HERZFELD CARIBBEAN BASIN FUND INC
Form N-2/A
September 29, 2014

As filed with the Securities and Exchange Commission on September 29, 2014
Securities Act File No. 333-196458
Investment Company Act File No. 811-06445

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

[X] REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

[X] Pre-Effective Amendment No. 1

[ ] Post-Effective Amendment No. ___

and/or

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

Amendment No. 7

THE HERZFELD CARIBBEAN BASIN FUND, INC.
(Exact Name of Registrant as Specified in Charter)

119 Washington Avenue, Suite 504 Miami Beach, FL 33139
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (305) 271-1900

Thomas J. Herzfeld
The Herzfeld Caribbean Basin Fund, Inc.
119 Washington Avenue, Suite 504 Miami Beach, FL 33139

Copies to:

Thomas J. Herzfeld 119 Washington Avenue Suite 504 Miami Beach, FL 33139	Joseph V. Del Raso, Esq. Pepper Hamilton LLP 3000 Two Logan Square 18th and Arch Streets Philadelphia, PA 19103

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. [__]

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee(3)
Common Stock	1,875,000 Shares	$15,000,000	$1,932

(1) Estimated solely for the purpose of calculating the registration fee. Calculated pursuant to Rule 457(c) under the Securities Act of 1933 based upon the market price of $8.00 reported on the NASDAQ Capital Market on May 19, 2014. The subscription price per share will be set at 95% of the average volume-weighted closing sale price at which the common stock trades on the NASDAQ Capital Market on the expiration date and the four preceding trading days.

(2) Estimated solely for the purpose of calculating the registration fee.

(3) Previously paid.

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

[herzfeld logo]

PROSPECTUS
[DATE]

1,237,690 Shares

THE HERZFELD CARIBBEAN BASIN FUND, INC.

Common Stock

Issuable Upon Exercise of Rights
to Subscribe for Such Shares of Common Stock

The Herzfeld Caribbean Basin Fund, Inc. (the "Fund") is issuing non-transferable rights the ("Rights") to its stockholders of record on October 9, 2014 (the "Record Date"), entitling the holders of Rights to subscribe for an aggregate of approximately 1,237,690 shares of the Fund's common stock (the "Offer"). Each stockholder of record on the Record Date will receive one Right for each full share of the Fund's common stock owned on the Record Date. The Rights will entitle the holders to purchase one share of the Fund's common stock, par value $0.001 per share ("Common Stock") for every three Rights held, and stockholders of record on the Record Date who fully exercise their Rights will be entitled to subscribe for additional shares of Common Stock ("Over-Subscription Shares") subject to the limitations set forth in this prospectus. The Over-Subscription Shares will be allocated pro rata to stockholders who over-subscribe based on the number of Rights originally issued to them. The Fund may increase the number of shares of Common Stock subject to subscription by up to 50% of the shares, or up to 618,845 additional shares of Common Stock, for an aggregate total of 1,856,535 shares of Common Stock.

The rights are non-transferable and, therefore, may not be purchased or sold. The Fund's Common Stock is listed, and the shares of Common Stock issued pursuant to this Offer will be listed on the NASDAQ Capital Market under the symbol "CUBA."

The Offer will expire at 5:00 p.m., Eastern Time, on November 6, 2014 (the "Expiration Date"), unless extended as described herein. The Fund announced its intention to make the Offer on June 2, 2014. The net asset values ("NAV") per share of common stock at the close of business on June 2, 2014 and on [October __, 2014] were $8.92 and $ [____], respectively, and the last reported sale prices of a share of Common Stock on the NASDAQ Capital Market on those dates were $8.21 and $ [____], respectively.

The subscription price per share (the "Subscription Price") will be 95% of the average volume-weighted closing sale price at which the Common Stock trades on the NASDAQ Capital Market on the Expiration Date and the four preceding trading days.

Once you subscribe for shares of Common Stock pursuant to the Offer and the Fund receives payment or guarantee of payment, you will not be able to change your investment decision.

The Fund is a non-diversified, closed-end management investment company organized in the State of Maryland on March 10, 1992. Its investment adviser is HERZFELD / CUBA, a division of Thomas J. Herzfeld Advisors, Inc. (the "Adviser"). The Fund's investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which include, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela ("Caribbean Basin Countries"). The Fund invests at least 80% of its total assets in a broad range of securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries. An investment in the Fund is not appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund’s objective will be achieved.

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

	Estimated Subscription Price1	Estimated Sales Load	Estimated Proceeds to the Fund2
Per Share	$[_____]	None	$[_____]
Total	$[___________]	None	$[___________]

AS A RESULT OF THE TERMS OF THE OFFER, STOCKHOLDERS WHO DO NOT FULLY EXERCISE THEIR RIGHTS, INCLUDING THE OVER-SUBSCRIPTION PRIVILEGE DESCRIBED IN THE SECTION OF THIS PROSPECTUS ENTITLED “THE OFFERING OVER-SUBSCRIPTION PRIVILEGE,” WILL, UPON THE COMPLETION OF THE OFFER, OWN A SMALLER PROPORTIONAL INTEREST IN THE FUND THAN THEY OWNED BEFORE THE OFFER. THE OFFER WILL RESULT IN EITHER A DILUTION OR ACCRETION OF NAV FOR ALL STOCKHOLDERS, WHETHER OR NOT THEY EXERCISE SOME OR ALL OF THEIR RIGHTS, BECAUSE THE SUBSCRIPTION PRICE PER SHARE MAY BE LESS THAN OR GREATER THAN THE THEN-CURRENT NAV. BECAUSE THE ESTIMATED SUBSCRIPTION PRICE IS BELOW THE NAV, THERE IS A LIKELIHOOD THAT THE COMPLETION OF THE OFFERING WILL RESULT IN AN IMMEDIATE DILUTION OF THE NAV FOR ALL EXISTING STOCKHOLDERS. SUCH DILUTION IS NOT CURRENTLY DETERMINABLE BECAUSE IT IS NOT KNOWN HOW MANY SHARES WILL BE SUBSCRIBED FOR, WHAT THE NAV OR MARKET PRICE OF THE SHARES WILL BE ON THE EXPIRATION DATE OR WHAT THE SUBSCRIPTION PRICE WILL BE. THE AMOUNT OF DILUTION OR ACCRETION MIGHT BE SIGNIFICANT. IF DILUTION OCCURS, STOCKHOLDERS WILL EXPERIENCE A DECREASE IN THE NAV OF SHARES HELD BY THEM, IRRESPECTIVE OF WHETHER THEY EXERCISE ALL OR ANY PORTION OF THEIR RIGHTS. SEE "RISK FACTORS AND SPECIAL CONSIDERATIONS-DILUTION" ON PAGE [____].

Investing in the Fund involves risks. See “Risk Factors and Special Considerations” on page [15] of this prospectus.

The employees of the Fund’s Adviser and the Directors and Officers of the Fund (see, “Management of the Fund”) may purchase shares of Common Stock through the Primary Subscription described in the section of this prospectus entitled “The Offering – Terms of the Offer ” and the Over-Subscription Privilege on the same terms as other stockholders.

This prospectus sets forth concisely certain information about the Fund that a prospective investor should know before investing. Please read this prospectus carefully before investing and keep it for future reference. All subscription questions and inquiries relating to the Offer should be directed to the subscriptions agent, Boston Financial Data Services, Inc. Event Center, 30 Dan Road, Canton, MA 02021, described in the section of this prospectus entitled “The Offering – Subscription Agent.”

Stockholders may also contact the Fund for information about the Offer by writing to The Herzfeld Caribbean Basin Fund, Inc., 119 Washington Avenue, Suite 504, Miami Beach, FL 33139 or by calling (305) 271-1900 or (800) TJH-FUND. Stockholders may also contact their brokers or nominees for information with respect to the Offer.

Stockholders may request copies of the Fund’s Annual Report and Semi-Annual Report free of charge, make inquiries or request other information about the Fund by writing to The Herzfeld Caribbean Basin Fund, Inc., 119 Washington Avenue, Suite 504 Miami Beach, FL 33139, by calling (800) TJH-FUND or (305) 271-1900, or on the Fund’s website at http://herzfeld.com/cuba.htm.

Information about the Fund can be also be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090 or toll free at (800) 732-0330. This information is also available on the EDGAR database on the SEC’s internet site at: http://www.sec.gov, and copies may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov or by writing the Public Reference Section of the Securities and Exchange Commission, 100 F Street, NE, Washington, D.C. 20549.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations not contained in this prospectus as if the Fund had authorized it. The Fund is offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security other than the shares of common stock offered by this prospectus, nor does it constitute an offer to sell or the solicitation of an offer to buy shares of common stock by anyone in any jurisdiction in which such offer or solicitation would be unlawful. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of common stock.

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1 Since the Subscription Price will not be determined until after printing and distribution of this prospectus, the Subscription Price above is estimated based on the closing price of a share of common stock of the Fund on [October __, 2014] and applying the pricing formula set forth on the cover page of this prospectus and described below under “Subscription Price” (i.e., 95% of the average volume-weighted closing sales price of the Fund’s shares on the NASDAQ Capital Market on [October __, 2014], and the four preceding trading days) (the “Estimated Subscription Price”). The average weighted closing sales price of a share the Fund’s common stock on [October __, 2014] was $[____]. See “The Offering - Subscription Price, and, Payment For Shares”.

2 Proceeds to the Fund before deduction of expenses incurred by the Fund in connection with the Offer which are estimated to be $[______________]. Amounts received by check prior to the final due date of this Offer will be deposited in a segregated interest-bearing account pending allocation and distribution of Common Stock. Interest on subscription monies will be paid to the Fund regardless of whether Common Stock is issued by the Fund.

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PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this prospectus and is qualified in its entirety by the more detailed information included elsewhere in the prospectus. The summary may not contain all of the information that is important to you. To understand the Offer fully you should read the entire document carefully, including the risk factors.

The Offer

The Board of Directors of the Fund (the "Board") has determined that it is in the best interests of the Fund and its existing stockholders to increase the assets of the Fund so that the Fund may be in a better position to take advantage of investment opportunities that may arise. In addition, the Board believes that increasing the size of the Fund may lower the Fund's expenses as a proportion of average net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance, however, that an increase in the size of the Fund will lower the Fund's expense ratio. Further, to the extent the Fund realizes gains (as it has in the past), any net realized gains of the Fund are required to be distributed to stockholders in order to maintain its "regulated investment company" status under Subchapter M of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, in the future the Fund may be required to make large distributions to stockholders to maintain its regulated investment company status, thereby reducing the net assets of the Fund. Additionally, if the Fund is fully invested when it is required to make a distribution it may need to sell some of its portfolio holdings at an inopportune time in order to raise the necessary funds to satisfy the distribution requirement. For the calendar year ended December 31, 2013, the Fund paid a year-end distribution of $1.14 per share. If successful, the Offer may reduce the need of the Fund to sell its portfolio positions in order to satisfy its distribution requirements. The Board also believes that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Fund's common stock on the NASDAQ Capital Market. The Offer seeks to reward existing stockholders by giving them the right to purchase additional shares at a price below market without incurring any direct commission or other transaction charges. Please note that stockholders that arrange to exercise Rights through a broker, bank, trust company or other financial intermediary may be charged for this service by such institution. See "The Offering - Purpose of the Offer."

