPT Common Shares and MPT Preferred Shares, respectively, will be the same as the aggregate tax basis of the holders MPT Common Shares or MPT Preferred Shares, respectively.

Holders of MPT Common Shares may, however, recognize gain or loss with respect to cash such holders receive pursuant to the Merger in lieu of fractional shares. For more information about the federal income tax consequences of the Merger, see [Information about the Proposed Merger Federal Income Tax Consequences](#) below.

Comparison of Investment Objectives, Principal Investment Strategies and Principal Risks

MNP and MPT have identical investment objectives and policies, invest in the same markets and present the same risks. There are no material differences between the investment objectives and strategies of MNP and MPT.

Each Fund's primary investment objective is to seek a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital. As a secondary investment objective, each Fund intends to enhance portfolio value by purchasing tax-exempt securities, as defined below, that, in the opinion of the Investment Manager, may appreciate in value relative to other similar obligations in the marketplace. The Funds' strategies are designed to achieve above-average capital appreciation when the market is rising and below-average capital losses when the market is declining relative to similar funds. In selecting investments to achieve this, the Investment Manager considers, among other things, whether positive factors have occurred that have not been fully taken into account by the rating agencies, whether such obligations are part of an undervalued municipal market sector, whether such obligations are undervalued as a result of call provisions, whether there has been a general decline in a market sector that does not directly affect a particular obligation within that sector or whether there is a temporary excess of supply in a particular market sector that may benefit certain obligations. Any capital gains realized by the Funds will generally result in the distribution of taxable capital gains to shareholders.

Under normal market conditions, each Fund pursues its objectives by investing substantially all of its assets in a diversified portfolio of tax-exempt securities which are rated investment grade at the time of purchase by at least one of the rating agencies referred to below, and which the Investment Manager believes does not involve undue risk to income or principal. Investment grade tax-exempt securities are rated BBB or higher by Standard & Poor's Corporation (S&P) or Fitch Investors Service, Inc. (Fitch) or Baa or higher by Moody's Investors Service, Inc. (Moody's). The Funds do not intend to purchase non-rated tax-exempt securities, except that the Funds may invest in unrated, short-term tax-exempt securities determined by the Investment Manager to be of comparable quality.

Each Fund may invest all or a portion of its assets in tax-exempt securities subject to the federal alternative minimum tax and, as a result, a portion of the Fund's distributions may be taxable to certain shareholders. All or a portion of the Fund's distributions may be subject to state and local taxation.

Each Fund may implement various temporary defensive strategies at times when the Investment Manager determines that conditions in the market for tax-exempt securities make pursuing the Fund's basic investment strategy inconsistent with the best interests of its shareholders. These strategies may include a substantial increase in the portion of the Fund's assets invested in high-quality tax-exempt securities, short-term tax-exempt securities and/or taxable obligations.

Each Fund may purchase and sell options on municipal obligations and indices based upon the prices of debt securities, and may engage in interest rate and other hedging transactions such as purchasing and selling financial futures contracts and options thereon. Each Fund may also engage in when-issued and delayed delivery transactions and repurchase agreements and may lend its portfolio securities. These investment practices entail risks and may give rise to taxable income. Accordingly, neither Fund intends to engage in any such practices to a significant extent.

Neither Fund is intended to be a complete investment program, and there is no assurance that either Fund will achieve its objectives.

The preceding summary of the Funds' investment objectives and certain policies should be considered in conjunction with the discussion below under [Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds Investment Objectives and Policies, Additional Investment Activities and Risk Factors](#).

Effect on Expenses

As a result of the Merger, total expenses paid by shareholders of MNP are expected to decline from 1.41% to 1.30% in the combined Fund. In addition, as a result of the Merger, total expenses paid by shareholders of MPT are expected to decline from 1.36% to 1.30% in the combined Fund.

Fee Table and Expense Example

The tables below (1) compare the estimated fees and expenses of each Fund, as of December 31, 2006, and (2) show the estimated fees and expenses of the combined Fund, on a pro forma basis, as if the Merger occurred on December 31, 2006. The estimates are based on the contracts and agreements in effect as of December 31, 2006 and reflect the operating expense accrual rates on that date, which are based on each Fund's net assets as of December 31, 2006. Accordingly, the actual fees and expenses of each Fund and the combined Fund as of the Closing Date of the Merger may differ from those reflected in the tables below due to changes in net assets from those at December 31, 2006.

Changes in net assets may result from market appreciation or depreciation and other factors occurring between that date and the Closing Date of the Merger. As a general matter, changes (positive or negative) in a Fund's expense ratio resulting from fluctuations in the Fund's net assets will be borne by the shareholders of that Fund and the combined Fund. For information concerning the net assets of each Fund as of December 31, 2006, please see Capitalization.

The estimated expenses of MNP and MPT as of December 31, 2006 and pro forma expenses following the proposed Merger are set forth below.

Fee Table

	Contractual Management Fees	Management Fees (as currently in effect) (net of fee waivers)	Other Expenses (actual)	Total Expenses (actual)	Fee Waivers and Expense Reimbursements	Total Expenses After Fee Waiver and/or Expense Reimbursements (net)
MNP	0.55%	0.55%	0.86%	1.41%	0.00%	1.41%
MPT	0.55%	0.55%	0.81%	1.36%	0.00%	1.36%
Pro Forma Combined Fund	0.55%	0.55%	0.75%	1.30%	0.00%	1.30%

Example

The following example helps you compare the costs of investing in each of the Funds with the costs of investing in other funds. The example assumes that you invest \$1,000 for the periods shown, that your investment has a 5% return each year, that you reinvest all distributions and dividends and that the Funds' operating expenses (before voluntary fee waivers and/or expense reimbursements, if any) remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 Year	3 Years	5 Years	10 Years
MNP	\$ 14	\$ 44	\$ 77	\$ 164
MPT	\$ 14	\$ 43	\$ 74	\$ 163
Combined Fund	\$ 13	\$ 41	\$ 71	\$ 156

COMPARISON OF INVESTMENT OBJECTIVES, STRATEGIES AND PRINCIPAL RISKS OF

INVESTING IN THE FUNDS

Investment Objectives, Strategies and Principal Risks

The Funds have identical investment objectives and policies, invest in the same markets and present the same risks.

Each Fund's primary investment objective is to seek a high level of current income which is exempt from regular federal income taxes, consistent with the preservation of capital. As a secondary investment objective, each Fund intends to enhance portfolio value by purchasing tax-exempt securities, as defined below, that, in the opinion of the Investment Manager, may appreciate in value relative to other similar obligations in the marketplace. The Funds' strategies are designed to achieve above-average capital appreciation when the market is rising and below-average capital losses when the market is declining relative to similar funds. In evaluating whether an obligation may have above-average appreciation potential (or below-average capital loss potential), the Investment Manager considers, among other things, whether positive factors have occurred that have not been fully taken into account by the rating agencies, whether such obligations are part of an undervalued municipal market sector, whether such obligations are undervalued as a result of call provisions, whether there has been a general decline in a market sector that does not directly affect a particular obligation within that sector or whether there is a temporary excess of supply in a particular market sector that may benefit certain obligations. While capital appreciation is not itself a primary objective of the Funds, the Investment Manager selects portfolio investments with an eye toward enhancing portfolio value relative to the municipal securities market, regardless of which direction the market may move.

Under normal market conditions, each Fund pursues its objectives by investing substantially all of its assets in a diversified portfolio of tax-exempt securities. Each Fund invests primarily in tax-exempt securities that are rated investment grade at the time of purchase by at least one rating agency and that the Investment Manager believes do not involve undue risk to income or principal, but each Fund may invest up to 20% of its net assets in securities rated below investment grade at the time of purchase. Investment grade tax-exempt securities are rated BBB or higher by S&P or Fitch or Baa or higher by Moody's in the case of long-term obligations, and have equivalent ratings in the case of short-term obligations. Neither Fund intends to purchase non-rated tax-exempt securities, except that each Fund may invest in unrated, short-term tax-exempt securities determined by the Investment Manager to be of comparable quality to the securities in which the Fund may otherwise invest. Tax-exempt securities rated BBB by S&P or Fitch or Baa by Moody's are considered medium grade securities and have speculative characteristics. For a description of the four highest ratings of each of the rating agencies, see Appendix B to this Proxy Statement/Prospectus.

The foregoing policies with respect to credit quality of portfolio investments will apply only at the time of purchase, and neither Fund will be required to sell a security in the event that its rating is downgraded by one of the rating agencies. In determining whether a Fund will retain or dispose of such a security, the Investment Manager will consider all relevant factors including the Investment Manager's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating assigned to such security by other nationally recognized statistical rating organizations.

