Flaherty & Crumrine Dynamic Preferred & Income Fund Inc
Form 497
May 24, 2013

Filed Pursuant to Rule 497
File No. 333-184587

PROSPECTUS

18,000,000 Shares
Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated
$25.00 per Share

The Fund. Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated (the Fund) is a newly organized, non-diversified, closed-end management investment company.

Investment Objective and Strategies. The Fund s investment objective is to seek total return, with an emphasis on high current income. Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt, and senior debt. Managed Assets are the Fund s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock (Preferred Shares) issued by the Fund, if any, and the proceeds of any reverse repurchase agreements (Reverse Repurchase Agreements) entered into by the Fund.

***No Prior Trading History*. Because the Fund is newly organized, its shares of common stock (Common Shares) have no history of public trading. The shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the initial public offering.**

The Fund s Common Shares have been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol DFP. The minimum investment in the Fund is 100 Common Shares ($2,500).

Investment in the Fund s Common Shares involves substantial risks arising from, among other strategies, the Fund s ability to invest in securities that are rated below investment grade (below Baa3 by Moody s Investors Service, Inc. or below BBB by either Standard & Poor s Ratings Services, a subsidiary of The McGraw-Hill Company, Inc. or Fitch, Inc.) or unrated but determined by Flaherty & Crumrine Incorporated to be of comparable quality and the Fund s anticipated use of leverage. Below investment grade securities are regarded as having increased risk with respect to capacity to pay interest and to repay principal, and are commonly referred to as high yield securities or junk bonds. Because of the risks associated with investing in high yield securities and using leverage, an investment in the Fund may be considered speculative. Before buying any of the Fund s Common Shares, you should read the discussion of the principal risks of investing in the Fund in Principal Risks of the Fund beginning on page 37 of this prospectus.

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

The underwriters expect to deliver Common Shares to purchasers on or about May 29, 2013.

	Per Share	Total(1)
Public offering price	$ 25.000	$ 450,000,000
Sales load(2)	$ 1.125	$ 20,250,000
Estimated offering expenses(3)	$ 0.050	$ 900,000
Proceeds, after expenses, to Fund	$ 23.825	$ 428,850,000

(notes on following page)

Wells Fargo Securities **Raymond James**

Stifel

Crowell, Weedon & Co.	**The GMS Group, LLC**	**Henley & Company LLC**
Hennion & Walsh, Inc.	**Ladenburg Thalmann & Co. Inc.**	**Maxim Group LLC**
National Securities Corporation	**Newbridge Securities Corporation**	**Pershing LLC**
Wedbush Securities Inc.	**Wunderlich Securities**	**B.C. Ziegler**

The date of this prospectus is May 23, 2013.

(notes from previous page)

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(1) The Fund has granted the underwriters an option to purchase up to 2,700,000 additional Common Shares at the public offering price less the sales load within 45 days of the date of this prospectus, solely to cover overallotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be $517,500,000, $23,287,500, $1,035,000 and $493,177,500, respectively. See Underwriting.

(2) Flaherty & Crumrine Incorporated (the Adviser or Flaherty & Crumrine) (and not the Fund) has agreed to pay from its own assets structuring fees to Wells Fargo Securities, LLC and Raymond James & Associates, Inc. In addition, Flaherty & Crumrine (and not the Fund) has agreed to pay from its own assets a sales incentive fee to each of The GMS Group, LLC, Stifel, Nicolaus & Co., Inc. and Wedbush Securities Inc. Flaherty & Crumrine (and not the Fund) has also agreed to pay Destra Capital Investments LLC (Destra) for distribution assistance in connection with the offering. The structuring, distribution assistance and other fees referenced in this footnote are not reflected in the sales load in the table above. See Underwriting.

(3) The Adviser has agreed to pay for all of the Fund s organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed $0.05 per Common Share. See Summary of Fund Expenses.

(continued from previous page)

Investment Portfolio. The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and real estate investment trust (REIT) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund s investments as it deems appropriate in light of current market and credit conditions.

The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated American Depositary Receipts (ADRs), U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund will invest at least 80% of its Managed Assets in (i) investment grade quality securities or (ii) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its Managed Assets in securities of companies with below investment grade quality senior unsecured debt outstanding. Securities that are rated below investment grade are commonly referred to as high yield or junk bonds. Some of the Fund s Managed Assets may be invested in securities rated (or issued by companies rated) below investment grade at the time of purchase. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay dividends and interest and repayment of principal. Due to the risks involved in investing in securities of below investment grade quality, an investment in the Fund should be considered speculative. The maturities of securities in which the Fund will invest generally will be longer-term (perpetual, in the case of some preferred securities, and ten years or more for other preferred and debt securities); however, as a result of changing market conditions and interest rates, the Fund may also invest in shorter-term securities. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years.

The portion of the Fund s Managed Assets not invested in preferred and other income-producing securities may be invested in, among other securities, money market instruments, money market mutual funds, asset-backed securities, and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities (Government Securities) and such obligations which are subject to repurchase agreements and commercial paper. Depending on market conditions, these investments may at times have a higher or lower yield than preferred securities and other income-producing securities in which the Fund invests.

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including:

- Traditional preferred stock;
- Hybrid and trust preferred securities that have characteristics of both equity and debt securities;
- Convertible securities;
- Subordinated debt; and
- Senior debt

These securities may be across a wide range of sectors and industries. The Fund may also invest in common stocks and Government Securities. These securities are not included within the Fund s 80% investment policy.

There can be no assurance that the Fund will achieve its investment objective. See Investment Objective and Policies and Principal Risks of the Fund.

Leverage. The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through borrowings, including loans from certain financial institutions and/or the issuance of debt securities (collectively, Borrowings), Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33 % of its Managed Assets (including the amount borrowed).