At Board meetings held February 11, 2014, May 7, 2014, August 6, 2014 and September 11, 2014, the Board discussed at length with the Adviser and counsel to the Fund the proposed rights offering. At the September 11, 2014 meeting, the Board approved the final terms of the offer, which permit stockholders to acquire one new share of the Fund for every three Rights held (i.e., a One-for-Three rights offering) for a Subscription Price, equal to 95% of the volume-weighted average market price of a share of common stock on the Expiration Date and the four immediately preceding trading days.

Important Terms of the Offer

Total number of shares of Common Stock available for Primary Subscription:	1,237,690
Number of Rights you will receive for each outstanding share of Common Stock you own on the Record Date:	One Right for every one Share *
Number of shares of Common Stock you	

may purchase with your Rights at the Subscription Price per share	One share for every three Rights **
Subscription Price:	95% of the average volume-weighted sales price per share of the Fund's Common Stock on the NASDAQ Capital Market on October 24, 2014 and the four preceding trading days.
Estimated Subscription Price	$ [____]

* The number of Rights to be issued to a stockholder on the Record Date will be rounded up to the nearest whole number of Rights; no fractional Rights will be issued.

** Stockholders will be able to acquire additional shares of Common Stock pursuant to an over-subscription privilege in certain circumstances, described in the section of this prospectus entitled "The Offering – Terms of the Offer."

Important Dates for the Offer

Record Date:	October 9, 2014
Subscription Period:	October 16, 2014 to November 6, 2014
Expiration Date :	November 6, 2014*
Pricing Date:	November 6, 2014*
Subscription Certificate and Payment for Shares Due**	November 6, 2014*
Notice of Guaranteed Delivery Due**	November 6, 2014*
Final Payment for Shares (if any) Due***	November 11, 2014*
Confirmation Mailed to Participants	November 20, 2014*

* Unless the Offer is extended.

** Record Date Stockholders exercising Rights must deliver to the Subscription Agent by the Expiration Date either (i) the Subscription Certificate together with the estimated payment or (ii) a Notice of Guaranteed Delivery.

*** Additional amounts may be due at settlement for additional shares purchased upon exercising Rights because the Estimated Subscription Price may be less than the actual Subscription Price. See "The Offering - Payment for Shares."

(Capitalized terms used in this section are defined elsewhere in this prospectus.)

Key Elements of the Offer

One-for-Three Offering	The Offer will give stockholders on the Record Date ("Record Date Stockholders") the right to purchase one share of Common Stock for every three Rights received. For example, if you own 100 shares of common stock on the Record Date, you will receive 100 Rights entitling you to purchase 34 shares of Common Stock of the Fund. Record Date Stockholders may exercise all or some of their Rights. However, stockholders who do not exercise all of their Rights will not be able to participate in the Over-Subscription Privilege . See "Over-Subscription Privilege" below.
Non-Transferable Rights	The Rights issued in the Offer will be "non-transferable" and, therefore, may not be purchased or sold. Rights not exercised will expire without residual value at the Expiration Date. The Rights will not be listed for trading on the NASDAQ Capital Market or any other securities exchange. However, the shares of Common Stock to be issued pursuant to the Offer will be listed for trading on the NASDAQ Capital Market, subject to the NASDAQ Capital Market being officially notified of the issuance of those shares.

Dilution/Non-Participation in Offer	Record Date Stockholders who do not fully exercise their Rights including the Over-Subscription Privilege will, at the completion of the Offer, own a smaller proportional interest in the Fund than if they exercised their Rights. If the Subscription Price per share is below the then current NAV per share, stockholders will experience immediate perhaps substantial dilution of the aggregate NAV of their shares of Common Stock if they do not participate in the Offer and will experience a reduction in the NAV per share whether or not they participate in the Offer. The Fund cannot state precisely the extent of this dilution (if any) if stockholders do not exercise their Rights because the Fund does not know what the NAV and price per share will be at the time of the Offer or what proportion of the Rights will be exercised. Because the Estimated Subscription Price is below the NAV, there is a likelihood that the completion of the Offering will result in an immediate dilution of the NAV for all existing stockholders. If the Subscription Price is greater than the then current NAV per share, the NAV will experience some accretion. See "Risk Factors and Special Considerations - Dilution of Net Asset Value and Effect of Non-Participation in the Offer."

Subscription Price	Shares of Common Stock issued upon exercise of Rights will be sold at a price equal to 95% of the volume-weighted average closing sales price of a share of Common Stock on the NASDAQ Capital Market on the Expiration Date and the four preceding trading days. The Subscription Price is discussed further under "The Offering - Subscription Price." In addition, information with respect to the quarterly high and low sale prices of the Fund's Common Stock on the NASDAQ Capital Market and the corresponding NAVs per share of Common Stock is provided under "The Fund".
Over-Subscription Privilege	Each Record Date Stockholder who fully exercises all Rights issued to him is entitled to subscribe for shares which were not otherwise subscribed for by others in the Primary Subscription. If enough shares are available, all of these requests will be honored in full. If these requests for shares exceed the shares available, the Fund may determine after the expiration of the Offer, at the discretion of the Fund, to issue additional Common Stock up to an amount equal to 50% of the shares available pursuant to the Offer (up to an additional 618,845 shares of Common Stock) in order to cover these requests. Regardless of whether the Fund issues such additional shares, to the extent shares are not available to honor all requests, the available shares will be allocated pro rata among those Record Date Stockholders who over-subscribe based on the number of Rights originally issued to them by the Fund.
Exercising Rights	Except as described below, subscription certificates evidencing the Rights ("Subscription Certificates") will be sent to Record Date Stockholders or their nominees. There is no minimum number of Rights which must be exercised for the Offer to close. If you wish to exercise your Rights, you may do so in the following ways:

1. Complete, sign and date the Subscription Certificate. Enclose it in the envelope provided, together with payment in full and mail or deliver the envelope to the Subscription Agent (described in the section of this prospectus entitled "The Offering – Terms of the Offer") at the address indicated on the Subscription Certificate calculating the total payment on the basis of the Estimated Subscription Price of $[_____] per share (i.e., the estimated Subscription Price based on the Fund's market price on [October __, 2014]). Your Subscription Certificate and payment must be received by the Expiration Date. Payment pursuant to this method must be in United States dollars by money order or check drawn on a bank located in the United States and must be payable to "The Herzfeld Caribbean Fund, Inc."

2. Contact your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and executed Subscription Certificate pursuant to a notice of guaranteed delivery ("Notice of Guaranteed Delivery") by the close of business on the third Business Day after the Expiration Date. For purposes of this prospectus, a "Business Day" shall mean any day on which trading is

conducted on the NASDAQ Capital Market. A fee may be charged for this service. The Notice of Guaranteed Delivery must be received by the Expiration Date. Rights holders will have no right to rescind a purchase after the Subscription Agent has received the Subscription Certificate or Notice of Guaranteed Delivery. See “The Offering - Method of Exercising Rights,” and, —“Payment for Shares.” The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated interest bearing account at Boston Financial Data Services, Inc. (see, “The Offering – Subscription Agent”) pending distribution of the shares from the Offer. All interest will accrue to the benefit of the Fund and investors will not earn interest on payments submitted.

Restrictions on Foreign Stockholders	The Fund will not mail Subscription Certificates to stockholders whose record addresses are outside the United States or who have an APO or FPO address. Stockholders whose addresses are outside the United States or who have an APO or FPO address and who wish to subscribe to the Offer either partially or in full should contact the Subscription Agent by written instruction or recorded telephone conversation no later than three (3) Business Days prior to the Expiration Date.
Purpose of the Offer	The Board of the Fund has determined that it is in the best interests of the Fund and its stockholders to increase the assets of the Fund available for investment so that the Fund will be in a better position to take full advantage of investment opportunities. The Board believes that increasing the size of the Fund may increase the trading liquidity of the Fund's shares of Common Stock and also may reduce the Fund's expenses as a proportion of average net assets. The Offer also may allow the Fund to make capital gain distributions required to maintain its tax status as a regulated investment company without causing a reduction in the net assets of the Fund. Any such reduction will reduce the amount of cash available for additional investment opportunities. The Board also believes that a larger number of outstanding shares could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Fund's common stock on the NASDAQ Capital Market. In addition, the Offer seeks to reward the Fund's stockholders by giving them the right to purchase additional shares of Common Stock at a price that will be below the market price without incurring any direct transaction costs. Please note that stockholders that arrange to exercise Rights through a broker, bank, trust company or other financial intermediary may be charged for this service by such institution. The Offer will benefit both the Fund and its stockholders by providing the Fund with the ability to make additional investments without selling current investments if otherwise not desirable. Moreover, if the Subscription Price is greater than the NAV per share of Common Stock of the Fund on the Expiration Date (less offering expenses), the Offer will increase the NAV per share. See "The Offering - Purpose of the Offer."
Use of Proceeds :	The net proceeds of the Offer are estimated to be approximately $[__________]. This figure is based on the Estimated Subscription Price per share of $ [______] and assumes all shares offered are sold and that the expenses related to the Offer estimated at approximately $147,698 are paid. The Adviser anticipates that it will take no longer than three to six months for the Fund to invest these proceeds in accordance with its investment objective and policies under current market conditions. Pending investment, the proceeds will be invested in short-term cash-equivalent instruments. Although the Adviser anticipates that a substantial portion of the proceeds will be invested pursuant to its investment objective and policies, some of the proceeds may be used to make capital gain distributions required to maintain its tax status as a regulated investment company. As of June 30, 2014, the aggregate capital gains were $3,563,497. Distributions of net realized gains are paid on a calendar year basis; accordingly, the Fund's calendar year-end distribution for 2014 is not known at this time. See "Use of Proceeds".

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Information Regarding the Fund

The Herzfeld Caribbean Basin Fund, Inc. is a non-diversified, closed-end management investment company organized in the State of Maryland on March 10, 1992. The Fund's investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Adviser's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which includes, among others, Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia, the United States and Venezuela. The Fund invests at least 80% of its total assets in equity and equity-linked securities of issuers, which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries ("Caribbean Basin Companies"). See "Investment Objective and Policies." Such securities include, but are not limited to, common stock, preferred stock, debt securities convertible into equity, warrants, options and futures. An investment in the Fund is not appropriate for all investors and should not constitute a complete investment program. No assurances can be given that the Fund's objective will be achieved.