Each Fund may use a variety of derivative instruments as part of its investment strategies or for hedging or risk management purposes. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt instruments, interest rates, currencies or currency exchange rates, commodities and related indexes. Examples of derivative instruments that the Fund may use include options contracts, futures contracts, options on futures contracts, credit default swaps and swap agreements. To the extent a Fund utilizes such strategies or invests in taxable securities, the Fund's ability to achieve its investment objective of providing current income exempt from regular federal income taxes may be limited. Accordingly, under normal market conditions, neither Fund expects that its use of such practices will be significant.

Each Fund uses leverage from the offering of Preferred Shares in an effort to increase the Funds' income available for distribution to holders of its Common Shares. See Description of the Funds' Capital Stock Preferred Shares.

A holder of Common Shares will receive taxable income in the event a Fund makes a capital gains distribution. In addition, neither Fund has established any limit on the percentage of its portfolio that may be invested in tax-exempt securities subject to the alternative minimum tax provisions of federal tax law and,

accordingly, a substantial portion of the income produced by the Fund may be includable in the calculation of alternative minimum taxable income. The suitability of either Fund for investors who may be (or may become as a result of investment in one of the Funds) subject to the federal alternative minimum tax will depend upon a comparison of the yield likely to be provided from the Fund with the yield from comparable tax-exempt investments not subject to the federal alternative minimum tax and with the yield from comparable fully taxable investments, in light of each such investor's tax position. See Taxation. There is no assurance that either Fund will achieve its investment objectives. Each Fund is designated primarily as a long-term investment and not as a trading vehicle.

Tax-Exempt Securities

Tax-exempt securities are obligations issued by or on behalf of states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities, the interest on which, in the opinion of bond counsel or other counsel to the issuer of such securities, is at the time of issuance not includable in gross income for federal income tax purposes. Under normal market conditions, it is anticipated that substantially all of each Fund's total assets will be invested in tax-exempt securities. As a matter of fundamental policy which cannot be changed without shareholder approval, under normal market conditions at least 80% of each Fund's net assets will be invested in tax-exempt securities.

Tax-exempt securities include long-term obligations, often called bonds, as well as short-term notes, participation certificates, municipal leases, zero coupon municipal obligations, custodial receipts and tax-exempt commercial paper. Neither Fund will invest in inverse floating obligations or residual interest bonds, which represent interests in tax-exempt securities and which pay interest rates that vary inversely to changes in the interest rates of specified short-term tax-exempt securities or an index of short-term tax-exempt securities.

The Investment Manager is free to take full advantage of the entire range of maturities offered by tax-exempt securities and may adjust the average maturity of a Fund's portfolio from time to time, depending on its assessment of the relative yields available on securities of different maturities and its expectations of future changes in interest rates. Long-term tax-exempt securities generally provide a higher yield than short-term tax-exempt securities of comparable quality, and therefore each Fund generally expects to be invested primarily in long-term tax-exempt securities having an average maturity of 20 to 40 years. Either Fund may, however, be primarily invested in short-term tax-exempt securities for temporary defensive purposes.

The two principal classifications of tax-exempt bonds are general obligation bonds and revenue or specific obligation bonds, which include industrial revenue bonds and private activity bonds. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of interest and the repayment of principal, and, accordingly, the capacity of the issue of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer's maintenance of its tax base. Revenue or special obligation bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special tax or other specific revenue source such as from the users of the facility being financed; accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue or special obligation bond is a function of the economic viability of such facility or such revenue source. Although the ratings of S&P, Fitch or Moody's of tax-exempt securities are relative and subjective, and are not absolute standards of quality, such ratings reflect the assessment of S&P, Fitch or Moody's, as the case may be, at the time of issuance of the rating, of the economic viability of the issuer or the special revenue source with respect to the timely payment of interest and the repayment of principal in accordance with the terms of the obligation, but do not reflect an assessment of the market value of the obligation. The rating agencies undertake no obligation to update their ratings of securities. See Appendix B.

Also included within the general category of tax-exempt securities are participations in lease obligations or installment purchase contract obligations (hereinafter collectively called lease obligations) of municipal authorities or entities. Although lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a lease obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain lease obligations contain non-appropriation clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In addition to the non-appropriation risk, these securities represent a relatively new type of financing that has not yet

developed the depth of marketability associated with more conventional securities. Although non-appropriation lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. In addition, the tax treatment of such obligations in the event of non-appropriation is unclear. As a matter of operating policy, the Fund will limit its investment in lease obligations to 10% of the Fund's total assets.

Participation certificates are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities. They may represent participations in a lease, an installment purchase contract or a conditional sales contract. Neither Fund will, as a matter of operating policy, invest in illiquid securities and, accordingly, neither Fund has a current intention to invest in illiquid lease obligations or illiquid participation certificates.

Zero coupon municipal obligations are debt obligations which do not entitle the holder to any period payments prior to maturity and are issued and traded at a discount from their face amounts. The discount varies depending on the time remaining until maturity, prevailing interest rates, liquidity of the security and perceived credit quality of the issuer. Zero coupon municipal obligations may be created by investment banks under proprietary programs in which they strip the interest component from the principal component and sell both separately. The market prices of zero coupon securities are generally more volatile than the market prices of securities that pay interest periodically and are likely to respond to changes in interest rates to a greater degree than do securities having similar maturities and credit quality that do pay periodic interest.

Each Fund may acquire custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both on certain municipal obligations. The underwriter of these certificates or receipts typically purchases municipal obligations and deposits the obligations in an irrevocable trust or custodial account with a custodian bank, which then issues receipts or certificates that evidence ownership of the periodic unmatured coupon payments and the final principal payment on the obligations. Custodial receipts evidencing specific coupon or principal payments have the same general attributes as zero coupon municipal obligations described above. Although under the terms of a custodial receipt, a Fund would be typically authorized to assert its rights directly against the issuer of the underlying obligation, the Fund could be required to assert through the custodian bank those rights as may exist against the underlying issuer. Thus, in the event the underlying issuer fails to pay principal and/or interest when due, a Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation of the issuer. In addition, in the event that the trust or custodial account in which the underlying security has been deposited is determined to be an association taxable as a corporation, instead of a non-taxable entity, the yield on the underlying security would be reduced in recognition of any taxes paid.

Tax-exempt securities may have fixed or variable interest rates. Each Fund may purchase floating and variable rate demand notes, which are securities normally having a stated maturity in excess of one year, but which permit the holder to tender the notes for purchase at the principal amount thereof. The interest rate on a floating rate demand note is based on a known lending rate, such as a bank's prime rate, and is adjusted periodically based on changes in such lending rate. The interest rate on a variable rate demand note is adjusted at specified intervals. While generally there is no formal secondary market for these notes, they may be tendered for redemption at face value, and thus may be determined to be liquid.

Securities Rated Below Investment Grade

Each Fund may invest up to 20% of its total assets in tax-exempt securities rated below investment grade. Securities are considered to be rated below investment grade if they are rated by a recognized rating organization below its top four long-term rating categories or if they are unrated but determined by the Investment Manager to be of equivalent quality. The issuers of lower quality securities may be highly leveraged and have difficulty servicing their debt, especially during prolonged economic recessions or periods of rising interest rates. The prices of lower quality securities are volatile and may go down due to market perceptions of deteriorating issuer creditworthiness or economic conditions. Lower quality securities may become illiquid and hard to value in down markets. Securities rated below investment grade are considered speculative and, compared to investment grade securities, tend to have more volatile prices and, increased price sensitivity to changing interest rates and to adverse economic and business developments, greater risk of loss due to default or declining credit quality, greater likelihood that adverse economic or issuer specific events will make the issuer unable to make interest and/or principal payments, and greater susceptibility to negative market sentiments leading to depressed prices and decrease in liquidity.

Selection of Investments

The Investment Manager will buy and sell securities for both Funds' portfolios with a view to seeking a high level of current income exempt from regular federal income taxes and will select securities constituting a portfolio which the Investment Manager believes does not involve undue risk to income or principal considered in relation to the particular investment policies of the Funds. As a result, neither Fund will necessarily invest in the highest yielding tax-exempt securities permitted by its investment policies if the Investment Manager determines that market risks or credit risks associated with such investments would subject the Fund's portfolio to excessive risk. The potential for realization of capital gains resulting from possible changes in interest rates will be a secondary consideration.