After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under a credit facility in an initial aggregate amount up to approximately 33 % (as determined immediately after borrowing) of the value of its Managed Assets. The use of leverage can create special risks. There can be no assurance that any leverage strategy the Fund employs will be successful during any period in which it is employed. See Use of Leverage and Principal Risks of the Fund Leverage Risk.

Investment Adviser. Flaherty & Crumrine Incorporated, a registered investment adviser located at 301 E. Colorado Boulevard, Suite 720, Pasadena, California 91101, is an independently-owned, California corporation. The Adviser was formed in 1983, and its clients include institutional investors and investment companies, including open-end and closed-end funds. The Adviser manages the assets of Flaherty & Crumrine Preferred Income Fund Incorporated (PFD), Flaherty & Crumrine Preferred Income Opportunity Fund Incorporated (PFO), Flaherty & Crumrine Preferred Securities Income Fund Incorporated (FFC) and Flaherty & Crumrine Total Return Fund Incorporated (FLC), four closed-end investment companies registered under the Investment Company Act of 1940, as amended (the 1940 Act), and listed on the New York Stock Exchange (NYSE). The Adviser also subadvises the assets of Destra Preferred and Income Securities Fund, an open-end investment company registered under the 1940 Act and Flaherty & Crumrine Investment Grade Fixed Income Fund (FFI.UN), an investment trust registered in Canada. The Adviser also manages portfolios of preferred securities for a variety of U.S. and foreign institutions, including insurance and non-financial companies. As of February 28, 2013, the Adviser had approximately $5.2 billion in assets under management.

This prospectus sets forth concisely the information about the Fund you should know before investing. You should read the prospectus carefully before deciding whether to invest, and should retain it for future reference. A Statement of Additional Information, dated May 23, 2013 (the SAI), as supplemented from time to time, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI on page 73 of this prospectus. You may request a free copy of the SAI by calling 1-866-233-4001. You also may call to request the Fund s annual and semi-annual reports (when available) or other information about the Fund, and to make shareholder inquires. The Fund makes available the SAI and the Fund s annual and semi- annual reports (when available), free of charge, at www.flaherty-crumrine.com. You may also obtain the SAI and other information regarding the Fund on the Securities and Exchange Commission website (*http://www.sec.gov*).

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

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

PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund s Common Shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information (the SAI), especially the information set forth under the heading Principal Risks of the Fund.

The Fund	Flaherty & Crumrine Dynamic Preferred and Income Fund Incorporated is a newly organized, non-diversified, closed-end management investment company. Throughout this prospectus, we refer to it simply as the Fund or as we, us or our. See The Fund.
The Offering	The Fund is offering 18,000,000 shares of common stock (Common Shares) through a group of underwriters led by Wells Fargo Securities, LLC and Raymond James & Associates, Inc. The underwriters have been granted an option to purchase up to 2,700,000 additional Common Shares solely to cover overallotments, if any. The initial public offering price is $25.00 per Common Share. Flaherty & Crumrine Incorporated (the Adviser or Flaherty & Crumrine) has agreed to pay for all of the Fund s organizational expenses and offering expenses (other than the sales load) to the extent these organizational and offering expenses in the aggregate exceed $0.05 per Common Share. The minimum investment in the Fund is 100 Common Shares ($2,500). See Underwriting.
Investment Objective and Policies	The Fund s investment objective is to seek total return, with an emphasis on high current income. The Fund s investment objective is considered non-fundamental and may be changed by the Fund s Board of Directors (the Board of Directors) without shareholder approval. The Fund s investment policies also may be changed by the Board of Directors without shareholder approval, unless otherwise noted in this Prospectus or the SAI. However, the Fund s investment objective and its 80% policy described below may only be changed upon 60 days prior written notice to the Fund s shareholders. See Investment Objective and Policies.
	Under normal market conditions, the Fund invests at least 80% of its Managed Assets (defined below) in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including traditional preferred stock, hybrid and trust preferred securities that have characteristics of both equity and debt securities, convertible securities, subordinated debt and senior debt. Managed Assets are the Fund s net assets, plus the principal amount of loans from financial institutions or debt securities issued by the Fund, the liquidation preference of preferred stock (Preferred Shares) issued by the Fund, if any, and the proceeds of any reverse repurchase agreements (Reverse Repurchase Agreements) entered into by the Fund.
	The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and real

estate investment trust (REIT) industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund s investments as it deems appropriate in light of current market and credit conditions.

The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. In addition, the Fund may invest its Managed Assets in U.S. dollar-denominated American Depositary Receipts (ADRs), U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States.

The Fund will invest at least 80% of its Managed Assets in (i) investment grade quality securities or (ii) below investment grade quality securities of companies with investment grade senior unsecured debt outstanding, in either case determined at the time of purchase. Consequently, the Fund may invest up to 20% of its Managed Assets in securities of companies with below investment grade quality senior unsecured debt outstanding. Securities that are rated below investment grade are commonly referred to as high yield or junk bonds. Some of the Fund s Managed Assets may be invested in securities rated (or issued by companies rated) below investment grade at the time of purchase. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to capacity to pay dividends and interest and repayment of principal. Due to the risks involved in investing in securities of below investment grade quality, an investment in the Fund should be considered speculative. The maturities of securities in which the Fund will invest generally will be longer-term (perpetual, in the case of some preferred securities, and ten years or more for other preferred and debt securities); however, as a result of changing market conditions and interest rates, the Fund may also invest in shorter-term securities. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and increase in value by 3% if interest rates fall 1%.