As of the Record Date, the Fund had 3,713,071 shares of common stock outstanding. The Fund's common stock trades on the NASDAQ Capital Market under the symbol "CUBA." The average weekly trading volume of the common stock on the NASDAQ Capital Market during the fiscal year ended June 30, 2014 was approximately 48,570 shares. As of [October __, 2014], the aggregate net assets of the Fund were approximately $ [_____] million.

Information Regarding the Adviser and Custodian, Transfer Agent, Dividend Disbursing Agent, and Registrar

HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc. has acted as the investment adviser to the Fund since the Fund's inception in 1993. The Fund pays the Adviser a monthly fee at the annual rate of 1.45% of the Fund's average daily net assets. See "Management of the Fund - Investment Adviser."

State Street Bank and Trust Company acts as custodian for the Fund's assets. State Street Bank and Trust Company also serves as the Fund's transfer agent, dividend/distribution disbursing agent, dividend reinvestment plan agent and as registrar for the Fund's common stock. For its services as custodian, the Fund currently pays State Street Bank and Trust Company a monthly fee of $7,000. For its services as transfer agent, dividend reinvestment plan agent and registrar for the Fund's Common Stock, the Fund currently pays State Street Bank and Trust Company a monthly fee of $2,000 plus related expenses.

Risk Factors and Special Considerations

Risk is inherent in all investing. The following discussion summarizes some of the risks that a potential holder of the Fund's Common Stock should consider before deciding whether to invest in the Fund's Common Stock. For additional information about the risks associated with investing in the Fund's Common Stock, see "Risk Factors and Special Considerations."

General . The Fund is a non-diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests generally in a portfolio of Caribbean Basin Companies. An investment in the Fund may be speculative and involves a high degree of risk. The Fund should not constitute a complete investment program. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.

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

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Dilution/Non-Participation in Offer	Record Date Stockholders who do not fully exercise their Rights including the Over-Subscription Privilege described in the section of this prospectus entitled "The Offering - Over-Subscription Privilege," will, at the completion of the Offer, own a smaller proportional interest in the Fund than if they exercised their Rights. If the Subscription Price per share is below the then current NAV per share, stockholders will experience an immediate perhaps substantial dilution of the aggregate NAV of their shares of Common Stock if they do not participate in the Offer and will experience a reduction in the NAV per share whether or not they participate in the Offer. The Fund cannot state precisely the extent of this dilution (if any) if stockholders do not exercise their Rights because the Fund does not know what the NAV and price per share will be at the time of the Offer or what proportion of the Rights will be exercised. Because the Estimated Subscription Price is below the NAV, there is a likelihood that the completion of the Offering will result in an immediate dilution of the NAV for all existing stockholders. Assuming, for example, that all Rights are exercised, the Estimated Subscription Price is $[____] and the Fund's NAV per share is $[____], the Fund's NAV per share (after payment of estimated offering expenses) would be [increased/reduced] by approximately $[_____] per share. See "Risk Factors and Special Considerations- Dilution of Net Asset Value and Effect of Non-Participation in the Offer"
Discount From NAV	Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a "discount"). The possibility that the Fund's shares will trade at a discount from NAV is a risk separate and distinct from the risk that the Fund's NAV will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.
Caribbean Basin Countries	Investing in the securities of non-U.S. issuers involves certain risks and considerations not typically associated with investing in securities of U.S. issuers. These risks include currency fluctuations, political and economic risks, including nationalization and expropriation, reduced levels of publicly available information concerning issuers and reduced levels of government regulation of foreign securities markets. Also, investment in Caribbean Basin Countries may involve special considerations, such as limited liquidity and small market capitalization of the Caribbean Basin securities markets, currency devaluations, high inflation and repatriation restrictions.
Equity Securities Risk	Consistent with its objective, the Fund invests a substantial portion of its assets in equity securities of Caribbean Basin Companies. Equity securities, such as common stock, generally represent an ownership interest in a company. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. The Fund's share price can fall because of weakness in the markets in which it invests, a particular industry or specific holdings. Markets as a whole can decline for many reasons, including adverse political or economic developments,

changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. Investments in futures and options, if any, are subject to additional volatility and potential losses.

Cuba Specific Issues	Investment in Cuban securities or any investment in Cuba directly or indirectly is currently prohibited under U.S. law. There can be no assurances that the U.S. trade embargo against Cuba will ever be lifted or eased or, if and when such a normalization commences, that the Adviser will be able to identify direct investments in issuers domiciled in Cuba that are acceptable for the Fund. However, if investment in securities issued by companies domiciled in Cuba were to be permitted under U.S. law, certain considerations not typically associated with investing in securities of U.S. companies should be considered, including: (1) restrictions on foreign investment and on repatriation of capital invested in Cuba; (2) unstable currency exchange and fluctuation; (3) the cost of converting foreign currency into U.S. Dollars; (4) potential price volatility and lesser or lack of liquidity of shares listed on a securities market (if one is established); (5) continued political and economic risks including a new government that if not properly stabilized may lead to the risk of nationalization or expropriation of assets and the risk of civil war; (6) the absence of a developed legal structure governing private property; (7) the absence of a capital market structure or market oriented economy; and (8) the difficulty of assessing the financial status of particular companies.
"Non-diversified" Investment Company	As a "non-diversified" investment company, the Fund's investments involve greater risks than would be the case for a similar diversified investment company because the Fund is not limited by the Investment Company Act of 1940, as amended (the "1940 Act"), in the proportion of its assets that may be invested in the assets of a single issuer. Although the Fund is not diversified for the purposes of the 1940 Act, it must maintain a certain degree of diversification in order to comply with certain requirements of the Code, applicable to regulated investment companies. See "Risk Factors/Special Considerations" and "Taxation."
Management Risk	The Adviser's judgment about the attractiveness, relative value or potential appreciation of a particular security or investment strategy may prove to be incorrect.
Dividends and Distributions	The Fund distributes annually to its stockholders substantially all of its net investment income and net short-term capital gains. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses. See "Dividends and Distributions: Dividend Reinvestment Plan" and "Taxation."
Certain Charter Provisions	The Fund's Articles of Incorporation include provisions that could have the effect of: inhibiting the Fund's possible conversion to open-end status; limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board; and depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. See "Description of Common Stock."
Market Disruption Risk	Certain events have had a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events, hurricanes, droughts, floods and other disasters. The Fund cannot predict the effects of similar events in the

future on the markets or economies of Caribbean Basin Countries.

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Fee Table

Stockholder Transaction Expenses:	
Sales Load	None
Expenses of the Offer (as a percentage of offering price)	[____]%
Dividend Reinvestment Plan Fees	None

Annual Expenses (as a percentage of net assets attributable to common shares):	
Management Fees	1.45%
Other Expenses (1)	1.43%
Total Annual Expenses	2.88%

(1) "Other Expenses" does not include expenses of the Fund incurred in connection with the Offer, estimated at $147,698. However, these expenses will be borne by the holders of the shares of Common Stock of the Fund and result in a reduction in the NAV of the shares of Common Stock. Other Expenses include fees and expenses of approximately 0.008% incurred indirectly as a result of investment in shares of one or more "Acquired Funds," which include (i) investment companies, or (ii) companies that would be an investment company under Section 3(a) of the 1940 Act except for exceptions under Sections 3(c)(1) and 3(c)(7) under the 1940 Act.

	Cumulative Expenses Paid for the Period of:			
Example	1 year	3 years	5 years	10 years
An investor would pay the following expenses on a $1,000 investment, assuming a 5% annual return:	$29	$89	$152	$320

The foregoing Fee Table and Example are intended to assist investors in understanding the costs and expenses that an investor in the Fund will bear directly or indirectly. "Other Expenses" are based on estimated amounts for the current fiscal year. See "Management of the Fund" for additional information.

The Example assumes the reinvestment of all dividends and distributions at NAV and an expense ratio of 2.88% . The tables above and the assumption in the Example of a 5% annual return are required by SEC regulations applicable to all investment companies. The Example should not be considered a representation of past or future expenses or annual rates of return and actual expenses or annual rates of return may be more or less than those assumed for purposes of the Example. In addition, while the Example assumes the reinvestment of all dividends and distributions at NAV, participants in the Dividend Reinvestment Plan may receive shares purchased or issued at a price or value different from NAV. See "Dividends and Distributions; Dividend Reinvestment Plan."

FINANCIAL HIGHLIGHTS

The table below sets forth selected data for a share of Common Stock outstanding for each period presented. The information for the fiscal year ended June 30, 2014 has been audited by KPMG, LLP, the Fund's independent registered public accounting firm. The information for the fiscal years ended June 30, 2013, 2012, 2011, and 2010 contained in the table was audited by Rothstein Kass & Company, LLP, the Fund's former independent registered public accounting firm. Audited financial statements for the Fund for the fiscal year ended June 30, 2014, are included in the Annual Report to stockholders. The Annual Report to stockholders is available without charge by calling (800) TJH-FUND.

	Year Ended June 30,				
	2014	2013	2012	2011	2010
Per Share Operating Performance (For a share of capital stock outstanding for each year)					
Net asset value, beginning of year	$ 9.28	$ 7.90	$ 8.13	$ 6.12	$ 5.35
Operations:					
Net investment loss(1)	(0.07)	(0.03)	(0.06)	(0.06)	(0.07)
Net realized and unrealized gain (loss) on investment transactions (1)	1.05	1.61	(0.11)	2.07	0.84
Total from operations	0.98	1.58	(0.17)	2.01	0.77
Distributions:					
From net realized gains	(1.14)	(0.20)	(0.06)	--	--
Total distributions	(1.14)	(0.20)	(0.06)	--	--
Net asset value, end of year	$ 9.12	$ 9.28	$ 7.90	$ 8.13	$ 6.12
Per share market value, end of year	$ 8.15	$ 8.51	$ 6.97	$ 7.14	$ 5.67
Total investment return (loss) based on market value per share	8.98 %	25.31 %	(1.39 %)	25.93 %	(6.59 %)
Ratios And Supplemental Data					
Net assets, end of year (in 000's)	$ 33,862	$ 34,445	$ 29,330	$ 30,169	$ 22,707

Ratio of expenses to average net assets		2.46	%		2.50	%		2.68	%		2.66	%		2.78	%
Ratio of net investment loss to average net assets		(0.78	%)		(0.38	%)		(0.81	%)		(0.81	%)		(1.05	%)
Portfolio turnover rate		24	%		37	%		15	%		22	%		27	%
Average commission rate (per share)*	$	0.0075		$	0.009		$	0.015		$	0.026		$	0.028	

(1) Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

* Unaudited.