Neither Fund will invest more than 25% of its total assets in any one industry. Governmental issuers of tax-exempt municipal securities are not considered part of any industry. However, municipal securities backed only by the assets and revenues of non-governmental users will, for this purpose, be deemed to be in the industry in which such non-governmental users engage, and the 25% limitation would apply to such obligations. It is nonetheless possible that a Fund may invest more than 25% of its total assets in a broader segment of the tax-exempt municipal securities market, such as revenue obligations of hospitals and other health care facilities, housing agency revenue obligations or airport revenue obligations. This would be the case only if the Investment Manager determines that the yields available from obligations in a particular segment of the market justified the additional risks associated with a large investment in such segment. Although such obligations could be supported by the credit of governmental users or by the credit of non-governmental users engaged in a number of industries, economic, business, political and other developments generally affecting the revenues of such users (for example, proposed legislation or pending court decisions affecting the financing of such projects and market factors affecting the demand for their services or products) may have a general adverse effect on all municipal securities in such a market segment. Each Fund reserves the right to invest more than 25% of its total assets in industrial development bonds or private activity bonds or in securities of issuers located in the same state, although it has no present intention to invest more than 25% of its total assets in issuers located in the same state and current rating agency requirements applicable to each Fund's Preferred Shares prohibit such investment. If a Fund were to invest more than 25% of its total assets in issuers located in the same state, it would be more susceptible to adverse economic, business or regulatory conditions in that state.

Neither Fund will invest more than 5% of its total assets in the tax-exempt securities of any single issuer, except that up to 25% of a Fund's total assets may be invested without regard to this limitation. As a result, up to 25% of a Fund's total assets could be invested in tax-exempt securities of a single issuer, with the result that the Fund's portfolio could be subject to greater risks than that of a fund investing in a more broadly diversified portfolio.

Defensive Strategies

At times the Investment Manager may judge that conditions in the markets for tax-exempt securities make pursuing a Fund's basic investment strategy inconsistent with the best interests of its shareholders. At such times the Investment Manager may, temporarily, use alternative strategies, primarily designed to reduce fluctuations in the value of the Fund's assets. In implementing these defensive strategies, the Fund may invest substantially all of its assets in high-quality, tax-exempt obligations and/or short-term tax-exempt obligations. If these high-quality, tax-exempt obligations or short-term tax-exempt obligations are not available or, in the Investment Manager's judgment, do not afford sufficient protection against adverse market conditions, the Fund may invest in taxable obligations. Such taxable obligations may include: obligations of the U.S. Government, its agencies or instrumentalities; other debt securities rated within the four highest categories by S&P, Moody's or Fitch; commercial paper rated in the highest categories by any such rating agency; certificates of deposit and bankers' acceptances; repurchase agreements with respect to any of the foregoing investments; or any other fixed-income securities that the Investment Manager considered consistent with this strategy. To the extent that the use of certain of these strategies produces taxable income, this taxable income will be distributed to holders of Common Shares and Preferred Shares based on each class's proportionate share of such income as determined according to the percentage of total

dividends paid by the Fund during a particular year that are paid to such class. Such strategies may, under certain circumstances, require the Fund to pay additional dividends on the Preferred Shares, thus reducing the amount of income available for distributions on its Common Shares. It is impossible to predict when, or for how long, the Fund will use these alternative strategies. See *Special Leverage Considerations* in this section and *Dividends and Distribution*, *Dividend Reinvestment Plan* and *Taxation*.

Additional Investment Activities

Loans of Portfolio Securities

Although each Fund may lend portfolio securities, neither Fund currently engages in this practice. By doing so, the Fund attempts to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Fund could experience delays in recovering the securities it lent. To the extent that, in the meantime, the value of the securities the Fund loaned has increased, the Fund could experience a loss. Income generated from loans of portfolio securities will be taxable. See *Taxation*.

Each Fund may lend its portfolio securities so long as the terms and the structure of such loans are not inconsistent with requirements of the 1940 Act, which currently require that (i) the borrower pledge and maintain with the Fund collateral consisting of cash, a letter of credit issued by a domestic U.S. bank or securities issued or guaranteed by the U.S. Government having a value at all times not less than 100% of the value of the securities loaned; (ii) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the value of the loan is marked to market on a daily basis), (iii) the loan be made subject to termination by the Fund at any time and (iv) the Fund receive reasonable interest on the loan (which may include the Fund's investing any cash collateral in interest bearing short-term investments), and distributions on the loaned securities and any increase in their market value. The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 $\frac{1}{3}$ % of the value of the Fund's total assets (including such loans). Loan arrangements made by a Fund will comply with all other applicable regulatory requirements, including the rules of the NYSE, which rules presently require the borrower, after notice, to redeliver the securities within the normal settlement time of three business days. All relevant facts and circumstances, including the creditworthiness of the borrower, will be monitored by the Investment Manager, and will be considered in making decisions with respect to lending securities, subject to review by the Board.

Each Fund may pay reasonable negotiated fees in connection with loaned securities, so long as such fees are set forth in a written contract and approved by the Board. In addition, voting rights may pass with the loaned securities, but if a material event were to occur affecting such a loan, the loan must be called and the securities voted by the Fund.

Repurchase Agreements

Each Fund may enter into repurchase agreements as temporary investments. A repurchase agreement is a transaction in which the seller of a security commits itself at the time of the sale to repurchase that security from the buyer at a mutually agreed upon time and price. Income generated from transactions in repurchase agreements will be taxable. See *Taxation*. A Fund will enter into repurchase agreements only with dealers, domestic banks or recognized financial institutions which, in the opinion of the Investment Manager based on guidelines established by the Board, present minimal credit risks. The Investment Manager will monitor the value of the securities underlying the repurchase agreement at the time the transaction is entered into and at all times during the term of the repurchase agreement to ensure that the value of the securities always exceeds the repurchase price. In the event of default by the seller under the repurchase agreement, a Fund may incur costs and experience time delays in connection with the disposition of the underlying securities, and if the value of the underlying securities has decreased, the Fund could experience a loss.

When-Issued and Delayed Delivery Securities

Each Fund may purchase securities on a when-issued or delayed delivery basis. Securities purchased on a when-issued or delayed delivery basis are purchased for delivery beyond the normal settlement date at a stated price and yield. No income accrues to the purchaser of a security on a when-issued or delayed delivery basis prior to

delivery. Such securities are recorded as an asset and are subject to changes in value based upon changes in the general level of interest rates. A Fund will make commitments to purchase securities on a when-issued or delayed delivery basis only with the intention of actually acquiring the securities but may sell them before the settlement date if it is deemed advisable. Purchasing a security on a when-issued or delayed delivery basis can involve a risk that the market price at the time of delivery may be lower than the agreed-upon purchase price, in which case there could be an unrealized loss at the time of delivery. Each Fund will establish a segregated account in which it will maintain liquid assets in an amount at least equal in value to the Fund's commitments to purchase securities on a when-issued or delayed delivery basis. If the value of these assets declines, the Fund will place additional liquid assets in the account on a daily basis so that the value of the assets in the account is equal to the amount of such commitments.

Derivatives

Each Fund may use a variety of derivative instruments as part of its investment strategies or for hedging or risk management purposes. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt instruments, interest rates, currencies or currency exchange rates, commodities and related indexes. Examples of derivative instruments that the Fund may use include options contracts, futures contracts, options on futures contracts, credit default swaps and swap agreements (collectively, *Hedging Transactions*). The Fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. The Fund's ability to pursue certain of these strategies may be limited by applicable regulations of the Commodity Futures Trading Commission (CFTC) and the federal income tax requirements applicable to regulated investment companies.

As part of its strategies, each Fund may purchase and sell futures contracts, purchase and sell (or write) exchange-listed and over-the-counter put and call options on securities, financial indices and futures contracts, enter into the interest rate and currency transactions discussed below and enter into other similar transactions which may be developed in the future to the extent the Investment Manager determines that they are consistent with the Fund's investment objectives and policies and applicable regulatory requirements (collectively, *derivative transactions*). Each Fund may use any or all of these techniques at any time, and the use of any particular derivative transaction will depend on market conditions. The derivative transactions that the Funds may use are described below.

Derivative transactions present certain risks. In particular, the variable degree of correlation between price movements of instruments a Fund has purchased or sold and price movements in the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Fund's position. In addition, certain derivative instruments and markets may not be liquid in all circumstances. As a result, in volatile markets, a Fund may not be able to close out a transaction without incurring losses substantially greater than the initial deposit. Although the contemplated use of these instruments should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time they may tend to limit any potential gain which might result from an increase in the value of such position.