The portion of the Fund s Managed Assets not invested in preferred and other income-producing securities may be invested in, among other securities, money market instruments, money market mutual funds, asset-backed securities, and securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities (Government Securities) and such obligations which are subject to repurchase agreements and commercial paper. Depending on market conditions, these investments may at times have a higher or lower yield than preferred securities and other income-producing securities in which the Fund invests.

Investment Portfolio

Under normal market conditions, the Fund invests at least 80% of its Managed Assets in a portfolio of preferred and other income-producing securities issued by U.S. and non-U.S. companies, including:

- Traditional preferred stock;
- Hybrid and trust preferred securities that have characteristics of both equity and debt securities;
- Convertible securities;
- Subordinated debt; and
- Senior debt

These securities may be across a wide range of sectors and industries. The Fund may also invest in common stocks and Government Securities. These securities are not included within the Fund s 80% investment policy.

Primary Investment Strategies and Techniques

Preferred Securities. Preferred securities share many investment characteristics with both bonds and common stock; therefore, the risks and potential rewards of investing in the Fund may at times be similar to the risks of investing in equity-income funds or both equity funds and bond funds. Similar to bonds, preferred securities, which generally pay fixed or adjustable rate dividends or interest to investors, have preference over common stock in the payment of dividends or interest and the liquidation of a company s assets, which means that a company typically must pay dividends or interest on its preferred securities before paying any dividends on its common stock. On the other hand, like common stock, preferred securities are junior to all forms of the company s debt, including both senior and subordinated debt, and the company can skip or defer dividend or interest payments for extended periods of time without triggering an event of default. Further, different types of preferred securities can be junior or senior to other types of preferred securities in both priority of payment of dividends or interest and/or the liquidation of a company s assets.

Preferred securities can be structured differently for retail and institutional investors, and the Fund may purchase either structure. The retail segment is typified by $25 par securities that are listed on the NYSE and which trade and are quoted with accreted dividend or interest income included in the price. The institutional segment is typified by $1,000 par value securities that are not exchange-listed, and which trade over-the-counter (OTC) and are quoted on a clean price, without accrued dividend or interest income included in the price.

While preferred securities can be issued with a final maturity date, others (including most traditional preferred stock) are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer s option for a specified time without any adverse consequence to the issuer. No redemption can typically take place unless all cumulative payment obligations to preferred security investors have been met, although issuers may be able to engage in open-market repurchases without regard to any cumulative dividends or interest payable. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to holders of such securities.

There are two basic types of preferred securities. The first, sometimes referred to in this prospectus as traditional preferred securities, consists of preferred stock issued by an entity taxable as a corporation. Preferred stocks are considered equity securities for federal income tax purposes. The second basic type is referred to in this prospectus as hybrid-preferred securities. Hybrid-preferred securities may be issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated trust or partnership of the corporation, generally in the form of preferred interests in subordinated debentures or similarly structured securities. Hybrid-preferred securities are considered debt securities for federal income tax purposes.

The Fund may invest up to 100% of its Managed Assets in floating-rate and fixed-to-floating-rate preferred securities. Floating-rate and fixed-to-floating-rate preferred securities may be traditional preferred or hybrid-preferred securities. The terms of floating-rate preferred securities provide that interest rates are adjusted periodically based upon an interest rate adjustment index. Because of the interest rate reset feature, floating-rate securities provide the Fund with a certain degree of protection against rising interest rates, although the interest rates of floating-rate securities will participate in any declines in interest rates as well. Similarly, a fixed-to-floating-rate security may be less price-sensitive to rising interest rates (or yields), because it has a rate of payment that is fixed for a certain period (typically five, ten or thirty years when first issued), after which period a floating-rate of payment applies.

Debt Securities. The Fund may invest in a variety of debt securities, including corporate senior or subordinated debt securities and U.S. government securities. Corporate debt securities are fixed-income securities issued by businesses to finance their operations. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Notes, bonds, debentures and commercial paper are the most common types of corporate debt securities, with the primary difference being their maturities and secured or unsecured status. Senior debt refers to debt that is in first-lien position. In the event of a default and subsequent liquidation, the senior lender has first priority in recouping its investment. Subordinated debt, also known as mezzanine or junior debt is a second-level of debt. Such debt is referred to as subordinate, because the debt providers (lenders) have subordinate status in relationship to the senior debt.

Non-U.S. Investments. The Fund may invest up to 100% of its Managed Assets in securities of U.S. companies, and may also invest up to 100% of its Managed Assets in securities of non-U.S. companies. The Fund may invest its Managed Assets in U.S. dollar-denominated ADRs, U.S. dollar-denominated foreign stocks traded on U.S. exchanges and U.S. dollar-denominated and non-U.S. dollar-denominated securities issued by companies organized or headquartered in foreign countries and/or doing significant business outside the United States. ADRs are receipts issued by a bank or trust company to evidence ownership of the underlying securities issued by non-U.S. companies.

Convertible Securities. The Fund may invest in convertible securities, which have investment characteristics of both bonds and common stocks. Convertible securities are generally debt securities or preferred stock that may be converted into common stock; in some cases, conversions may be mandatory. Convertible securities typically pay current income as either interest (debt security convertibles) or dividends (preferred stock). Convertible securities entitle the holder to receive interest paid or accrued on debt, or dividends paid or accrued on preferred stock, until the security matures or is redeemed, converted or exchanged. A convertible s value usually reflects both the stream of current income payments and the market value of the underlying common stock.