THE FUND

The Herzfeld Caribbean Basin Fund, Inc. is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940 (the “1940 Act”). The Fund is designed for investors seeking long-term capital appreciation. The Fund seeks to achieve its objective primarily by investing in issuers that are likely, in the opinion of the Adviser, to benefit from political, legal and economic developments in Cuba and the Caribbean Basin. At such time as it becomes legally permissible for U.S. entities to invest directly in Cuba, the Fund will consider such investments. See “Investment Objective and Policies.” The Fund maintains its principal offices at 119 Washington Avenue, Suite 504 Miami Beach, FL 33139. No assurance can be given that the Fund’s investment objective will be achieved.

The Fund’s investment adviser is HERZFELD/CUBA, a division of Thomas J. Herzfeld Advisors, Inc., a Miami-based U.S. investment adviser.

As of the Record Date, the Fund had 3,713,071 shares of Common Stock outstanding. The Fund’s Common Stock is publicly held and is listed and traded on the NASDAQ Capital Market under the symbol “CUBA.” The average weekly trading volume of the Common Stock on the NASDAQ Capital Market during the fiscal year ended June 30, 2014 was approximately 48,570 shares. As of [October __, 2014], the aggregate net assets of the Fund were approximately $ [___________________], the NAV per share was $[____], the share price was $[_____], and the premium/discount was [______]%. Historically, the Fund’s common stock has traded at both premiums and discounts to its NAV, most recently at discounts.

The following table sets forth, for the periods indicated, the high and low closing sales prices for the shares on the NASDAQ Capital Market, the NAVs per share on the date of the high and low closing sales prices, and the discount or premium that each sales price represented as a percentage of the preceding NAV:

Share Price Data

Quarter Ended	High Close	NAV (on High Close Date)	Premium/ (Discount) (on High Close Date)	Low Close	NAV (on Low Close Date)	Premium/ (Discount) (on Low Close Date)
6/30/2014	$8.31	$8.91	-6.73%	$7.79	$8.84	-9.84%
3/31/2014	$8.29	$8.85	-6.33%	$7.78	$8.53	-8.79%
12/31/2013	$8.97	$9.61	-6.66%	$7.69	$8.60	-10.58%
9/30/2013	$8.98	$9.71	-7.51%	$8.50	$9.28	-8.40%
6/30/2013	$9.23	$9.61	-3.95%	$8.24	$8.86	-7.00%
3/31/2013	$9.17	$9.30	-1.40%	$7.94	$8.90	-10.79%
12/31/2012	$7.81	$8.52	-8.33%	$7.27	$8.21	-11.45%
9/30/2012	$7.44	$8.46	-12.06%	$6.82	$7.63	-10.62%
6/30/2012	$7.46	$7.90	-5.57%	$6.55	$7.30	-10.27%
3/31/2012	$7.50	$7.92	-5.30%	$6.48	$7.30	-11.21%
12/31/2011	$6.97	$7.68	-9.25%	$5.62	$6.53	-13.94%

9/30/2011	$7.27	$8.24	-11.77%	$5.92	$6.86	-13.76%
6/30/2011	$7.54	$8.22	-8.32%	$6.86	$7.85	-12.61%
3/31/2011	$7.85	$8.07	-2.73%	$7.09	$7.81	-9.22%
12/31/2010	$7.20	$7.82	-7.93%	$6.58	$7.15	-7.97%
9/30/2010	$6.77	$6.90	-1.88%	$5.62	$6.10	-7.86%
6/30/2010	$6.88	$7.10	-3.10%	$5.67	$6.12	-7.35%
3/31/2010	$6.74	$6.75	-0.15%	$5.99	$6.26	-4.31%
12/31/2009	$6.79	$6.60	2.88%	$6.23	$6.22	0.16%
9/30/2009	$6.83	$6.83	0.00%	$5.95	$5.80	2.59%
6/30/2009	$7.97	$4.63	72.14%	$4.25	$4.40	-3.41%

THE OFFERING

Terms of the Offer

The Fund is issuing to its Record Date Stockholders Rights to subscribe for additional shares of the Fund’s Common Stock as of the Record Date. Each Record Date Stockholder will receive one non-transferable Right for each share of Common Stock owned on the Record Date. The Rights entitle the holder to acquire one share of Common Stock at the Subscription Price for every three Rights held.

Rights may be exercised at any time during the period which commences on October 16, 2014, and ends at 5:00 p.m., Eastern Time, on November 6, 2014 (the “Subscription Period”), unless extended by the Fund to a date not later than December 4, 2014, at 5:00 p.m., Eastern Time. See “Expiration of the Offer” below. The right to acquire one additional share of Common Stock for every three Rights held during the Subscription Period at the Subscription Price is herein after referred to as the “Primary Subscription” and such shares of Commons Stock, the “Primary Subscription Shares.”

In addition, any Record Date Stockholder who fully exercises all Rights initially issued to him is entitled to subscribe for shares which were not otherwise subscribed for by others in the Primary Subscription (the Over-Subscription Privilege). If enough shares are available, all of these requests will be honored in full. If these requests for shares exceed the shares available, the Fund may determine after the expiration of the Offer, in the discretion of the Fund, to issue additional Common Stock up to an amount equal to 50% of the shares of Common Stock available pursuant to the Offer (up to an additional 618,845 shares of Common Stock) in order to cover these requests. Regardless of whether the Fund issues such additional Common Stock, to the extent shares are not available to honor all requests, the available shares will be allocated pro rata among those Record Date Stockholders who over-subscribe based on the number of Rights originally issued to them by the Fund.

In the event that the Fund, in its sole discretion, issues additional Common Shares in an amount of up to 50% of the Primary Subscription Shares (the “Secondary Over-Subscription Shares”) for purposes of determining the maximum number of shares a Record Date Stockholder may acquire pursuant to the Offer, broker-dealers whose shares are held of record by Cede & Co. (“Cede”), as nominee for The Depository Trust Company, or by any other depository or nominee, will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under “Over-Subscription Privilege.”

Officers of the Adviser have indicated to the Fund that the Adviser and the Directors and Officers of the Fund (the “Affiliated Parties”), as Record Date Stockholders, have been authorized to purchase Common Stock through the Primary Subscription and the Over-Subscription Privilege to the extent the Common Stock becomes available to it in accordance with the Primary Subscription and the allotment provisions of the Over-Subscription Privilege. Such over-subscriptions by the Affiliated Parties may disproportionately increase their already existing ownership resulting in a higher percentage ownership of outstanding shares of the Fund. Any Common Stock acquired in the Offer by the Affiliated Parties as “affiliates” of the Fund, as that term is defined under the Securities Act of 1933 (the “Securities Act”), may only be sold in accordance with Rule 144 under the Securities Act or another applicable exemption or pursuant to an effective registration statement under the Securities Act. In general, under Rule 144, as currently in effect, an “affiliate” of the Fund is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly reported trading volume of the common stock during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain restrictions on the manner of sale, to notice requirements and to the availability of current public information about the Fund.

Rights will be evidenced by certificates (“Subscription Certificates”). The number of Rights issued to each Record Date Stockholder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and shares paid for is set forth below in “Method of Exercising Rights” and “Payment for Shares.” A Rights holder will have no right to rescind a purchase after the Subscription Agent has received payment. See “Payment for Shares” below.

The Rights are non-transferable and, therefore may not be purchased or sold. Rights not exercised will expire without residual value at the Expiration Date. The Rights will not be listed for trading on the NASDAQ Capital Market or any other securities exchange. Common Stock issued pursuant to an exercise of Rights will be listed and available for trading on the NASDAQ Capital Market.

There is no minimum number of Rights which must be exercised in order for the Offer to close.

Purpose of the Offer

The Board has determined that it is in the best interests of the Fund and its existing stockholders to increase the assets of the Fund so that the Fund may be in a better position to take advantage of investment opportunities that may arise. Without additional capital, the Fund is limited in its ability to take advantage of new investment opportunities. The only practical means of increasing the Fund's assets available for investment other than through the Offer would be through the sale of portfolio securities, which could subject the Fund to certain adverse tax consequences under the Code.

The Offer affords the Fund a means of increasing its assets available for investment without requiring the sale of portfolio securities at a time when it would not be desirable to do so. The Offer will permit the Fund to take advantage of investment opportunities as they arise, without necessarily having to liquidate Fund holdings to raise cash. When the Adviser identifies an investment opportunity, it wants to be able to take advantage of it quickly and make investments, without having to sell current holdings in the process. The Adviser believes that having the cash resources available to make new investments without liquidating current portfolio holdings will allow the investment adviser to more fully implement its investment strategy in pursuit of the Fund's investment objective.

In addition, the Board believes that increasing the size of the Fund may lower the Fund's expenses as a proportion of average net assets because the Fund's fixed costs would be spread over a larger asset base. As a fund's assets decrease, its expense ratio (i.e., the ratio of expenses to fund assets) will increase. This occurs because funds have certain fixed costs which are not charged in proportion to a fund's size. As a fund gets smaller, these fixed costs are spread over fewer assets, thus resulting in a higher expense ratio. The opposite occurs as a fund's assets increase, that is, the fixed costs are spread across a larger asset base thus resulting in a lower expense ratio. There can be no assurance, however, that an increase in the size of the Fund will lower the Fund's expense ratio.

Further, to the extent the Fund realizes gains (as it has in the past), any net realized gains of the Fund are required to be distributed to stockholders in order to maintain its status as a "regulated investment company" under Subchapter M of the Code. Accordingly, in the future the Fund may be required to make large distributions to stockholders to maintain regulated investment company status, thereby reducing the net assets of the Fund. Additionally, if the Fund is fully invested when it is required to make a distribution it may need to sell some of its portfolio holdings at an inopportune time in order to raise the necessary funds to satisfy the distribution requirement. For instance, for the calendar year ended 2013, the Fund paid a year-end distribution of $1.14 per share. As of June 30, 2014, the aggregate capital gains were $3,563,497. Distributions of net realized gains are paid on a calendar year basis; accordingly, the Fund's calendar year-end distribution for 2014 is not known at this time.

The Board also believes that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Fund's common stock on the NASDAQ Capital Market. If the Offer is successful, the larger number of shares of common stock outstanding after the Offer should help create a more efficient and active market for the Fund's shares and reduce the effect of individual transactions on market price, all of which are believed generally to increase liquidity.

The Offer seeks to reward existing stockholders by giving them the right to purchase additional shares at a price below market without incurring any direct commission or other transaction charges that they would normally incur when buying shares in the market. Please note that stockholders that arrange to exercise Rights through a broker, bank, trust company or other financial intermediary may be charged for this service by such institution.