Successful use of derivative transactions by a Fund is subject to the ability of the Investment Manager to predict correctly movements in the direction of interest rates and other factors affecting markets for securities. These skills are different from those needed to select portfolio securities. If the Investment Manager's expectations are not met, a Fund would be in a worse position than if a derivative transaction had not been pursued. For example, if a Fund hedged against the possibility of an increase in interest rates which would adversely affect the price of securities in its portfolio and the price of such securities increased instead, the Fund would lose part or all of the benefit of the increased value of its securities because it would have offsetting losses in its futures positions. Losses due to derivative transactions will reduce net asset value. See

Risk Factors *Derivatives Risk* in this section.

Risk Factors

Because the Funds have identical investment objectives and investment strategies, the principal risks of investing in the Funds are substantially the same. There is no assurance that either Fund will meet its investment objectives. You may lose money on your investment in either Fund. The value of each Fund's shares may go up or down, sometimes rapidly and unpredictably. Market conditions, financial conditions of issuers represented in each

Fund's portfolio, investment strategies, portfolio management, and other factors affect the volatility of each Fund's shares. An investment in a Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. The following summarizes the principal risks of investing in a Fund.

Fixed-Income and Interest Rate Risks

Each Fund expects that under normal market circumstances at least 80% of its assets will consist of investment grade tax-exempt securities, the market value of which generally varies inversely with changes in prevailing interest rates. Accordingly, the market values of each Fund's assets and, therefore, the Fund's net asset value will fluctuate with changes in prevailing interest rates as well as other factors. During periods of falling interest rates, the values of long-term fixed-income securities generally increase. Conversely, during periods of rising interest rates, the values of such securities generally decline. Each Fund's investments in tax-exempt securities with longer terms to maturity are subject to greater volatility than the Fund's investments in shorter term securities. These fluctuations are likely to be greater in the case of a fund having a leveraged capital structure.

Although obligations rated Baa by Moody's, BBB by S&P or BBB by Fitch are considered to be investment grade, they may be subject to greater risks than higher rated investment grade securities. Obligations rated Baa by Moody's, for example, are considered medium grade obligations that lack outstanding investment characteristics and have speculative characteristics as well; obligations rated BBB by S&P are regarded as having an adequate capacity to pay principal and interest; and obligations rated BBB by Fitch are deemed to be subject to an increased likelihood that their rating will fall below investment grade than higher rated bonds. In general, such obligations may have speculative characteristics, and changes in economic conditions or other circumstances are more likely to lead to a weakened capacity to make principal and interest payments than is the case with higher grade obligations. Changes by recognized rating services in the ratings of tax-exempt securities will also affect the value of a Fund's investments, as will economic and other factors that affect the ability of an issuer to make payments of interest and principal on its outstanding debt.

Tax-Exempt Securities Risks

The Investment Manager believes that, in general, the secondary market for tax-exempt securities is less liquid than that for taxable fixed-income securities. Consequently, the ability of a Fund to buy and sell tax-exempt securities may, at any particular time and with respect to any particular securities, be limited. The amount of information about the financial condition of an issuer of tax-exempt securities may not be as extensive as information about corporations whose securities are publicly traded. Obligations of issuers of tax-exempt securities may be subject to the provisions of bankruptcy, insolvency and the United States Bankruptcy Code and applicable state laws, which could limit the ability of the Fund to recover payments of principal or interest on such securities.

Certain tax-exempt securities which may be held by a Fund may permit the issuer at its option to call, or redeem, its securities. If an issuer were to redeem tax-exempt securities held by a Fund during a time of declining interest rates, the Fund may realize a capital loss on its investment if the security was purchased at a premium and may not be able to reinvest the proceeds in tax-exempt securities providing as high a level of investment return as the securities redeemed. For additional considerations relating to the Funds' investments in tax-exempt securities, including investing in municipal leases, see *Comparison of Investment Objectives, Strategies and Principal Risks of Investing in the Funds' Investment Objectives, Strategies and Principal Risks - Tax-Exempt Securities*.

Tax Risks

All or a portion of a Fund's dividends may be subject to alternative minimum tax or to state or local taxation. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), relating to the issuance of municipal obligations, impose restrictions on the volume of municipal obligations qualifying for federal tax-exemption. One effect of these provisions could be to increase the cost of the tax-exempt securities available for purchase by a Fund and thus reduce available yield. Legislative proposals that may further restrict or eliminate the federal income tax-exemption for interest on municipal obligations may be introduced in the future. See *Taxation*.

Below Investment Grade Securities Risk

Securities rated below investment grade, commonly referred to as junk bonds, are considered speculative and, compared to investment grade securities, tend to have more volatile prices and increased price sensitivity to changing interest rates and to adverse economic and business developments, a greater risk of loss due to default or declining credit quality, a greater likelihood that adverse economic or issuer specific events will make the issuer unable to make interest and/or principal payments, a greater susceptibility to negative market sentiments leading to depressed prices and decreased liquidity.

The market values of medium and lower-rated securities tend to be more sensitive to issuer-specific developments and changes in economic conditions than higher-rated securities. The issuers of these securities often are highly leveraged, and their ability to service their debt obligations during an economic downturn or periods of rising interest rates may be impaired. In addition, these issuers may not have access to more traditional methods of financing, and may be unable to repay debt at maturity by refinancing. The risk of loss due to default in payment of interest or principal by these issuers is significantly greater than with higher rated securities because medium and lower rated securities generally are unsecured and subordinated to senior debt.

Default, or the market's perception that an issuer is likely to default, could reduce the value and liquidity of securities held by a Fund, thereby reducing the value of your investment in Fund shares. In addition, default may cause a Fund to incur expenses in seeking recovery of principal or interest on its portfolio holdings.

Derivatives Risk

Each Fund may utilize a variety of derivative instruments for investment or risk management purposes, such as options, futures contracts, swap agreements and credit default swaps. Derivatives are subject to a number of risks described elsewhere in this Proxy Statement/Prospectus, such as liquidity risk, interest rate risk, credit risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation, and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances and there can be no assurance that a Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. If a Fund invests in a derivative instrument, it could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that a Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. The use of derivatives also may increase the amount of taxes payable by shareholders. In addition to the risks applicable to derivatives generally, credit default swaps involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty).

Anti-Takeover Provisions

Each Fund's Charter contains certain anti-takeover provisions that may have the effect of inhibiting the Fund's possible conversion to open-end status and limiting the ability of other persons to acquire control of the Fund. In certain circumstances, these provisions might also inhibit the ability of holders of Common Shares to sell their Common Shares at a premium over prevailing market prices. The Board has determined that these provisions are in the best interests of shareholders generally.

Closed-End Fund Risk

Each Fund is a closed-end investment company. Shares of closed-end investment companies frequently trade at a discount from net asset value, but may trade at a premium. This characteristic is a risk separate and distinct from the risk that a Fund's net asset value will decrease as a result of its investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of the Merger. Neither Fund can predict whether its shares will trade at, above or below net asset value. Each Fund is intended primarily for long-term investors and should not be considered as a vehicle for trading purposes.

Special Leverage Considerations

Each Fund is leveraged with Preferred Shares. Utilization of leverage through the issuance of Preferred Shares is a speculative investment technique and involves certain risks to the holders of Common Shares. These include the possibility of higher volatility of the net asset value of the Common Shares, potentially more volatility in the market value of the Common Shares and fluctuations in the dividend rate on the Preferred Shares that may affect the yield to holders of Common Shares. So long as a Fund is able to realize a higher net return on its investment portfolio than the then current dividend rate of any Preferred Shares together with other related expenses, the effect of leverage will be to cause holders of Common Shares to realize a higher current net investment income than if the Fund were not so leveraged. On the other hand, to the extent that the then current dividend rate on any Preferred Shares approaches the net return on a Fund's investment portfolio, the benefit of leverage to holders of Common Shares will be reduced, and if the then current dividend rate on any Preferred Shares were to exceed the net return on the Fund's investment portfolio, the Fund's leveraged capital structure would result in a lower rate of return to holders of Common Shares than if the Fund were not so leveraged. Similarly, since any decline in the net asset value of a Fund's investments will be borne entirely by holders of that Fund's Common Shares, the effect of leverage in a declining market would be a greater decrease in net asset value applicable to the Common Shares than if the Fund were not leveraged. Any such decrease would likely be reflected in a decline in the market price of the Common Shares. If a Fund's current investment income were not sufficient to meet dividend requirements on any Preferred Shares, it could be necessary for the Fund to liquidate certain of its investments, thereby reducing the net asset value attributable to its Common Shares. Such liquidations might also cause a Fund to realize gains on securities held for less than three months. Because not more than 30% of a Fund's gross income may be derived from the sale or disposition of stocks and securities held for less than three months to maintain the Fund's status as a regulated investment company under the Code, such gains would limit the ability of the Fund to sell other securities held for less than three months that the Fund might wish to sell in the ordinary course of its portfolio management and thus might adversely affect the Fund's yield. Moreover, while dividends on Preferred Shares, which are cumulative, are unpaid, no dividends would be permitted to be paid on Common Shares until a Fund resumed its payments of dividends on the Preferred Shares as required.