Concentration in Financials Sector. The Fund will invest, under normal market conditions, more than 25% of its total assets in the financials sector, which for this purpose is comprised of the bank, thrifts & mortgage finance, diversified financial services, finance, consumer finance, capital markets, asset management & custody, investment banking & brokerage, insurance, insurance brokers and REIT industries. From time to time, the Fund may have 25% or more of its total assets invested in any one of these industries. For example, the Fund could have more than 25% of its total assets in insurance companies, while at other times it could have that portion invested in banks. At all times, though, the Fund would have at least 25% of its total assets invested in the financials sector. In addition, the Fund also may focus its investments in other sectors or industries, such as (but not limited to) energy, industrials, utilities, and pipelines. The Adviser retains broad discretion to allocate the Fund s investments as it deems appropriate in light of current market and credit conditions.

REITs. The Fund may invest in REITs which are pooled investment vehicles that invest primarily in income producing real estate or real estate related loans or interests. The Fund may invest in REITs of any market capitalization; however, even the larger REITs tend to be small- to medium-sized companies in relation to the equity markets as a whole. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest primarily in real property and earn rental income from leasing those properties. They may also realize gains or losses from the sale of properties. Equity REITs will be affected by conditions in the real estate rental market and by changes in the value of the properties they own. Mortgage REITs invest primarily in mortgages and similar real estate interests and receive interest payments from the owners of the mortgaged properties. They are paid interest by the owners of the financed properties. Mortgage REITs will be affected by changes in creditworthiness of borrowers and changes in interest rates. Hybrid REITs invest both in real property and in mortgages. Equity and mortgage REITs are dependent upon management skills, may not be diversified and are subject to the risks of financing projects. Dividends paid by REITs will not be eligible for the dividends received deduction and generally will not qualify for the reduced U.S. federal income tax rates applicable to qualified dividends under the Internal Revenue Code of 1986, as amended (the Code).

Illiquid Securities. The Fund may invest without limit in instruments that lack a secondary trading market or are otherwise considered illiquid. Generally, illiquid securities are securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities. The Board of Directors or its delegate has the ultimate authority to determine, to the extent permissible under the Federal securities laws, which securities are liquid or illiquid. The Board of Directors has delegated to the Adviser the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. The Board of Directors and/or the Adviser will consider factors such as (i) the nature of the market for a security (including the institutional private resale market; the frequency of trades and quotes for the security; the number of dealers willing to purchase or sell the security; the amount of time normally needed to dispose of the security; and the method of soliciting offers and the mechanics of transfer), (ii) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (*e.g.,* certain repurchase obligations and demand instruments) and (iii) other permissible relevant factors.

Additional Investment Strategies and Techniques

Common Stocks. The Fund may invest up to 15% of its Managed Assets in common stocks, which represent residual ownership interest in issuers and include rights or warrants to purchase common stocks. Holders of common stocks are entitled to the income and increase in the value of the assets and business of the issuers after all debt obligations and obligations to preferred shareholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

Derivatives. The Fund expects that its initial use of derivatives will involve interest rate and other hedging transactions, such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk of its use of leverage. The Fund also may engage in derivatives transactions to manage duration in the Fund s portfolio. The Fund also may use options on treasury futures contracts for purposes of hedging interest rate exposure in the portfolio and has the authority to use other types of derivative investments for hedging or to increase expected return. The Fund may, for example, use futures, total return swaps, credit default swaps, options and other derivative instruments and may short certain securities to hedge the risks of its investments in securities, as a substitute for a position in the underlying asset, to reduce transaction costs, to maintain full market exposure (which means to adjust the characteristics of their investments to more closely approximate those of the markets in which they invest), to manage cash flows, to increase total return or to preserve capital.

Credit Derivatives. The market value of the Fund s investments in credit derivatives and/or premiums paid therefor as a buyer of credit protection will not exceed 10% of the Fund s Managed Assets. The notional amount of the credit exposure to which the Fund is subject when it sells credit protection will not exceed 33 % of the Fund s Managed Assets.

New Issues and Follow-On Offerings. In addition to purchasing securities in the secondary market, the Fund intends to seek investment opportunities in new issues and follow-on or secondary offerings of preferred securities. The Adviser, as an institutional investor, may have access to new issues and secondary offerings that may not be fully available to retail investors. By investing in such offerings, the Adviser may be able to secure favorable terms for the Fund, such as attractive pricing relative to other securities available in the secondary market. The Adviser has developed relationships with issuers and underwriters that it believes could afford the Fund competitive advantages in evaluating and managing these investment opportunities in preferred securities.

Investment Companies. The Fund may also invest in securities of open-end or closed-end investment companies, including exchange-traded funds (ETFs), that invest primarily in securities of the types in which the Fund may invest directly. The Fund may invest in the securities of ETFs in excess of the limits imposed under the Investment Company Act of 1940, as amended (the 1940 Act), pursuant to exemptive orders obtained by certain ETFs and their sponsors from the Securities and Exchange Commission (SEC). An ETF is a fund that holds a portfolio of securities generally designed to track the performance of a securities index, including industry, sector, country and region indexes. ETFs and registered closed-end investment companies generally trade on a securities exchange and their shares may, at times, trade at a premium or discount to their net asset value. As a shareholder in an investment company, the Fund will bear its pro rata portion of that investment company s expenses, and will remain subject to payment of the Fund s advisory and administrative fees with respect to assets invested in such underlying investment companies. Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the Fund will incur brokerage costs when purchasing and selling shares of ETFs or an exchanged-traded closed-end investment company. Securities of other investment companies may be leveraged, in which case the value and/or yield of such securities will tend to be more volatile than securities of unleveraged vehicles.