The Board considered, among other things, advice by the Investment Adviser, using fixed pricing versus variable pricing for the Offer, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering and the effect on the Fund if the Offer is undersubscribed. The Board also considered the extent to which the Adviser will benefit from the Offer because the Adviser's fee is based on the average net assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser might receive as a result of the Offer because it is not known how many Shares will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities which will fluctuate in value. However, if the Offer is fully subscribed at the Estimated Subscription Price, it would add (net of offering expenses) approximately $[ ] to the net assets of the Fund. This amount, assuming no fluctuation due to changes in the market, would add $[ ] to the Adviser's annual compensation based upon an advisory fee of 1.45% during the one-year period following completion of the Offer. The Fund's assets could increase further if the Shares subject to the Over-Subscription Privilege were to be issued.

In addition, the Board determined to proceed with the offer of rights after having considered the dilutive effects of the offering on stockholders who are unwilling or unable to fully exercise their rights, as well as the alternative of a secondary offering. The Board has approved the terms of the Offer as set forth in this prospectus.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of shares and on terms which may or may not be similar to the Offer. Any such future rights offering will be made in accordance with the 1940 Act. Under the laws of Maryland, the State in which the Fund is organized, the Board is authorized to approve rights offerings without obtaining stockholder approval. The staff of the SEC has interpreted the 1940 Act as not requiring stockholder approval of a rights offering at a price below the then current NAV so long as certain conditions are met, including a good faith determination by the Board that such offering would result in a net benefit to existing stockholders.

Subscription Price

The Subscription Price for the shares of Common Stock issued in the Offer will be a price equal to 95% of the volume-weighted average closing sales price of a share of common stock on the NASDAQ Capital Market on the Expiration Date and the four preceding trading days. Stockholders who exercise their Rights will have no right to rescind a purchase after receipt of their completed Subscription Certificates for Shares by the Subscription Agent. The Fund does not have the right to withdraw the Offer after the Rights have been distributed.

The Fund announced its intention to make the Offer on June 2, 2014. The NAV per share of Common Stock at the close of business on June 2, 2014 (announcement of rights offering) and on [October __, 2014] was $8.92 and $[_____], respectively, and the last reported sale price of a share of Common Stock on the NASDAQ Capital Market on those dates was $8.21 and $[_____], respectively.

Over-Subscription Privilege

If some Record Date Stockholders do not exercise all of the Rights initially issued to them to purchase Common Stock of the Fund, those Record Date Stockholders who have exercised all of the Rights initially issued to them will be offered, by means of the Over-Subscription Privilege, the right to acquire more than the number of shares for which the Rights issued to them are exercisable. Record Date Stockholders who exercise all the Rights initially issued to them will have the opportunity to indicate on the Subscription Certificate how many shares of Common Stock they are willing to acquire pursuant to the Over-Subscription Privilege. In addition, the Fund, in its sole discretion, can issue the Secondary Over-Subscription Shares.

If sufficient Subscription Shares remain after the Primary Subscriptions have been exercised, all over-subscriptions will be honored in full. If sufficient Subscription Shares are not available to honor all over-subscription requests, the available Common Shares will be allocated among those Record Date Stockholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Should the Fund determine to issue some or all of the Secondary Over-Subscription Shares, they will be allocated only among Record Date Stockholders that submitted over-subscription requests. Secondary Over-Subscription Shares will be allocated pro rata among those fully exercising Record Date Stockholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Any Secondary Over-Subscription Shares issued by the Fund, collectively with any Primary Subscription Shares not subscribed through the Primary Subscription, will be referred to in this prospectus as the “Excess Shares.”

The percentage of Excess Shares each over-subscribing Record Date Stockholder may acquire will be rounded down to result in delivery of whole Common Shares; provided, however, that if a pro rata allocation results in any holder being allocated a greater number of Excess Shares than the holder subscribed for pursuant to the exercise of such holder’s Over-Subscription Privilege, then such holder will be allocated only such number of Excess Shares as such holder subscribed for and the remaining Excess Shares will be allocated among all other holders then entitled to receive Excess Shares whose over-subscription requests have not been fully honored. The allocation process may be iterative in order to assure that the total number of Excess Shares is distributed in accordance with the method described above.

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The formula to be used in allocating the Excess Shares is as follows:

$$\frac{\text{Stockholder's Record Date Position}}{\text{Total Record Date Position of All Over-Subscribed Stockholders}} \times \text{Excess Shares Remaining}$$

The Fund will not offer or sell any shares which are not subscribed for under the Primary Subscription or the Over-Subscription Privilege.

Expiration of the Offer

The Offer will expire at 5:00 p.m., Eastern Time, on the Expiration Date (November 6, 2014), unless extended by the Fund to a date not later than December 4, 2014, at 5:00 p.m., Eastern Time (the "Extended Expiration Date"). Rights will expire on the Expiration Date (or Extended Expiration Date as the case may be) and thereafter may not be exercised.

Subscription Agent

The Subscription Agent is Boston Financial Data Services, Inc. Event Center, 30 Dan Road, Canton, MA 02021.

Stockholders may also contact the Fund for information about the Offer by writing to The Herzfeld Caribbean Basin Fund, Inc., 119 Washington Avenue, Suite 504, Miami Beach, FL 33139 or by calling (305) 271-1900 or (800) TJH-FUND. Stockholders may also contact their brokers or nominees for information with respect to the Offer.

Method of Exercising Rights

Rights may be exercised by filling in and signing the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment of the Estimated Subscription Price for the Shares as described below under "Payment for Shares." Rights holders may also exercise Rights by contacting a broker, bank or trust company who can arrange, on behalf of the Rights holder, to guarantee delivery of payment and of a properly completed and executed Subscription Certificate. A fee may be charged for this service. Completed Subscription Certificates and full payment for the shares of Common Stock subscribed for must be received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under "Payment for Shares") at the office of the Subscription Agent at the addresses set forth above.

Qualified financial institutions that hold shares of Common Stock as nominee for the account of others should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. For purposes of this prospectus, "Qualified Financial Institution" shall mean a registered broker-dealer, commercial bank or trust company, securities depository or participant therein, or nominee thereof. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Subscription Agent with the proper payment. In addition, beneficial owners of Common Stock or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with the beneficial owners' instructions.

Stockholders who are registered holders can choose between either option set forth under "Payment for Shares" below.

Payment for Shares

Payment for shares shall be calculated by multiplying the Estimated Subscription Price of $ [_____] per share times the sum of (i) the number of Rights held and intended to be exercised in the Primary Subscription, plus (ii) the number of additional shares for which a stockholder wishes to over-subscribe under the Over-Subscription Privilege. For example, if a stockholder receives 300 Rights and wishes to subscribe for 100 shares of Common Stock in the Primary Subscription, and also wishes to over-subscribe for 50 additional shares pursuant to the Over-Subscription Privilege, he, she or it would send in $[_____] x 100 plus $[____] x 50. Rights holders who wish to acquire shares in the Primary Subscription or pursuant to the Over-Subscription Privilege may choose between the following methods of payment:

a. Notice of Guaranteed Delivery and Subscription Certificate (with payment sent separately). If, prior to 5:00 p.m., Eastern Time, on the Expiration Date, the Subscription Agent shall have received a notice of guaranteed delivery by telegram or otherwise, from a bank or trust company or a NYSE member firm guaranteeing delivery of (i) payment of the Estimated Subscription Price of $[_____] per share for the shares subscribed for in the Primary Subscription and any additional shares subscribed for pursuant to the Over-Subscription Privilege and (ii) a properly completed and executed Subscription Certificate, the subscription will be accepted by the Subscription Agent. The Subscription Agent will not honor a notice of guaranteed delivery unless a properly completed and executed Subscription Certificate is received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the third Business Day after the Expiration Date (the “Protection Period”).

b. Subscription Certificate sent with Payment. Alternatively, a stockholder can, together with the properly completed and executed Subscription Certificate, send payment for the shares acquired in the Primary Subscription and any additional shares subscribed for pursuant to the Over-Subscription Privilege, to the Subscription Agent based on the Estimated Subscription Price of $ [_____] per share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., Eastern Time, on the Expiration Date.

Any excess payment will be refunded to the stockholder to the extent that additional shares are unavailable.

A PAYMENT, PURSUANT TO THE SECOND METHOD DESCRIBED ABOVE, MUST ACCOMPANY ANY SUBSCRIPTION CERTIFICATE FOR SUCH SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

Within ten (10) Business Days following the completion of the Protection Period (the “Confirmation Date”), a confirmation will be sent by the Subscription Agent to each stockholder (or, if the Fund’s shares on the Record Date are held by Cede or any other depository or nominee, to Cede or such other depository or nominee). The confirmation will show (i) the number of shares acquired pursuant to the Primary Subscription; (ii) the number of shares, if any, acquired pursuant to the Over-Subscription Privilege; (iii) the Subscription Price and total purchase price for the shares; and (iv) any additional amount payable by such stockholder to the Fund (e.g., if the Estimated Subscription Price was less than the Subscription Price on the Pricing Date) or any excess to be refunded by the Fund to such stockholder (e.g., if the Estimated Subscription Price was more than the Subscription Price on the Pricing Date). Any additional payment required from a stockholder must be received by the Subscription Agent prior to 5:00 p.m, Eastern Time, on the tenth Business Day after the Confirmation Date, and any excess payment to be refunded by the Fund to such stockholder will be mailed by the Subscription Agent within ten (10) Business Days after the Confirmation Date. All payments by a stockholder must be made in United States Dollars by money order or by checks drawn on banks located in the Continental United States payable to “ The Herzfeld Caribbean Basin Fund, Inc. ”

Whichever of the above two methods is used, issuance and delivery of certificates for the shares of Common Stock subscribed for are subject to collection of funds and actual payment pursuant to any notice of guaranteed delivery.

The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated interest bearing account pending distribution of the shares from the Offer. All interest will inure to the benefit of the Fund and investors will not earn interest on payments submitted.

YOU WILL HAVE NO RIGHT TO RESCIND YOUR SUBSCRIPTION AFTER THE SUBSCRIPTION AGENT HAS RECEIVED THE SUBSCRIPTION CERTIFICATE OR NOTICE OF GUARANTEED DELIVERY.

If a holder of Rights who acquires shares pursuant to the Primary Subscription or the Over-Subscription Privilege does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other stockholders or Rights holders to purchase such subscribed-for and unpaid-for shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of shares which could be acquired by such holder upon exercise of the Primary Subscription or the Over-Subscription Privilege; (iii) sell all or a portion of the shares purchased by the holder in the open market, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed shares and to enforce the relevant guaranty of payment.