Under the requirements of the 1940 Act, the value of each Fund's total assets, less all liabilities and indebtedness of the Fund for borrowed money, must be equal, immediately after any such issuance of Preferred Shares, to at least 200% of the aggregate liquidation value of any outstanding Preferred Shares. Such percentage must also be met at any time a Fund pays a dividend or makes any other distribution on Common Shares (other than a distribution in Common Shares) or any time the Fund repurchases Common Shares, in each case after giving effect to such dividend, distribution or repurchase. The liquidation value of Preferred Shares of each Fund equals the aggregate original purchase price plus any accrued and unpaid dividends thereon. See Description of the Funds Capital Stock.

Each Fund has applied for a Aaa rating from Moody's and/or a AAA rating from S&P on its Preferred Shares; however, no minimum rating is required for either Fund's Preferred Shares. Each Fund believes that obtaining one or both of such ratings for its Preferred Shares will enhance the marketability of the Preferred Shares and thereby reduce the dividend rate on the Preferred Shares from that which the Fund would be required to pay if the Preferred Shares were not so rated. The rating agencies for the Preferred Shares may require asset coverage maintenance ratios in addition to those imposed by the 1940 Act. The ability of a Fund to comply with such asset coverage maintenance ratios may be subject to circumstances beyond the control of the Fund such as market conditions for its portfolio securities. The terms of each Fund's Preferred Shares provide for mandatory redemption of the Preferred Shares in the event the Fund fails to meet such asset coverage maintenance ratios. In such circumstances, a Fund may have to liquidate portfolio securities in order to meet redemption requirements. This would have the effect of reducing the net asset value to holders of the Fund's Common Shares and could reduce a Fund's net income in the future.

Under the 1940 Act, the holders of Preferred Shares, voting as a class, must have the right to elect at least two directors at all times, and, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, to elect a majority of the directors if at any time dividends on such class of securities shall be unpaid in an amount equal to two full years' dividends on such securities, and to continue to be so represented until all dividends in arrears shall have been paid or otherwise provided for. In addition, the vote of a majority of the Preferred Shares, voting as a class, is required to approve any plan of reorganization adversely affecting the Preferred Shares, or any action requiring a vote of security holders pursuant to Section 13(a) of the 1940 Act, including, among other things, changes in a Fund's subclassification as a closed-end investment company or

changes in its fundamental investment policies. In addition, the terms of the Funds' Preferred Shares also provide for the vote of a majority of the Preferred Shares, voting separately as a class, regarding certain transactions involving a merger or sale of assets or conversion of the Fund to open-end status or other matters. See Description of the Funds' Capital Stock Preferred Shares Voting Rights.

The issuance of any additional Preferred Shares by a Fund will entail certain initial costs and expenses such as underwriting discounts, fees associated with the registration of the Preferred Shares with the SEC, filings under state securities laws, rating agency fees, legal and accounting fees, printing costs and certain other ongoing expenses such as administrative and accounting fees. These costs and expenses will be borne by the Fund and will reduce net assets available to holders of the Fund's Common Shares.

The timing of any future offering of additional Preferred Shares and the terms of any additional series of Preferred Shares, if any, will be determined by the relevant Fund's Board in consultation with the Investment Manager based upon prevailing market conditions and a determination that the issuance of additional Preferred Shares stock is likely to be beneficial to the holders of that Fund's Common Shares. There can be no assurance that either Fund will issue any additional Preferred Shares.

Neither Fund expects to realize significant capital gains. For tax purposes, however, net realized capital gains and other taxable income, if any, will be allocated between holders of Common Shares and holders of Preferred Shares in proportion to total dividends paid to each class of shareholder for the year in which such capital gains or other taxable income is realized. To the extent capital gains and other taxable income are allocated to holders of Preferred Shares for tax purposes, a Fund will likely have to pay higher dividends to holders of Preferred Shares to compensate them for the increased tax liability to them resulting from such allocation. However, the negative impact on holders of Common Shares of such increased dividends to holders of Preferred Shares would be offset in whole or in part by the allocation to holders of Common Shares of a greater share of a Fund's tax-exempt income, likely resulting in a lower tax liability for holders of Common Shares than if all of the Fund's net capital gains or other taxable income had been allocated to holders of Common Shares. To the extent any such increase in dividend payments to holders of Preferred Shares is not entirely offset by a reduction in the tax liability of holders of Common Shares, the potential advantage of the Fund's leveraged structure to holders of Common Shares will be reduced.

Investment Restrictions

The following restrictions, along with each Fund's investment objectives and its policy to invest at least 80% of the Fund's net assets in tax-exempt securities under normal market conditions, are each Fund's only fundamental policies—that is, policies that cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. As used in this Proxy Statement/Prospectus, a majority of a Fund's outstanding voting securities means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares. See Description of the Funds' Capital Stock Preferred Shares Voting Rights for additional information with respect to the voting rights of holders of each Fund's Preferred Shares. With respect to each Fund, the other policies and investment restrictions referred to in this Proxy Statement/Prospectus are not fundamental policies of the Fund and may be changed by the Fund's Board without shareholder approval. If a percentage restriction set forth below is adhered to at the time a transaction is effected, later changes in percentage resulting from any cause other than actions by the Fund will not be considered a violation. Under its fundamental restrictions, neither Fund may:

(1) 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 other than securities issued or guaranteed by the U.S. Government or any agency or instrumentality thereof;

(2) invest 25% or more of the value of its total assets in any one industry provided that such limitation shall not be applicable to tax-exempt securities other than those tax-exempt securities backed only by assets and revenues from non-governmental users, nor shall it apply to obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities;

- (3) issue senior securities, as defined in the 1940 Act, other than preferred stock, except to the extent such issuance might be involved with respect to borrowings described under subparagraph (10) below or with respect to Hedging Transactions;
- (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 Fund's investment objectives and policies, the acquisition of securities subject to repurchase agreements or temporary investments in accordance with the Fund's investment objectives and policies;
- (5) underwrite the securities of other issuers, except to the extent that (a) in connection with the disposition of portfolio securities or the sale of its own securities the Fund may be deemed to be an underwriter and (b) the purchase of tax-exempt securities in accordance with its investment objectives and policies may be deemed to be an underwriting;
- (6) invest for the purpose or exercising control over any issuer;
- (7) purchase or sell real estate or interests therein other than tax-exempt securities secured by real estate or interests therein;
- (8) purchase or sell commodities, commodity futures contracts or commodity options except for Hedging Transactions;
- (9) make short sales of securities or purchase any securities on margin (except for such short-term credits as are necessary for the clearance of transactions);
- (10) borrow money, except that the Fund may borrow money from banks for temporary or emergency purposes or for tender offers or repurchases of its shares or for payment of dividends, subject to the limits of the 1940 Act;
- (11) pledge, mortgage or hypothecate its assets, except that it may pledge securities to secure borrowings permitted by subparagraph (10) above or in connection with hedging transactions; and
- (12) invest in securities of other investment companies in an amount exceeding the limitations set forth in the 1940 Act and the rules thereunder, except as part of a merger, consolidation or other acquisition.

For the purpose of applying the limitation set forth in subparagraph (1) above, an issuer shall be deemed the sole issuer of a security when its assets and revenues are separate from other governmental entities and its securities are backed only by its assets and revenues. Similarly, in the case of a non-governmental issuer, such as an industrial corporation or a privately owned or operated hospital, if the security is backed only by the assets and revenue of the non-governmental issuer, then such non-governmental issuer would be deemed to be the sole issuer. Where a security is also backed by the enforceable obligation of a superior or unrelated governmental or other entity (other than a bond issuer), it shall also be included in the computation of securities owned that are issued by such governmental or other entity. Except as otherwise permitted by the 1940 Act, where a security is guaranteed by a governmental entity or some other facility, such as a bank guarantee or a letter of credit, such a guarantee or letter of credit would be considered a separate security and would be treated as an issue of such government, other entity or bank. When a security is insured by bond insurance, it shall not be considered a security that is issued or guaranteed by the insurer; instead, the issuer of such security will be determined in accordance with the principles set forth above.

In addition to the foregoing restrictions, neither Fund will, as a matter of operating policy, invest in securities that are illiquid. This policy is not fundamental and may be changed by the Board without shareholder approval.