Temporary Defensive Policy, Cash Equivalents and Short Term Investments. Under normal conditions, the Fund invests substantially all of its assets with the goal of attaining its investment objective. The remainder of the Fund s assets may be held as cash or invested in short-term securities or cash equivalents. The percentage of the Fund invested in such holdings varies and depends heavily on current market conditions, among other factors. For temporary defensive purposes and during periods of high cash inflows or outflows, the Fund may depart from its principal investment strategies and invest part or all of its assets in these securities or it may hold cash. During such periods, the Fund may not be able to achieve its investment objective. The Fund may adopt a defensive strategy when the portfolio managers believe securities in which the Fund normally invests have elevated risks due to political or economic factors and in other extraordinary circumstances. For more information on eligible short term investments, see the SAI.

There can be no assurance that the Fund s investment objective will be achieved. For additional information about the Fund s portfolio composition, see Investment Objective and Policies.

Use of Leverage

The Fund currently intends to seek to enhance the level of its distributions and total return through the use of leverage. The Fund may utilize economic leverage through borrowings, including loans from certain financial institutions and/or the issuance of debt securities (collectively, Borrowings), Preferred Shares and Reverse Repurchase Agreements in an amount, determined at the time of issuance of such leverage, up to 33 % of its Managed Assets (including the amount borrowed). After the Fund has fully invested the net proceeds of this offering, the Fund currently intends to borrow money under a credit facility in an initial aggregate amount up to approximately 33 % (as determined immediately after borrowing) of the value of its Managed Assets.

There is no assurance that the Fund will utilize leverage or, if leverage is utilized, that it will be successful in enhancing the level of its distributions or total return. The net asset value of the Fund s Common Shares will be reduced by the issuance or incurrence costs of any leverage. Through leveraging, the Fund will seek to obtain a higher return for shareholders of the Fund s shares of common stock (Common Shareholders) than if the Fund did not utilize leverage. Leverage is a speculative technique and there are special risks and costs associated with leverage. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. See Use of Leverage Leverage Risk.

Under the 1940 Act, the Fund may utilize leverage through (i) Borrowings if the principal amount of such Borrowings, at the time of issuance, generally does not exceed 33 % of the Fund s total assets less liabilities other than the Borrowings and (ii) the issuance of Preferred Shares if immediately after such issuance, the liquidation value of the outstanding Preferred Shares does not exceed 50% of the Fund s total assets (including the proceeds from the issuance) less liabilities other than Borrowings. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of Fund securities. Although it currently has no intention of doing so, the Fund may utilize leverage through Reverse Repurchase Agreements, in which the Fund transfers portfolio securities to a financial institution in exchange for cash with an agreement to repurchase such securities on a future date at a specified price. At the time the Fund enters into a Reverse Repurchase Agreement, the Fund will cover its exposure under the Reverse Repurchase Agreement by designating on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). As a result, a Reverse Repurchase Agreement will not be considered a senior security under the 1940 Act. However, even to the extent that the Fund segregates liquid assets, enters into offsetting transactions or otherwise covers such transactions, the amount of financing the Fund may initially obtain through Reverse Repurchase Agreements will not exceed 33 % of the Fund s Managed Assets. The Fund has no current intention to issue Preferred Shares or to use Reverse Repurchase Agreements for leverage. See Use of Leverage Leverage Risk.

In order to seek to reduce the interest rate risk of the Fund s leverage through Borrowings, which typically have a floating-rate of interest, the Fund may, but is not required to, enter into interest rate swap transactions or Eurodollar strips to offset increases in short-term interest rates. The Fund also may initially enter into interest rate cap transactions to seek to reduce the interest rate risk of its leverage. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, our use of interest rate swaps or caps could enhance or harm the overall performance of the Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than our rate of payment on the interest rate swap, this will reduce the performance of the Fund s Common Shares. If, on the other hand, short-term interest rates are higher than our rate of payment on the interest rate swap, this will enhance the performance of the Fund s Common Shares. Buying interest rate caps could enhance the performance of the Fund s Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net income of the Fund s Common Shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement. See Use of Leverage Interest Rate Derivative Transactions.

So long as the Fund is able to realize a higher net return on its investment portfolio than the then-current cost of any leverage together with other related expenses, the effect of the leverage will be to cause Common Shareholders to realize higher net return than if the Fund were not so leveraged. On the other hand, to the extent that the then-current cost of any leverage, together with other related expenses, approaches the net return on the Fund s investment portfolio, the benefit of leverage to Common Shareholders will be reduced, and if the then-current cost of any leverage were to exceed the net return on the Fund s portfolio, the Fund s leveraged capital structure would result in a lower rate of return to Common Shareholders than if the Fund were not so leveraged. See Use of Leverage Leverage Risk.

The Fund is currently negotiating with commercial banks and other financial institutions to arrange a fixed or floating rate credit facility (the Credit Facility) pursuant to which the Fund would expect to be entitled to borrow funds from time to time in accordance with the terms of the Credit Facility. The Fund expects to enter into the Credit Facility shortly after the Fund s commencement of operations. Any such Borrowings, as well as the issuance of notes or other debt securities or Preferred Shares, would constitute financial leverage and would be subject to the asset coverage requirements imposed by the 1940 Act with respect to the amount of the borrowings and may limit the Fund s ability to declare dividends and distributions or repurchase its capital stock. The Fund may choose not to enter into the Credit Facility. If the Fund does not borrow the full amount under the Credit Facility, it may be charged a commitment fee on the aggregate undrawn commitment amount. However, the Fund expects to be fully drawn under the Credit Facility and therefore does not expect to be subject to any undrawn commitment fees.

Investment Adviser

Flaherty & Crumrine Incorporated is the investment adviser of the Fund under an investment advisory agreement (the Investment Advisory Agreement). The Adviser, a registered investment adviser, was formed in 1983, and its clients include pension plans, endowment funds and institutional investors and investment companies, including open-end and closed-end funds. As of February 28, 2013, the Adviser had approximately $5.2 billion of assets under management.