Holders who hold shares of common stock for the account of others, such as brokers, trustees or depositaries for securities, should notify the respective beneficial owners of the shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owners so instruct, the record holder of the Rights should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment. In addition, beneficial owners of common stock or Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.

The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the Subscription Certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., Eastern Time, on the Expiration Date. Because uncertified personal checks may take at least five (5) Business Days to clear, you are strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Subscription Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Delivery of Stock Certificates

Stock Certificates representing shares purchased pursuant to the Primary Subscription will be delivered to subscribers as soon as practicable after the corresponding Rights have been validly exercised and full payment for the shares has been received and cleared. Stock Certificates representing shares purchased pursuant to the Over-Subscription Privilege will be delivered to subscribers as soon as practicable after the Expiration Date and after all allocations have been effected.

Foreign Restrictions

Subscription Certificates will only be mailed to Record Date Stockholders whose addresses are within the United States. Record Date Stockholders whose addresses are outside the United States or who have an APO or FPO address and who wish to subscribe to the Offer either in part or in full should contact the Subscription Agent by written instruction or recorded telephone conversation no later than three (3) Business Days prior to the Expiration Date. See "Subscription Agent" above. The Fund will determine whether the Offer may be made to any such stockholder.

Federal Income Tax Consequences Associated With the Offer

The following discussion describes certain United States Federal income tax consequences of the Offer generally applicable to citizens or residents of the United States and U.S. trusts, estates, corporations and any other person who is generally subject to U.S. Federal income tax ("U.S. Stockholders"). This summary discussion is for general information only and does not purport to consider or analyze all aspects of U.S. Federal income taxation or of all potential tax effects relevant to the ownership of Rights or Common Stock. Therefore, this summary discussion contained herein may not be considered to be individual tax advice and may not be relied upon by any owner of Rights or Common Stock. It assumes that each U.S. Stockholder holds Common Stock as a capital asset. Additionally, this summary does not specifically address the U.S. Federal income tax consequences that might be relevant to holders of Rights or Common Stock entitled to special treatment under the U.S. Federal income tax laws, such as individual retirement accounts and other tax deferred accounts, financial institutions, life insurance companies and tax-exempt organizations, and does not discuss the effect of foreign, state, local and other tax laws. Further, this summary is based on interpretations of existing law as of the date of this prospectus as contained in the Code, applicable current and proposed Treasury Regulations, judicial decisions and published administrative positions of the Internal Revenue Service, all of which are subject to change either prospectively or retroactively. See also, "Taxation."

1. U.S. Stockholders who receive Rights pursuant to the Offer should not recognize taxable income for U.S. Federal income tax purposes upon their receipt of the Rights. If Rights issued to a U.S. Stockholder expire without being exercised, no basis should be allocated to such Rights, and such Stockholder should not recognize any gain or loss for U.S. Federal income tax purposes upon such expiration.

2. The tax basis of a U.S. Stockholder's Common Stock should remain unchanged and the stockholder's basis in the Rights should be zero, unless such U.S. Stockholder affirmatively and irrevocably elects (in a statement attached to such stockholder's U.S. Federal income tax return for the year in which the Rights are received) to allocate the basis in the Common Stock between such Common Stock and the Rights in proportion to their respective fair market values on the date of distribution.

3. A U.S. Stockholder who exercises Rights should not recognize any gain or loss for U.S. Federal income tax purposes upon the exercise. The tax basis of the newly acquired Common Stock should equal the Subscription Price paid for the Common Stock (plus the basis, if any, allocated to the Rights in the manner described in the immediately preceding paragraph). The holding period for Common Stock acquired upon the exercise of Rights should begin on the date of exercise of the Rights.

4. Each U.S. Stockholder is urged to consult his or her own tax adviser with respect to the specific Federal, state and local tax consequences to such U.S. Stockholder of receiving Rights in this offer.

Employee Plan Considerations

Stockholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including corporate savings and 401(k) plans), Keogh or H.R. 10 plans of self-employed individuals and Individual Retirement Accounts ("IRAs") (collectively, "Plans") should be aware of the complexity of the rules and regulations governing Plans and the penalties for noncompliance, and Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

USE OF PROCEEDS

The net proceeds of the Offer, assuming the Offer is fully subscribed, are estimated to be approximately $[_____] million, based on an Estimated Subscription Price of $[_____] per share, and after deducting expenses related to the Offer estimated at approximately $147,698. The foregoing estimate of the net proceeds of the Offer is based on the closing price of the Fund's shares on [October __, 2014]. Accordingly, the assumptions and projections contained in this prospectus are subject to change significantly depending on changes in market conditions for the Fund's shares and performance of the Fund's portfolio. The Fund will invest the net proceeds of the Offer in accordance with its investment objective and policies. The Adviser anticipates that the proceeds will be invested promptly as investment opportunities are identified, depending on market conditions and the availability of appropriate securities, and it is anticipated to take not more than approximately three to six months. Pending investment, the proceeds will be invested in short-term cash-equivalent instruments. Although the Adviser anticipates that a substantial portion of the proceeds will be invested pursuant to its investment objective and policies, some of the proceeds may be used to make capital gain distributions required to maintain its tax status as a regulated investment company.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Investing in the Fund's common stock provides an equity ownership interest in the Fund. Investing in any investment company security involves risk, including the risk that a stockholder may receive little or no return on the stockholder's investment or that the stockholder may lose part or all of the stockholder's investment. Therefore, before investing, stockholders should consider carefully the following risks that are assumed when investing in the Fund through the Offer.

Dilution of Net Asset Value and Effect of Non-Participation in the Offer

If a stockholder does not exercise all of his Rights, the stockholder will likely own a smaller proportional interest in the Fund when the Offer is over (i.e., proportional dilution). In addition, whether or not a stockholder exercises his Rights, because the Subscription Price (and net proceeds to the Fund) may be below the Fund's NAV per share on the Expiration Date the per share NAV of a stockholder's shares may be diluted (reduced) immediately as a result of the Offer (i.e., economic dilution).

In other words, a stockholder may experience economic dilution in addition to proportional dilution because:

- The Subscription Price per share is 95% of the average volume-weighted closing sales price of a share of common stock on the NASDAQ Capital Market on the Pricing Date and the four immediately preceding trading days (which may be lower than the NAV);
- All stockholders will indirectly bear the expenses of the Offer; and
- The number of shares outstanding after the Offer will have increased proportionately more than the increase in the size of the Fund's net assets

The Fund cannot state precisely the amount of any dilution/accretion because it is not known at this time (i) what the average volume-weighted closing sale price of a share on the NASDAQ Capital Market will be on the Pricing Date and the four immediately preceding trading days, or (ii) what proportion of the Rights will be exercised. Because the Estimated Subscription Price is below the NAV, there is a likelihood that the completion of the Offering will result in an immediate dilution of the NAV for all existing stockholders.

The impact of the Offer on NAV per share is shown by the following examples, assuming a Subscription Price of $ [______], full primary and over-subscription privilege exercise and $147,698 in expenses related to the Offer.

Scenario 1: (assumes NAV per share is above subscription price)

Net Asset Value ("NAV")	$[____]
Subscription Price	$[____]
Reduction in NAV ($)	$[____]
Reduction in NAV (%)	[____]%

Scenario 2: (assumes NAV per share is below subscription price)

Net Asset Value ("NAV")	$[____]
Subscription Price	$[____]
Increase in NAV ($)	$[____]

Increase in NAV (%)	[____]%

Discount From Net Asset Value

Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares (a "discount"). The possibility that the Fund's shares will trade at a discount from NAV is a risk separate and distinct from the risk that the Fund's NAV will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time after purchasing them because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's shares are not redeemable at the request of stockholders. The Fund may repurchase its shares in the open market or in private transactions, although it has no present intention to do so. Stockholders desiring liquidity may, subject to applicable securities laws, trade their shares in the Fund on the NASDAQ Capital Market or other markets on which such shares may trade at the then current market value, which may differ from the then current NAV.

Risks of Investing in Caribbean Basin Countries

The economies of Caribbean Basin Countries have in the past experienced considerable difficulties, including high inflation rates, high interest rates, and high unemployment. The emergence of the economies and securities markets of the Caribbean Basin Countries will require continued economic and fiscal discipline that has been lacking at times in the past, as well as stable political and social conditions. International economic conditions, particularly those in the United States, as well as world prices for oil and other commodities may also influence the development of the economies of the Caribbean Basin Countries.

The currencies of foreign countries (including those foreign countries in the definition of the Caribbean Basin) are subject to fluctuations relative to the U.S. Dollar and foreign countries (including those foreign countries in the definition of the Caribbean Basin) have had to make major adjustments in their currencies from time to time. Also many Caribbean Basin Countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. For companies that keep accounting records in the local currency, inflation accounting rules in some Caribbean Basin Countries require, for both tax and accounting purposes, that certain assets and liabilities be restated on the company's balance sheet in order to express items in terms of currency of constant purchasing power. Inflation accounting may indirectly generate losses or profits for certain Caribbean Basin Companies. Inflation and rapid fluctuations in inflation rates have had, and could, in the future, have very negative effects on the economies and securities markets of certain Caribbean Basin Countries.

In addition, governments of many Caribbean Basin Countries have exercised and continue to exercise substantial influence over many aspects of the private sector. Governmental actions in the future could have a significant effect on economic conditions in Caribbean Basin Countries, which could affect the companies in which the Fund invests and, therefore, the value of Fund shares. Investments in foreign markets may be adversely affected by governmental actions such as the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investing in their capital markets or in certain industries. Substantial limitations may exist in certain countries with respect to the Fund's ability to repatriate investment income, capital or the proceeds of sales of securities. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Fund of any restrictions on investments. Any of these actions could severely affect security prices, impair the Fund's ability to purchase or sell foreign securities or transfer the Fund's assets or income back into the United States, or otherwise adversely affect the Fund's operations.

Certain Caribbean Basin Countries have entered into regional trade agreements that are designed to, among other things, reduce barriers between countries, increase competition among companies and reduce government subsidies in certain industries. No assurance can be given that these changes will be successful in the long term, or that these changes will result in the economic stability intended. There is a possibility that these trade arrangements will not be fully implemented, or will be partially or completely unwound. It is also possible that a significant participant could choose to abandon a trade agreement, which could diminish its credibility and influence. Any of these occurrences could have adverse effects on the markets of both participating and non-participating countries, including sharp appreciation or depreciation of participants' national currencies and a significant increase in exchange rate volatility, a resurgence in economic protectionism, an undermining of confidence in the Caribbean Basin markets, an undermining of Caribbean Basin economic stability, the collapse or slowdown of the drive towards economic unity, and/or reversion of the attempts to lower government debt and inflation rates that were introduced in anticipation of such trade agreements. Such developments could have an adverse impact on the Fund's investments in the Caribbean Basin generally or in specific countries participating in such trade agreements.