Each Fund has obtained ratings of its Preferred Shares from Moody's or S&P. In order to obtain and maintain the required ratings, a Fund may be required to comply with investment quality, diversification and other guidelines established by Moody's and/or S&P, as the case may be. Such guidelines are more restrictive than the restrictions set forth above. Neither Fund anticipates that such guidelines would have a material adverse effect on the holders of Common Shares or its ability to achieve its investment objectives.

Rating Agency Guidelines

Each Fund intends that, so long as Preferred Shares are outstanding, the composition of its portfolio will reflect guidelines established by at least one of Moody's or S&P connection with the Fund's receipt of a rating for the Preferred Shares on their Date of Original Issue of 'aaa' from Moody's or AAA from S&P. Moody's and S&P, nationally recognized statistical rating organizations, issue ratings for various securities reflecting their perceived creditworthiness of such securities. The guidelines described below have been developed by Moody's and S&P in connection with issuances of asset-backed and similar securities, including debt obligations and variable rate preferred stocks, generally on a case-by-case basis through discussions with the issuers of these securities. The guidelines are designed to ensure that assets underlying outstanding debt or preferred stock will be sufficiently varied and will be of sufficient quality and amount to justify investment-grade ratings. The guidelines do not have the force of law but have been adopted by the Funds in order to satisfy current requirements necessary for Moody's or S&P, or both, to issue, the above-described ratings for Preferred Shares, which ratings are generally relied upon by investors in purchasing such securities. The guidelines provide a set of tests for portfolio composition and asset coverage that supplement (and in some cases are more restrictive than) the Applicable requirements under the 1940 Act. See Description of the Funds Capital Stock Preferred Shares Asset Maintenance. A rating agency's guidelines will apply to the Preferred Shares only so long as such rating agency is rating the Preferred Shares.

Each Fund intends to maintain a Discounted Value for its portfolio at least equal to the Preferred Shares Basic Maintenance Amount and, in addition, so long as S&P is rating the Preferred Shares, each Fund intends to Maintain a Minimum Liquidity Level. Moody's and S&P have each established separate guidelines for determining Discounted Value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of Discounted Value (as defined by such rating agency). Moody's and S&P guidelines do not impose any limitations on the percentage of Fund assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of either Fund's portfolio. The amount of such assets included in the portfolio at any time may vary depending upon the rating, diversification and other characteristics of the Eligible Assets included in the portfolio, although it is not anticipated that in the normal course of business the value of such assets would exceed 20% of either Fund's total assets.

In managing each Fund's portfolio, the Investment Manager will not alter the composition of the Fund's portfolio if, in the reasonable belief of the Investment Manager, the effect of any such alteration would be to cause the Fund to have Eligible Assets with an aggregate Discounted Value, as of the immediately preceding Valuation Date, less than the Preferred Shares Basic Maintenance Amount as of such Valuation Date; provided, however, that in the event that, as of the immediately preceding Valuation Date, the aggregate Discounted Value of the Fund's Eligible Assets exceeded the Preferred Shares Basic Maintenance Amount by 25% or less, the Investment Manager will not alter the composition of the Fund's portfolio in a manner reasonably expected to reduce the aggregate Discounted Value of the Fund's Eligible Assets unless the Fund shall have confirmed that, after giving effect to such alteration, the aggregate Discounted Value of the Fund's Eligible Assets would exceed the Preferred Shares Basic Maintenance Amount.

Upon any failure to maintain the required Discounted Value, each Fund will seek to alter the composition of its portfolio to retain a Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount on or prior to the Preferred Shares Basic Maintenance Cure Date, thereby incurring additional transaction costs and possible losses and/or gains on dispositions of portfolio securities. To the extent any such failure is not cured in a timely manner, Preferred Shares will be subject to redemption if either Moody's or S&P is rating the Preferred Shares. See Description of the Funds Capital Stock Preferred Shares Asset Maintenance and Description of the Funds Capital Stock Preferred Shares Redemption. The Preferred Shares Basic Maintenance Amount includes the sum of (i) the aggregate liquidation value of Preferred Shares then outstanding and (ii) certain accrued and projected payment obligations of a Fund. See Description of the Funds Capital Stock Preferred Shares Asset Maintenance.

Each Fund may, but is not required to, adopt any modifications to these guidelines that may hereafter be established by Moody's or S&P. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any rating agency providing a rating for

the Preferred Shares may, at any time, change or withdraw any such rating. As set forth in the Articles Supplementary describing each Fund's Preferred Shares, the Board may, without shareholder approval, modify certain definitions or restrictions which have been adopted by the Fund pursuant to the rating agency guidelines, provided the Board has obtained written confirmation from Moody's or S&P, or both, that any such change would not impair the ratings then assigned by Moody's or S&P, or both, to the Preferred Shares.

So long as either S&P or Moody's is rating the Preferred Shares, neither Fund may, among other things, (1) borrow money, except that the Fund may, without obtaining the written confirmation described below, borrow money for the purpose of clearing securities transactions if the Preferred Shares Basic Maintenance Amount would continue to be satisfied after giving effect to such borrowing, (2) engage in any short sales of securities or (3) lend any securities, unless it has received written confirmation from S&P or Moody's, as appropriate, that any such action would not impair the ratings then assigned by such rating agency to the Preferred Shares. While neither Fund intends to borrow, and while each Fund is generally restricted from borrowing in excess of 5% of its total assets so long as its Preferred Shares are outstanding and is otherwise restricted from borrowing pursuant to Rating Agency Guidelines, under certain circumstances and notwithstanding adverse interest rate or market conditions, each Fund is permitted to borrow under the Fund's investment restrictions for temporary or emergency purposes (e.g., to make required distributions or pay dividends) or to tender for or repurchase shares when the Fund's Board, in its judgment, deems such borrowing to be in the best interest of the holders of Common Shares. Should a Fund borrow, the Fund would be required to pay when due the interest obligation on any debt incurred by the Fund before it would be able to pay dividends on the Preferred Shares, and it is likely that the Fund would be required to pay the principal amount of any such debt prior to meeting the liquidation preference of the Preferred Shares. Because the interest expense on borrowings by a Fund will reduce the Fund's net investment earnings available to pay dividends on the Preferred Shares, borrowing may impair the Fund's ability to pay such dividends on Preferred Shares. This risk is heightened in the event a Fund incurs variable rate debt, the interest rate on which may increase with increases in prevailing market rates.

With respect to each Fund, for so long as any of the Preferred Shares are outstanding and Moody's is then rating the Preferred Shares, the Fund will not, unless it has received written confirmation from Moody's that any such action would not impair the rating then assigned by Moody's to the Preferred Shares, engage in transactions in options on securities, futures contracts or options on futures contracts except that in connection with Moody's Hedging Transactions, the Fund may:

(A) buy call or put option contracts on securities;

(B) write covered call options on securities;

(C) write put options on securities;

(D) enter into futures contracts based on the Municipal Index provided that the Fund shall not engage in any such transaction which would cause the Fund at the time of such transaction to own or have sold (1) outstanding futures contracts based on the Municipal Index exceeding in number 10% of the rolling average number of daily traded futures contracts based on the Municipal Index in the 30 calendar days prior to the time of effecting such transaction as reported by *The Wall Street Journal* or (2) outstanding futures contracts based on the Municipal Index and options on such futures contracts having an aggregate fair market value (taking into account the fair market value of futures contracts based on Treasury Bonds) exceeding the fair market value of Moody's Eligible Assets owned by the Fund;

(E) enter into futures contracts on Treasury Bonds provided that the Fund shall not engage in any such transaction which would cause the Fund at the time of such transaction to own or have sold (1) outstanding futures contracts based on Treasury Bonds and options on such futures contracts having an aggregate fair market value (taking into account the fair market value of futures contracts based on the Municipal Index) exceeding 40% of the aggregate fair market value of Moody's Eligible Assets owned by the Fund and rated Aa by Moody's (or, if not rated by Moody's but rated by S&P, rated AAA by S&P) or (2) outstanding futures contracts based on Treasury Bonds and options on such futures contracts having an aggregate fair market value (taking into account the fair market value of futures contracts based on the Municipal Index) exceeding 80% of the aggregate fair market value of Moody's Eligible Assets owned by the Fund and rated Baa or A by Moody's (or, if not rated by Moody's but rated by S&P, rated A or AA by S&P);

for purposes of the foregoing clauses (D) and (E), each Fund shall be deemed to own the number of futures contracts that underlie any outstanding option written by the Fund; and

(F) buy call or put options on futures contracts on the Municipal Index or Treasury Bonds, may write put options on such futures contracts (provided, that if the contract would require delivery of a security, that security must be held by the Fund) and may write call options on such futures if it owns the futures contract subject to the option.