The Fund will pay the Adviser a monthly fee for its advisory services equal to an annual rate of 0.575 of 1.00% on the first $200 million of the Fund s average daily Managed Assets, and 0.50 of 1.00% on the Fund s average daily Managed Assets above $200 million. See Management of the Fund Investment Adviser. If the Fund utilizes leverage, the fees paid to the Adviser for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund s Managed Assets, which include the principal amount of outstanding Borrowings, the liquidation preference of Preferred Shares, if any, and the proceeds of any Reverse Repurchase Agreements. The Fund s investment management fees and other expenses are paid only by the Common Shareholders, and not by holders of Preferred Shares, if any. See Use of Leverage.

Investor Support Services	The Fund has retained Destra Capital Investments LLC (Destra or the Servicing Agent), a registered broker-dealer, to provide investor support services in connection with the on-going operation of the Fund. Such services include providing ongoing contact with respect to the Fund and its performance with financial advisors that are representatives of broker-dealers and other financial intermediaries, communicating with the stock exchange specialist for the Fund s Common Shares, and with the closed-end fund analyst community regarding the Fund on a regular basis, and developing and maintaining a website for the Fund. See Management of the Fund Investor Support Services.
Administrator	BNY Mellon Investment Servicing (US) Inc. (BNY Mellon), serves as the Fund s administrator (the Administrator). The Administrator calculates the net asset value of the Fund s Common Shares and generally assists in all aspects of the Fund s administration and operation. See Management of the Fund Administrator, Transfer Agent and Custodian.
Listing and Symbol	The Fund s Common Shares have been approved for listing on the NYSE, subject to notice of issuance, under the symbol DFP.
Dividends and Distributions	The Fund expects to distribute throughout the year, primarily in the form of regular monthly distributions, substantially all (on an annual basis) of its net investment income (that is, income other than net realized long-term and short-term capital gains) and its net realized short-term capital gains, if any. Initial distributions to common shareholders are expected to be declared approximately 45 days and paid approximately 60 to 90 days, after the completion of the offering of Common Shares. Realized long term capital gains, if any, are expected to be distributed annually. Fund distributions will retain the tax characteristics of the underlying dividends received from the Fund s investments. Thus, Fund distributions that derive from dividends paid by U.S. corporations and certain foreign corporations will be characterized as qualified dividend income (QDI) for individual shareholders, and Fund distributions that derive from dividends paid by U.S. corporations will be eligible for the dividends-received deduction (DRD) for corporate shareholders, in each case subject to the Fund and the shareholder meeting certain investment holding period requirements. Fund distributions that derive from interest on debt securities and dividends on hybrid preferred securities are generally fully taxable to shareholders and are not eligible for DRD or QDI characterization. Individuals will generally be taxed at long-term capital gain rates on QDI. For more information regarding QDI and DRD, see Taxation.
Dividend Reinvestment and Cash Purchase Plan	The Fund has a dividend reinvestment and cash purchase plan (the Plan) commonly referred to as an opt-out plan. Each Common Shareholder who does not specifically elect in writing to receive cash will automatically participate in the Plan and will have all distributions of dividends reinvested in additional Common Shares. Common Shareholders who elect not to participate in the Plan will receive all

distributions in cash, paid by check. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan. See Dividends and Distributions Dividend Reinvestment and Cash Purchase Plan and Taxation.

Custodian

The Bank of New York Mellon (the Custodian) will act as custodian for the Fund. See Management of the Fund Administrator, Transfer Agent and Custodian.

Transfer Agent

BNY Mellon Investment Servicing (US) Inc. also serves as the Fund s transfer agent, dividend disbursing agent and registrar (transfer agent). See Management of the Fund Administrator, Transfer Agent and Custodian.

Principal Risks of the Fund

The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective.

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

Investment Risk. An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest. The Fund s Common Shares may be affected by such factors as liquidity and market supply and demand. In addition, the common shares of closed-end management investment companies frequently trade at a discount from their NAV. The Fund cannot assure you that its Common Shares will trade at a price higher than or equal to NAV.

Market Risk. The market values of securities owned by the Fund may decline, at times sharply and unpredictably. Under normal conditions, markets generally move in cycles over time, with periods of rising prices followed by periods of declining prices. These fluctuations could be a sustained trend or a drastic movement and the value of your investment may reflect these fluctuations. The Fund may utilize leverage, which magnifies this risk. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. See Use of Leverage Leverage Risk.

Preferred and Subordinated Securities Risk. Preferred and other subordinated securities rank lower than bonds and other debt instruments in a company s capital structure and therefore will be subject to greater credit risk than those debt instruments. Distributions on some types of these securities may also be skipped or deferred by issuers without causing a default. Finally, some of these securities typically have special redemption rights that allow the issuer to redeem the security at par earlier than scheduled. If this occurs, the Fund may be forced to reinvest in lower yielding securities. See Principal Risks of the Fund Preferred and Subordinated Securities Risk.

Hybrid-Preferred Securities Risk. Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. Hybrid-preferred securities typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the maximum deferral period is five years. Payments on hybrid-preferred securities may be deferred for extended periods of time without default consequences to the issuer. Deferral will have adverse tax consequences for an investor in the Fund. During a deferral period, an investor in the Fund will incur a tax liability on the deferred interest income which will continue to accrue on the hybrid-preferred security, even though it is not actually paid. Because the Fund values the deferred income in calculating its net asset value, the Adviser will also receive a fee on this deferred income. Hybrid-preferred securities are also subject to event risk, which encompasses the variety of events, including default, that could occur that can affect an issuer s ability to repay its debt obligations in a timely manner. Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. In some cases, when investing in these hybrid-preferred securities issued by trusts or other special purpose entities, the Fund may not have recourse against the operating company in the event that the trust or other special purpose entity cannot pay the obligation and therefore, the Fund may lose some or all of the value of its investments in the hybrid-preferred security. In addition, in the event of the bankruptcy or dissolution of such an entity, the Fund may lose the value of some or all of its investment in the hybrid-preferred security, as investors in such securities would be paid only after all payments are made to senior debt holders.