The Caribbean Basin has experienced natural disasters, including hurricanes, droughts and floods, which have caused substantial damage to parts of the Caribbean Basin and have harmed the region's economies. The possibility exists that another natural disaster could materially disrupt and adversely affect the economies of Caribbean Basin Countries. In addition, companies and industries in which the Fund invests may experience substantial disruptions in operations as a result of any such natural disasters.

The Caribbean Basin is vulnerable to environmental disasters, for instance the BP Oil spill in the Gulf of Mexico in 2010 had a widespread economic impact on the region. The potential and impact of such occurrences in the future is impossible to gauge.

Other Caribbean Basin market risks include foreign exchange controls, difficulties in pricing securities, defaults on sovereign debt, difficulties in enforcing contracts, difficulties in enforcing favorable legal judgments in local courts and political and social instability. Legal remedies available to investors in certain Caribbean Basin countries may be less extensive than those available to investors in the United States or other foreign countries.

Geographic Concentration Risk

The Fund may invest from time to time a substantial amount of its assets in issuers located in a single country or a limited number of countries. If the Fund concentrates its investments in this manner, it assumes the risk that economic, political and social conditions in those countries will have a significant impact on its investment performance. The Fund's investment performance may also be more volatile if it concentrates its investments in certain countries, especially emerging market countries.

Foreign Securities Risk

Securities traded in foreign markets have often (though not always) performed differently from securities traded in the United States. However, such investments often involve special risks not present in U.S. investments that can increase the chances that the Fund will lose money. In particular, the Fund is subject to the risk that because there may be fewer investors on foreign exchanges and a smaller number of securities traded each day, it may be more difficult for the Fund to buy and sell securities on those exchanges. In addition, prices of foreign securities may go up and down more than prices of securities traded in the United States.

Foreign Economy Risk

The economies of certain foreign markets may not compare favorably with the economy of the United States with respect to such issues as growth of gross national product, reinvestment of capital, resources and balance of payments position. Certain foreign economies may rely heavily on particular industries or foreign capital and are more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Investments in foreign markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investments in their capital markets or in certain industries. Any of these actions could severely affect securities prices or impair the Fund’s ability to purchase or sell foreign securities or transfer the Fund’s assets or income back into the United States, or otherwise adversely affect the Fund’s operations.

Other potential foreign market risks include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing legal judgments in foreign courts and political and social instability. Legal remedies available to investors in certain foreign countries may be less extensive than those available to investors in the United States.

Currency Risk

Securities and other instruments in which the Fund invests may be denominated or quoted in currencies other than the U.S. Dollar. Changes in foreign currency exchange rates may affect the value of the Fund’s portfolio. Because the Fund’s assets are primarily invested in securities of Caribbean Basin Companies, and because some portion of revenues and income may be received in foreign currencies while Fund distributions will be made in dollars, the dollar equivalent of the Fund’s net assets and distributions would be adversely affected by reductions in the value of the foreign currencies relative to the dollar. For this reason, changes in foreign currency exchange rates can affect the value of the Fund’s portfolio. Generally, when the U.S. Dollar rises in value against a foreign currency, a security denominated in that currency loses value because the currency is worth fewer U.S. Dollars. Conversely, when the U.S. Dollar decreases in value against a foreign currency, a security denominated in that currency gains value because the currency is worth more U.S. Dollars. This risk, generally known as “currency risk,” means that a strong U.S. Dollar may reduce returns for U.S. investors while a weak U.S. Dollar may increase those returns. The Fund is managed with the assumption that most of its stockholders hold their assets in U.S. Dollars. As a result, and because distributions are made in U.S. Dollars, other non-U.S. investors will be adversely affected by reductions in the value of the U.S. Dollar relative to their home currency.

Governmental Supervision and Regulation/Accounting Standards

Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to U.S. issuers. Some of the securities held by the Fund may not be registered with the SEC nor may the issuers be subject to the SEC’s reporting requirements. Thus, there may be less available information concerning foreign issuers of securities held by the Fund than is available concerning U.S. issuers. Adequate public information on foreign issuers may not be available, and it may be difficult to secure dividends and information regarding corporate actions on a timely basis. In general, there is less overall governmental supervision and regulation of securities exchanges, brokers, and listed companies than in the United States. OTC markets tend to be less regulated than stock exchange markets and, in certain countries, may be totally unregulated. Regulatory enforcement may be influenced by economic or political concerns, and investors may have difficulty enforcing their legal rights in foreign countries.

In addition, the U.S. Government has from time to time imposed restrictions, through penalties and otherwise, on foreign investments by U.S. investors, including current prohibitions on U.S. investment in Cuba. Investments in securities of Cuban companies, if permitted by U.S. law, may be subject to certain political and economic risks in addition to the risks associated with investment in the securities of issuers domiciled in other foreign countries. The risks include (i) less social, political and economic stability; (ii) the small current size of the markets for such securities and the currently low or nonexistent volume of trading, which result in a lack of liquidity and in greater price volatility; (iii) certain national policies which may restrict the Fund’s investment opportunities, including restrictions on investment in issuers or industries deemed sensitive to national interests; (iv) the absence of developed legal structures governing private or foreign investment or allowing for judicial redress for injury to private property; (v) the absence of a capital market structure or market-oriented economy; and (vi) the possibility that recent favorable economic developments may be slowed or reversed by unanticipated political or social events in such countries. Investments in securities of Cuban companies, if and when the Fund is permitted to invest in such securities, will be speculative and involve risks not usually associated with investments in securities of issuers in more developed market economies. See “Emerging Markets Risk” below.

Some foreign securities or nations impose restrictions on transfer within the United States or to U.S. persons. Although securities subject to such transfer restrictions may be marketable abroad, they may be less liquid than foreign securities of the same class that are not subject to such restrictions.

Accounting standards in other countries are not necessarily the same as in the United States. If the accounting standards in another country do not require as much detail as U.S. accounting standards, it may be harder for the Adviser to completely and accurately determine a company's financial condition. In instances where the financial statements of an issuer are not deemed to reflect accurately the financial situation of the issuer, the Adviser will take appropriate steps to evaluate the proposed investment, which may include on-site inspection of the issuer (including Cuba, if U.S. restrictions on travel to Cuba are lifted), interviews with its management and consultation with accountants, bankers and other specialists.

Certain Risks of Holding Fund Assets Outside the United States

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

Settlement Risk

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

Emerging Markets Risk

The risks of foreign investments are usually much greater for emerging markets. Investments in emerging markets, including many Caribbean Basin Countries, may be considered speculative. Emerging markets are riskier than more developed markets because they tend to develop unevenly and may never fully develop. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. Many emerging markets have histories of political instability and abrupt changes in policies. As a result, their governments are more likely to take actions that are hostile or detrimental to private enterprise or foreign investment than those of more developed countries. Certain emerging markets may also face other significant internal or external risks, including the risk of war, and civil unrest. In addition, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth.

Investments in the securities of issuers domiciled in countries with emerging capital markets involve certain additional risks that do not generally apply to investments in securities of issuers in more developed capital markets, such as (i) low or non-existent trading volume, resulting in a lack of liquidity and increased volatility in prices for such securities, as compared to securities of comparable issuers in more developed capital markets; (ii) uncertain national policies and social, political and economic instability, increasing the potential for expropriation of assets, confiscatory taxation, high rates of inflation or unfavorable diplomatic developments; (iii) possible fluctuations in exchange rates, differing legal systems and the existence or possible imposition of exchange controls, custodial restrictions or other foreign or U.S. governmental laws or restrictions applicable to such investments; (iv) national policies that may limit the Fund's investment opportunities such as restrictions on investment in issuers or industries deemed sensitive to national interests; and (v) the lack or relatively early development of legal structures governing private and foreign investments and private property. In addition to withholding taxes on investment income, some countries with emerging markets may impose differential capital gains taxes on foreign investors.

Emerging capital markets are developing in a dynamic political and economic environment brought about by events over recent years that have reshaped political boundaries and traditional ideologies. In such a dynamic environment, there can be no assurance that any or all of these capital markets will continue to present viable investment opportunities for the Fund. In the past, governments of such nations have expropriated substantial amounts of private property, and most claims of the property owners have never been fully settled. There is no assurance that such expropriations will not reoccur. In such an event, it is possible that the Fund could lose the entire value of its investments in the affected market.

Also, there may be less publicly available information about issuers in emerging markets than would be available about issuers in more developed capital markets, and such issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which U.S. companies are subject. In certain countries with emerging capital markets, reporting standards vary widely. As a result, traditional investment measurements used in the United States, such as price/earnings ratios, may not be applicable. Emerging market securities may be substantially less liquid and more volatile than those of mature markets, and company shares may be held by a limited number of persons. This may adversely affect the timing and pricing of the Fund's acquisition or disposal of securities. Communications between the United States and emerging market countries may be unreliable, increasing the risk of delayed settlements or losses of security certificates.

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

INVESTMENT OBJECTIVE AND POLICIES

Investment Policies - General

The Fund's investment objective is to obtain long-term capital appreciation. This objective may not be changed without the prior approval of the holders of a majority of the Fund's outstanding voting securities. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin country, (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin country (collectively referred to herein as "Caribbean Basin Companies"). Current income through receipt of interest or dividends from the Fund's securities is incidental to the

Fund’s efforts to attain its investment objective. The Fund invests in Caribbean Basin Companies that are likely, in the opinion of the Adviser, to benefit from political, legal and economic developments in the Caribbean Basin Countries. Under normal market conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Companies. The Fund may invest more than 25% of its total assets in the securities of U.S.-based companies. U.S. law currently prohibits the Fund from investing its assets in securities of companies that benefit from free trade with Cuba (“companies strategically linked to Cuba”). Companies strategically linked to Cuba may include a company that benefits from free trade with Cuba, but does not meet the definition of Caribbean Basin Company set forth above. If permitted to make such investments upon a lifting or easing of the U.S. trade embargo against Cuba or pursuant to regulations promulgated by a department or agency of the U.S. Government, the Fund may invest up to 20% of its assets in equity and equity-linked securities of non-Caribbean Basin Companies strategically linked to Cuba.

The Fund's investment objective is fundamental and may not be changed without the approval of the Fund's outstanding voting securities. As used in this prospectus, a majority of the 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 present in person or represented by proxy or (ii) more than 50% of the outstanding shares. The Fund's investment policies may be changed by its Board without stockholder approval, but the Fund will not change its investment policies without notice to its stockholders. The Fund is designed primarily for long-term investment, and investors should not consider it a trading vehicle. An investment in the Fund's shares should not constitute a complete investment program. The Fund's NAV can be expected to fluctuate, and no assurance can be given that the Fund will continue to achieve its investment objective.