With respect to each Fund, for so long as its Preferred Shares are rated by Moody's, the Fund will engage in Closing Transactions to close out any outstanding futures contract based on the Municipal Index if the open interest with respect to such futures contracts based on the Municipal Index as reported by *The Wall Street Journal* is less than 5,000. For so long as a Fund's Preferred Shares are rated by Moody's, the Fund will engage in a Closing Transaction to close out any outstanding futures contract by no later than the fifth Business Day of the month in which such contract expires and will engage in a Closing Transaction to close out; any outstanding option on a futures contract by no later than the first Business Day of the month in which such option expires. For so long as a Fund's Preferred Shares are rated by Moody's, the Fund will engage in transactions with respect to futures contracts or options thereon having only the next settlement date or the settlement date immediately thereafter.

With respect to each Fund, for purposes of valuation of Moody's Eligible Assets, (A) if the Fund writes a call option, the underlying asset will be valued as follows: (1) if the option is exchange-traded and maybe offset readily or if the option expires within the Moody's Exposure Period, at the lower of the Discounted Value of the underlying security and the exercise price of the option or (2) otherwise, it has no value; (B) if the Fund writes a put option, the underlying asset will be valued as follows the lesser of (1) exercise price and (2) the Discounted Value of the underlying security; (C) if the Fund is a seller under a futures contract with respect to an individual security, the underlying security will be valued at the lower of (1) settlement price and (2) the Discounted Value of the underlying security; if a contract matures within Moody's Exposure Period, the security may be valued at the settlement price; (D) if the Fund is the buyer under a futures contract with respect to an individual security, the underlying security will be valued at the lower of (1) the settlement price and (2) the Discounted Value of the underlying security; if the contract matures within Moody's Exposure Period, the security may be valued at its Discounted Value and (E) call or put option contracts which the Fund buys have no value.

With respect to each Fund, for so long as its Preferred Shares are rated by Moody's, (A) the Fund will not engage in options and futures transactions for leveraging or speculative purposes; (B) the Fund will not write or sell any anticipatory contracts pursuant to which the Fund hedges the anticipated purchase of an asset prior to completion of such purchase; (C) the Fund will not enter into an option or futures transaction unless, after giving effect thereto, the Fund would continue to have Moody's Eligible Assets with an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount; (D) for purposes of the Preferred Shares Basic Maintenance Amount (1) assets in margin accounts are not Moody's Eligible Assets, (2) 10% of the settlement price of assets sold under a futures contract, the settlement price of assets purchased under a futures contract, the settlement price of an underlying futures contract if the Fund writes put options on futures contracts will constitute liabilities of the Fund and (3) if the Fund writes call options on futures contracts and does not own the underlying futures contract, 105% of the market value of the underlying futures contract will constitute a liability of the Fund; (E) the Fund shall enter only into exchange-traded futures contracts and shall write only exchange-traded options on exchanges approved by Moody's; (F) where delivery may be made to the Fund with any of a class of securities, the Fund shall assume for purposes of the Preferred Shares Basic Maintenance Amount that it takes delivery of that security which yields it the least value; (G) the Fund will not engage in forward contracts; (H) the Fund will enter into futures contracts based on a particular security as a seller only if it owns the underlying security; and (I) the Fund's independent accountants shall confirm, on a quarterly basis, that the Fund is in compliance with these standards.

With respect to each Fund, for so long as any of its Preferred Shares are outstanding and S&P is rating the Preferred Shares, the Fund will not, unless the Fund has received written confirmation from S&P that any such action would not impair the rating then assigned by S&P to the Preferred Shares, purchase or sell futures contracts or options thereon or write uncovered put or uncovered call options on portfolio securities except that (A) the Fund

may engage in any S&P Hedging Transactions based on the Municipal Index, provided that the Fund shall not engage in an S&P Hedging Transaction based on the Municipal Index (other than Closing Transactions) which would cause the Fund at the time of such transaction to own or have sold the least of (1) more than 1,000 outstanding futures contracts based on the Municipal Index, (2) outstanding futures contracts based on the Municipal Index and on the Treasury Bonds exceeding in number 25% of the quotient of the fair market value of the Fund's total assets divided by 100,000 or (3) outstanding futures contracts based on the Municipal Index exceeding in number 10% of the average number of daily traded futures contracts based on the Municipal Index in the month prior to the time of effecting such transaction as reported by *The Wall Street Journal* and (B) the Fund may engage in S&P Hedging Transactions based on Treasury Bonds, provided that the Fund shall not engage in any S&P Hedging Transaction based on Treasury bonds (other than Closing Transactions) which would cause the Fund at the time of such transaction to own or have sold the lesser of (1) outstanding futures contracts based on Treasury Bonds and on the Municipal Index exceeding in number 25% of the quotient of the fair market value of the Fund's total assets divided by 100,000 or (2) outstanding futures contracts based on Treasury Bonds exceeding in number 10% of the average number of daily traded futures contracts based on Treasury Bonds in the month prior to the time of effecting such transaction as reported by *The Wall Street Journal*.

With respect to each Fund, for so long as the Preferred Shares are rated by S&P, the Fund will engage in Closing Transactions to close out any outstanding futures contracts which the Fund owns or has sold or any outstanding option thereon owned by the Fund in the event (A) the Fund does not have S&P Eligible Assets with an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount on two consecutive Valuation Dates and (B) the Fund is required to pay Variation Margin on the second such Valuation Dates. With respect to each Fund, for so long as its Preferred Shares are rated by S&P, the Fund will engage in a Closing Transaction to close out any outstanding futures contract or option thereon in the month prior to the delivery month under the terms of such futures contract or option thereon unless the Fund holds securities deliverable under such terms. For purposes of determining S&P Eligible Assets to determine compliance with the Preferred Shares Basic Maintenance Amount, no amounts on deposit with a Fund's custodian or broker representing Initial Margin or Variation Margin shall constitute S&P Eligible Assets. With respect to each Fund, for so long as its Preferred Shares are rated by S&P, when the Fund writes a futures contract or option thereon, it will maintain an amount of cash, cash equivalents or short-term, money market securities in a segregated account with the Fund's custodian, so that the amount so segregated plus the amount of Initial Margin and Variation Margin held in the account of the Fund's broker equals the fair market value of the futures contract, except that in the event the Fund writes a futures contract or option thereon which requires delivery of an underlying security, the Fund shall hold such underlying security.

As described by Moody's and S&P, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings on the Preferred Shares are not recommendations to purchase, hold or sell Preferred Shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines described above and below also do not address the likelihood that an owner of Preferred Shares will be able to sell Preferred Shares in an Auction. The ratings are based on current information furnished to Moody's and S&P by the Funds and the Investment Manager, and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information.

Neither Fund foresees becoming insolvent and has no intention to file an application for relief under federal bankruptcy laws or similar state laws for so long as the Fund is solvent.

Moody's aaa Rating Guidelines. The Discounted Value of each Fund's portfolio for purposes of Moody's aaa ratings guidelines is calculated each Friday which is a Business Day or the preceding Business Day if a particular Friday is not a Business Day provided, however, that the Discounted Value of the Fund's portfolio shall be calculated each Business Day if so required by the rating agency or rating agencies then rating the Preferred Shares in connection with the Fund engaging in certain futures and options transactions as described above (a Valuation Date). For purposes of calculating the Discounted Value of a Fund's portfolio under current Moody's guidelines, Tax-Exempt Securities eligible for consideration under such guidelines (Moody's Eligible Assets) must be discounted by certain discount factors set forth in the table below (Moody's Discount Factors). The Discounted Value of a Tax-Exempt Security under Moody's guidelines is, as of any Valuation Date, (1) with respect to a Moody's Eligible Asset that is not currently callable as of such Valuation Date at the option of the issuer thereof, the quotient of the market value thereof divided by the applicable Moody's Discount Factor, or (ii) with

respect to a Moody's Eligible Asset that is currently callable as of such Valuation Date at the option of the issuer thereof, the quotient of (a) the lesser of the market value or call price thereof, including any call premium divided by (b) the applicable Moody's Discount Factor. Moody's Discount Factor used to discount a particular Tax-Exempt Security will be determined by reference to the Moody's Exposure Period (currently, the period commencing on a given Valuation Date and ending 52 days thereafter) and Moody's rating on such Tax-Exempt Security. Moody's Discount Factors for a range of exposure periods are set forth below:

Exposure Period	Moody's Discount Factors Rating Category						
	Ass ⁽¹⁾	Aa ⁽¹⁾	A ⁽¹⁾	Baa(i)	Other ⁽²⁾	(V)MIG-1 ⁽³⁾	SP-1+ ⁽³⁾
7 weeks or less	151%	159%	168%	202%	229%	136%	148%
8 weeks or less but greater than 7 weeks	154	164	173	205	235	137	149
9 weeks or less but greater than 8 weeks	158	169	179	209	242	138	150

Since Moody's Exposure Period currently applicable to each Fund is 52 days, Moody's Discount Factors currently applicable to Moody's Eligible Assets will be determined by reference to the factors set forth opposite the Exposure Period line entitled "8 weeks or less but greater than 7 weeks." Notwithstanding the foregoing, (i) the Moody's Discount Factor for short-term Tax-Exempt Securities will be 115%, so long as such Tax-Exempt Securities are rated at least MIG-1, VMIG-1 or P-1 by Moody's and mature or have a demand feature at par exercisable in 30 days or less or 125% if such Tax-Exempt Securities are not rated by Moody's but are rated A-1+/AA, SP-1+/AA by S&P and mature or have a demand feature at par exercisable in 30 days or less and (ii) no Moody's Discount Factor will be applied to cash or Receivables for Tax-Exempt Securities Sold. Receivables for Tax-Exempt Securities Sold, for purposes of calculating Moody's Eligible Assets as of any Valuation Date, means no more than the aggregate of the following: (i) the book value of receivables for Tax-Exempt Securities sold as of or prior to such Valuation Date if such receivables are due within five Business Days of such Valuation Date, and if the trades which generated such receivables are (x) settled through clearing house firms with respect to which the Fund has received prior written authorization from Moody's or (y) with counterparties having a Moody's long-term debt rating of at least Baa3; and (ii) Moody's Discounted Value of Tax-Exempt Securities sold as of or prior to such Valuation Date which generated receivables, if such receivables are due within five Business Days of such Valuation Date but do not comply with either of conditions (x) or (y) of the preceding clause (i).

Moody's guidelines impose certain minimum issue size and geographical diversification and impose other requirements for purposes of determining which Municipal Obligations will qualify as Moody's Eligible Assets, as set forth in the table below:

Rating	Minimum	Maximum	Maximum
	Issue Size	Underlying	State or Territory
	\$ (Millions)	Obligor (%)	Concentration (%)
Aaa	10	100	100
Aa	10	20	60
A	10	10	40
Baa	10	6	20
Other ⁽⁴⁾	10	4	12

(1) Moody's Rating.

(2) Tax-Exempt Securities not rated by Moody's but rated BBB-, BBB or BBB+ by S&P.

(3) Tax-Exempt Securities rated MIG-1 or VMIG-1 or, if not rated by Moody's, rated SP-1+ by S&P, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating.

(4) Tax-Exempt Securities not rated by Moody's but rated BBB by S&P.

The percentages set forth in the preceding table are based upon Moody's Eligible Assets calculated excluding cash. Current Moody's guidelines also require that Tax-Exempt Securities constituting Moody's Eligible Assets pay interest in cash, be publicly rated Baa or higher by Moody's or, if not rated by Moody's but rated by S&P, that they be rated at least BBB by S&P, and that they not have suspended ratings. For purposes of determining Moody's Discount Factors applicable to such S&P-rated Tax-Exempt Securities, any such Tax-Exempt Security (excluding short-term Tax-Exempt Securities) will be deemed to have a Moody's rating which is one full rating category lower than its S&P rating. For purposes of applying the foregoing requirements, Tax-Exempt Securities rated MIG-1, VMIG-1 or P-1, or, if not rated by Moody's, rated A-1+/AA Or SP-1+/AA by S&P, will be considered to have a long-term rating of A.

S&P AAA Rating Guidelines. The Discounted Value of each Fund's portfolio for purposes of S&P AAA ratings guidelines is calculated each Valuation Date. For purposes of calculating the Discounted Value of a Fund's portfolio, the fair market value of Tax-Exempt Securities eligible for consideration under current S&P guidelines (S&P Eligible Assets) must be discounted by the applicable S&P discount factors set forth in the table below (S&P Discount Factors). The Discounted Value of an S&P Eligible Asset under S&P guidelines is the fair market value thereof divided by the S&P Discount Factor. The S&P Discount Factor used to discount a particular S&P Eligible Asset will be determined by reference to (i) the S&P rating on such Tax-Exempt Security and (ii) the S&P Exposure Period (currently, 10 Business Days). S&P Discount Factors for a range of exposure periods are set forth below.

Exposure Period	Rating Category			
	AAA	AAA	A	BBB
40 Business Days	190%	195%	210%	250%
22 Business Days	170	175	190	230
10 Business Days	155	160	175	215
7 Business Days	150	155	170	210
3 Business Days	130	135	150	190

Since the S&P Exposure Period currently applicable to the Funds is 10 Business Days, the S&P Discount Factors currently applicable to S&P Eligible Assets will be determined by reference to the factors set forth opposite the Exposure Period line entitled 10 Business Days. Notwithstanding the foregoing, (i) the S&P Discount Factor for short-term Tax-Exempt Securities will be 115%, so long as such Tax-Exempt Securities are rated A-1+ or SP-1+ by S&P and mature or have a demand feature exercisable within 30 days or less, or 125% if such Tax-Exempt Securities are not rated by S&P but are rated VMIG-1, P-1 or MIG-1 by Moody's; provided, however, that such Moody's rated short-term Tax-Exempt Securities which have demand features exercisable within 30 days or less must be backed by a letter of credit, liquidity facility or guarantee from a bank or other financial institution, such bank or institution with a short-term rating of at least A-1+ from S&P; and further provided that such Moody's rated short-term Tax-Exempt Securities may comprise no more than 50% of short-term Tax-Exempt Securities that qualify as S&P Eligible Assets and (ii) no S&P Discount Factor will be applied to cash or Receivables for Tax-Exempt Securities Sold. For purposes of the foregoing, Anticipation Notes rated SP-1+ or, if not rated by S&P, rated MIG 1 or VMIG-1 by Moody's, which do not mature or have a demand feature at par exercisable in 30 days and which do not have a long-term rating, will be considered to be short-term Tax-Exempt Securities. Receivables for Tax-Exempt Securities Sold, for purposes of calculating S&P Eligible Assets as of any Valuation Date, means the book value of receivables for Tax-Exempt Securities sold as of or prior to such Valuation Date if such receivables are due within five business days of such Valuation Date.

The S&P guidelines require certain minimum issue size and geographical diversification and impose other requirements for purposes of determining S&P Eligible Assets. In order to be considered S&P Eligible Assets, Tax-Exempt Securities must:

- (a) Be interest bearing and pay interest at least semiannually;
- (b) Be payable in U.S. dollars;

(c) Be publicly rated BBB or higher by S&P or, if not rated by S&P but rated by Moody's, be rated at least A by Moody's; provided that such Moody's-rated Tax-Exempt Securities will be included in S&P Eligible Assets only to the extent the fair market value of such Tax-Exempt Securities does not exceed 50% of the aggregate fair market value of the S&P Eligible Assets. For purposes of determining the S&P Discount Factors applicable to such Moody's-rated Tax-Exempt Securities, any such Tax-Exempt Securities will be deemed to have an S&P rating which is one full rating category lower than its Moody's rating;

(d) Not be private placements; and

(e) Be part of an issue with an original size of at least \$20 million or, if of an issue with an original issue size below \$20 million but in no event lower than \$10 million, be issued by an issuer with a total of at least \$50 million of securities outstanding.

Notwithstanding the foregoing:

(1) Tax-Exempt Securities of any one issuer or guarantor (excluding bond insurers) will be considered S&P Eligible Assets only to the extent the fair market value of such Tax-Exempt Securities does not exceed 10% of the aggregate fair market value of the S&P Eligible Assets, provided that 2% is added to the applicable Discount Factor for every 1% by which the fair market value of such Tax-Exempt Securities exceeds 5% of the aggregate fair market value of the S&P Eligible Assets.

(2) Tax-Exempt Securities guaranteed or insured by any one bond issuer will be considered S&P Eligible Assets only to the extent the fair market value of such municipal securities does not exceed 25% of the aggregate fair Market value of the S&P Eligible Assets.

Long-term Tax-Exempt Securities issued by issuers in any one state or territory will be considered S&P Eligible Assets only to the extent the fair market value of such Tax-Exempt Securities does not exceed 20% of the aggregate fair market value of the S&P Eligible Assets.