Credit Risk. Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer s ability to make such payments. Credit risk may be heightened for the Fund because the Fund may invest in high yield or high risk securities; such securities, while generally offering higher yields than investment grade securities with similar maturities, involve greater risks, including the possibility of default or bankruptcy, and are regarded as predominantly speculative with respect to the issuer s capacity to pay dividends and interest and repay principal.

Interest Rate Risk. If interest rates rise, in particular, if long term interest rates rise, the prices of fixed rate securities held by the Fund will fall. See Principal Risks of the Fund Interest Rate Risk.

Duration Risk. Duration is the sensitivity, expressed in years, of the price of a fixed-income security to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. For example, a three-year duration means a bond is expected to decrease in value by 3% if interest rates rise 1% and increase in value by 3% if interest rates fall 1%. Because the Fund initially expects to have a long duration, it will be more sensitive to interest rate or yield changes. Although the Fund can buy securities of any maturity, it initially expects to have an effective duration between 9 and 14 years. Because of events affecting the bond markets and interest rate changes, the duration of the portfolio might not meet its target duration at all times. Duration differs from maturity in that it considers potential changes to interest rates, and a security s coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund s duration, including investments in floating-rate and fixed-to-floating-rate securities and interest rate and other hedging transactions such as pay-fixed interest rate swaps, interest rate cap transactions or Eurodollar strips, designed to reduce the interest rate risk. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

Floating-Rate and Fixed-to-Floating-Rate Securities Risk. The market value of floating-rate securities is a reflection of discounted expected cash flows based on expectations for future interest rate resets. The market value of such securities may fall in a declining interest rate environment and may also fall in a rising interest rate environment if there is a lag between the rise in interest rates and the reset. This risk may also be present with respect to fixed-to-floating-rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating-rate and fixed-to-floating-rate securities will decline due to lower coupon payments on floating-rate securities.

Liquidity Risk. The Fund may invest, without limit, in illiquid securities. From time to time, certain securities held by the Fund may have limited marketability and may be difficult to sell at favorable times or prices. It is possible that certain securities held by the Fund will not be able to be sold in sufficient amounts or in a sufficiently timely manner to raise the cash necessary to meet any potentially large redemption requests by Fund shareholders.

Concentration Risk. The Fund intends to invest 25% or more of its total assets in the financials sector. This policy makes the Fund more susceptible to adverse economic or regulatory occurrences affecting the financials sector.

Financials Sector Risk. The financials sector is especially subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentrations in geographic markets and in commercial and residential real estate loans, and competition from new entrants in their fields of business.

U.S. and foreign laws and regulations require banks and bank holding companies to maintain minimum levels of capital and liquidity and to establish loan loss reserves. A bank s failure to maintain specified capital ratios may trigger dividend restrictions, suspensions on payments on subordinated debt and preferred securities, and limitations on growth. Bank regulators have broad authority in these instances and can ultimately impose sanctions, such as imposing resolution authority, conservatorship or receivership, on such non-complying banks even when these banks continue to be solvent, thereby possibly resulting in the elimination of stockholders equity. Unless a bank holding company has subsidiaries other than banks that generate substantial revenues, the holding company s cash flow and ability to declare dividends may be impaired severely by restrictions on the ability of its bank subsidiaries to declare dividends or ultimately to redeem its securities (as they mature).

Similarly, U.S. and foreign laws and regulations require insurance companies to maintain minimum levels of capital and liquidity. An insurance company s failure to maintain these capital ratios may also trigger dividend restrictions, suspensions on payments of subordinated debt, and limitations on growth. Insurance regulators (at the state-level in the United States) have broad authority in these instances and can ultimately impose sanctions, including conservatorship or receivership, on such non-complying insurance companies even when these companies continue to be solvent, thereby possibly resulting in the elimination of shareholders equity. In addition, insurance regulators have extensive authority in some categories of insurance of approving premium levels and setting required levels of underwriting.

Companies engaged in stock brokerage, commodity brokerage, investment banking, investment management or related investment advisory services are closely tied economically to the securities and commodities markets and can suffer during a decline in either market. These companies also are subject to the regulatory environment and changes in regulations, pricing pressure, the availability of Funds to borrow and interest rates. See Principal Risks of the Fund Financials Sector Risk.

REITs Risk. Investments in REITs expose the Fund to risks similar to investing directly in real estate. The value of these underlying investments may be affected by changes in the value of the underlying real estate, the quality of the property management, the creditworthiness of the issuer of the investments, and changes in property taxes, interest rates and the real estate regulatory environment. Investments in REITs are also affected by general economic conditions.

Foreign Investment Risk. Because the Fund may invest its assets in foreign instruments, the value of Fund shares can be adversely affected by political and economic developments abroad. Foreign markets may be smaller, less liquid and more volatile than the major markets in the United States, and as a result, Fund share values may be more volatile. Trading in foreign markets typically involves higher expense than trading in the United States. The Fund may have difficulties enforcing its legal or contractual rights in a foreign country. See Principal Risks of the Fund Foreign Investment Risk.

Currency Risk. Since a portion of the Fund s assets may be invested in securities denominated in foreign currencies, changes in currency exchange rates may adversely affect the Fund s net asset value, the value of dividends and income earned, and gains and losses realized on the sale of securities. See Principal Risks of the Fund Currency Risk.

Non-Diversification Risk. The Fund is non-diversified, which means that it may invest in the securities of fewer issuers than a diversified fund. As a result, it may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, may experience increased volatility and may be highly concentrated in certain securities.

Convertible Securities Risk. The market value of a convertible security often performs like that of a regular debt security; that is, if market interest rates rise, the value of a convertible security usually falls. In addition, convertible securities are subject to the risk that the issuer will not be able to pay interest or dividends when due, and their market value may change based on changes in the issuer s credit rating or the market s perception of the issuer s creditworthiness. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer risks that apply to the underlying common stock. See Principal Risks of the Fund Convertible Securities Risk.

High Yield Securities Risk. Although high yield securities generally pay higher rates of interest than investment grade securities, high yield securities are high risk investments that may cause income and principal losses for the Fund. High yield securities may be issued by less creditworthy issuers. Issuers of high yield securities may have a larger amount of outstanding debt relative to their assets than issuers of investment grade securities. In the event of an issuer s bankruptcy, claims of other creditors may have priority over the claims of high yield bond holders, for example, leaving few or no assets available to repay high yield bond holders. Prices of high yield securities are subject to extreme price fluctuations. Adverse changes in an issuer s industry and general economic conditions may have a greater impact on the prices of high yield securities than on other higher rated fixed-income securities. Issuers of high yield securities may be unable to meet their interest or principal payment obligations because of an economic downturn, specific issuer developments, or the unavailability of additional financing. High yield securities frequently have redemption features that permit an issuer to repurchase the security from the Fund before it matures. If the issuer redeems high yield securities, the Fund may have to invest the proceeds in securities with lower yields and may lose income. High yield securities may be less liquid than higher rated fixed-income securities, even under normal economic conditions. There may be significant differences in the prices quoted for high yield securities by dealers in the market. Because they are less liquid, judgment may play a greater role in valuing certain of the Fund s securities than is the case with securities trading in a more liquid market. The Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting issuer. The credit rating of a high yield security does not necessarily address its market value risk. Ratings and market value may change from time to time, positively or negatively, to reflect new developments regarding the issuer. See Principal Risks of the Fund High Yield Securities Risk.

Selection Risk. Selection risk is the risk that the securities selected by Fund management will under-perform the markets, the relevant indices or the securities selected by other funds with similar investment objectives and investment strategies. This means you may lose money.

Management Risk. The Fund is an actively managed portfolio and its success depends upon the investment skills and analytical abilities of the Adviser to develop and effectively implement strategies that achieve the Fund s investment objective. Subjective decisions made by the Adviser may cause the Fund to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

Leverage Risk. Leverage is a speculative technique and there are special risks and costs associated with leveraging. There is no assurance that leveraging strategy will be successful. Leverage involves risks and special considerations for holders of Common Shares, including:

- the likelihood of greater volatility of net asset value, market price and dividend rate of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in the interest or dividend rates that the Fund must pay on any leverage will reduce the return on the holders of the Common Shares;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares;
- when the Fund uses financial leverage, the management fees payable to the Adviser will be higher than if the Fund did not use leverage; and
- leverage may increase operating costs, which may reduce total return.

For a more detailed description of the risks associated with leverage, see Use of Leverage Leverage Risk.

Risk of Market Price Discount from Net Asset Value. Shares of closed-end funds frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value could decrease as a result of investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. We cannot predict whether the Common Shares will trade at, above or below net asset value. Net asset value will be reduced immediately following the offering of the Common Shares by the amount of the sales load and the amount of organizational and offering expenses paid by the

Fund, to the extent such expenses are not borne by the Adviser. See Principal Risks of the Fund Risk of Market Price Discount from Net Asset Value.

Given the risks described above, an investment in the Fund s Common Shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.

Additional Risk Considerations

Potential Conflicts of Interest Risk. The Adviser provides investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Adviser intends to engage in such activities and may receive compensation from third parties for its services. The Adviser is not under any obligation to share any investment opportunity with the Fund. As a result, other clients of the Adviser with similar strategies may compete with the Fund for appropriate investment opportunities. The results of the Fund s investment activities may differ from those of other accounts managed by the Adviser, and it is possible that the Fund could sustain losses during periods in which one or more of the other accounts managed by the Adviser achieve profits. The Adviser has informed the Fund s Board of Directors that the investment professionals associated with the Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund s business and affairs. The Adviser has adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the accounts managed by the Adviser in a fair and equitable manner.

Dependence on Key Personnel Risk. The Adviser is dependent upon the experience and expertise of certain key personnel in providing services with respect to the Fund s investments. If the Adviser were to lose the services of these individuals, its ability to service the Fund could be adversely affected. As with any managed fund, the Adviser might not be successful in selecting the best-performing securities or investment techniques for the Fund s portfolio and the Fund s performance may lag behind that of similar funds. In addition, the performance of the Fund may also depend on the experience and expertise of individuals who become associated with the Adviser in the future.

Portfolio Turnover Risk. The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund s investment objective. There are no limits on portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of the Adviser, investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund that, when distributed to Common Shareholders, would be taxable to such shareholders as ordinary income. See Additional Risk Considerations Portfolio Turnover Risk.

Risk of Anti-Takeover Provisions. Certain provisions of the Fund s charter (the Charter) and Bylaws (the Bylaws) could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to modify the Fund s structure. The provisions may have the effect of depriving you of an opportunity to sell your shares at a premium over prevailing market prices and may have the effect of inhibiting conversion of the Fund to an open-end investment company. See Certain Provisions of the Charter and Bylaws and Additional Risk Considerations Risk of Anti-Takeover Provisions.

Derivatives Risk. The