Equity securities of public and private companies that may be purchased by the Fund consist of common stock, convertible and non-convertible preferred stock (whether voting or non-voting), debt with equity warrants and unattached warrants. Debt issued with a warrant entitles the holder to purchase equity shares and differs from convertible debt because the conversion feature is in the form of a separately traded warrant. Equity-linked securities of public and private companies that may be purchased by the Fund consist of debt securities convertible into equity and securities such as warrants, options and futures, the prices of which are functions of the value of the equity securities receivable upon exercise or settlement thereof.

The Fund may also invest in the shares of other registered investment companies, some of which may be Caribbean Basin Companies. By investing in shares of investment companies, the Fund would indirectly pay a portion of the operating expenses, management expenses and brokerage costs of such companies as well as the expense of operating the Fund. Thus, the Fund's investors may indirectly pay higher total operating expenses and other costs than they might pay by owning the underlying investment companies directly. The Adviser will continue to attempt to identify investment companies that have demonstrated superior management in the past, thus possibly offsetting these factors by producing better results and/or lower expenses than other investment companies. There can be no assurance that this result will continue to be achieved. In addition, Section 12(d)(1)(A) of the 1940 Act imposes limits on the amount of the investment of the Fund's assets, and those of its affiliates, in any investment company and that provision may adversely affect the Fund's ability to purchase or redeem shares issued by an investment company.

The Fund may invest in securities that lack an established secondary trading market or otherwise are considered illiquid. Liquidity of a security relates to the ability to dispose easily of the security and the price to be obtained upon disposition of the security, which may be less than would be obtained for a comparable more liquid security. Illiquid securities may trade at a discount from comparable, more liquid investments. Investment of the Fund's assets in illiquid securities may restrict the ability of the Fund to dispose of its investments in a timely fashion and for a fair price as well as its ability to take advantage of market opportunities. The risks associated with illiquidity will be particularly acute where the Fund's operations require cash, such as when the Fund redeems shares or pays a distribution, and could result in the Fund borrowing to meet short-term cash requirements or incurring capital losses on the sale of illiquid investments.

The Fund may invest in securities that are not registered under the Securities Act ("restricted securities"). Restricted securities may be sold in private placement transactions between issuers and their purchasers and may be neither listed on an exchange nor traded in other established markets. In many cases, privately placed securities may not be freely transferable under the laws of the applicable jurisdiction or due to contractual restrictions on resale. As a result of the absence of a public trading market, privately placed securities may be less liquid and more difficult to value than publicly traded securities. To the extent that privately placed securities may be resold in privately negotiated transactions, the prices realized from the sales, due to illiquidity, could be less than those originally paid by the Fund or less than their fair market value. In addition, issuers whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements that may be applicable if their securities were publicly traded. If any privately placed securities held by the Fund are required to be registered under the securities laws of one or more jurisdictions before being resold, the Fund may be required to bear the expenses of registration. Certain of the Fund's investments in private placements may consist of direct investments and may include investments in smaller, less seasoned issuers, which may involve greater risks. These issuers may have limited product lines, markets or financial resources, or they may be dependent on a limited management group. In making investments in such securities, the Fund may obtain access to material nonpublic information, which may restrict the Fund's ability to conduct portfolio transactions in such securities.

Temporary Defensive Positions

The Fund may vary its investment policy for temporary defensive purposes when, in the opinion of the Adviser, such a change is warranted due to changes in the securities markets in which the Fund may invest or other economic or political conditions affecting such markets. For temporary defensive purposes, the Fund may reduce its position in equity and equity-linked securities and invest in U.S. Treasury bills and U.S. Dollar denominated bank time deposits and certificates of deposit rated high quality or better by any nationally recognized statistical rating service or, if unrated, of equivalent investment quality as determined by the Adviser. The banks whose obligations may be purchased by the Fund will include any member of the U.S. Federal Reserve System. The Fund does not seek to achieve its stated investment objective when it has assumed a temporary defensive position.

Special Leverage Considerations

Hedging Transactions

The Fund may employ one or more of the hedging techniques described below, primarily to protect against a decrease in the U.S. Dollar equivalent value of its portfolio securities denominated in foreign currencies or in the payments thereon that may result from an adverse change in foreign currency exchange rates. Conditions in the securities, futures, options and foreign currency markets will continue to determine whether and under what circumstances the Fund will employ any of the techniques or strategies described below. 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 tax requirements applicable to regulated investment companies. See "Taxation."

Pursuant to applicable law and subject to certain restrictions, the Fund may effect hedging transactions on a variety of U.S. and foreign exchanges. The operations of U.S. exchanges are considered to be subject to more stringent regulation and supervision than those of certain non-U.S. exchanges.

If any percentage limitations applicable to the transactions described below are exceeded due to market fluctuations after an initial investment, the Fund may not enter into new transactions of the type to which the exceeded limitation applies until the total of the Fund's commitments with respect to such transactions falls within the applicable limitation.

Forward Foreign Currency Exchange Contracts

The Adviser believes that in some circumstances the purchase and sale of forward foreign currency exchange contracts ("forward contracts") may help offset declines in the U.S. Dollar equivalent value of the Fund's assets denominated in foreign currencies and in the income available for distribution to the Fund's stockholders that would result from adverse changes in the exchange rate between the U.S. Dollar and such foreign currencies. For example, the U.S. Dollar equivalent value of the principal of and rate of return on, the Fund's foreign denominated securities will decline if the exchange rate fluctuates between the U.S. Dollar and such foreign currency whereby the U.S. Dollar increases in value. Such a decline could be partially or completely offset by an increase in the value of a foreign currency forward contract. The Fund may purchase forward contracts involving either the currencies in which certain of its portfolio securities are denominated or, in cross-hedging transactions, other currencies, changes in the value of which correlate closely with the changes in the value of the currencies in which its portfolio securities are denominated. The Fund will enter into such cross-hedging transactions (i) only with respect to currencies whose foreign exchange rate changes historically have shown a high degree of correlation to changes in the foreign exchange rate of the currency in which the hedged asset is denominated (a "correlated currency") and (ii) only when the Adviser believes that the increase in correlation risk is offset by the lower transaction costs and increased liquidity available for financial instruments denominated in the correlated currency.

The Fund may enter into forward contracts or maintain a net exposure on such contracts only if (i) the consummation of the contracts would not obligate the Fund to deliver an amount of foreign currency in excess of the value of the Fund’s portfolio securities or other assets denominated in that currency or (ii) the Fund maintains cash, U.S. Government securities or other liquid, high-grade debt securities in a segregated account in an amount not less than the value of the Fund’s total assets committed to the consummation of the contract.

Although the use of forward contracts may protect the Fund against declines in the U.S. Dollar equivalent value of the Fund’s assets, such use may reduce the possible gain from advantageous changes in the value of the U.S. Dollar against particular currencies in which the Fund’s assets are denominated. Moreover, the use of forward contracts will not eliminate fluctuations in the underlying U.S. Dollar equivalent value of the prices of, or rates of return on, the assets held in the Fund’s portfolio.

The use of forward contracts subjects the Fund to certain risks. The matching of the increase in value of a forward contract and the decline in the U.S. Dollar equivalent value of the asset that is the subject of the hedge generally is not precise. The success of any of these techniques depends on the ability of the Adviser to predict correctly movements in foreign currency exchange rates. If the Adviser incorrectly predicts the direction of such movements or if unanticipated changes in foreign currency exchange rates occur, the Fund's performance may be poorer than if it had not entered into such contracts. The cost to the Fund of engaging in forward contracts varies with such factors as the foreign currency involved, the length of the contract period and the prevailing market conditions, including general market expectations as to the direction of the movement of various foreign currencies against the U.S. Dollar. Consequently, because the Fund may not always be able to enter into forward contracts at attractive prices, it may be limited in its ability to use such contracts to hedge its assets or for other risk management purposes. In addition, there can be no assurance that historical correlations between the movements of certain foreign currencies relative to the U.S. Dollar will continue.

Options on Foreign Currencies

The Fund may purchase and write put and call options on foreign currencies to protect against a decline in the U.S. Dollar equivalent value of its portfolio securities or payments due thereon or a rise in the U.S. Dollar equivalent cost of securities that it intends to purchase. A foreign currency put option grants the holder the right, but not the obligation, at a future date to sell a specified amount of a foreign currency to its counterparty at a predetermined price. A foreign currency call option grants the holder the right, but not the obligation, to purchase at a future date a specified amount of a foreign currency at a predetermined price.

As in the case of other types of options, the benefit to the Fund from purchases of foreign currency options will be reduced by the amount of the premium and related transaction costs. In addition, if currency exchange rates do not move in the direction or to the extent anticipated, the Fund could sustain losses on transactions in foreign currency options which would require it to forego a portion or all of the benefits of advantageous changes in such rates.

Any options on foreign currencies written by the Fund will be covered. A call option is "covered" if the Fund owns the underlying foreign currency covered by the call or has an absolute and immediate right to acquire that foreign currency without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other foreign currency held in its portfolio. A call option is also covered if the Fund has a call on the same foreign currency and in the same principal amount as the call written, so long as the exercise price of the call held (i) is equal to or less than the exercise price of the call written or (ii) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. government securities or other liquid, high-grade debt securities in a segregated account with its custodian. The Fund covers any put option it writes on foreign currencies by holding with its custodian, in a segregated account, cash, U.S. government securities or other liquid, high-grade debt securities in an amount equal to the option price.

The Fund may not purchase or write options on foreign currencies if, as a result, the Fund will have more than 20% of the value of its total assets invested in, or at risk with respect to, such options.

Futures Contracts

The Fund may enter into contracts for the purchase or sale for future delivery ("futures contracts") of foreign stock or bond indices or other financial indices that the Adviser and the Manager determine are appropriate to hedge the risks associated with changes in interest rates or general fluctuations in the value of the Fund's portfolio securities.

Pursuant to the regulations of the CFTC, and subject to certain restrictions, the Fund may purchase or sell futures contracts that are traded on U.S. exchanges that have been designated as contract markets by the CFTC. The Fund may also generally purchase or sell futures contracts that are subject to the rules of any foreign board of trade ("foreign futures contracts"). The Fund may not, however, trade a foreign futures contract based on a foreign stock index unless the contract has been approved by the CFTC for trading by U.S. persons.

The Fund is required to make a margin deposit in cash or government securities with a broker or custodian to initiate and maintain positions in futures contracts. Minimal initial margin requirements are established by the futures exchange and brokers may establish margin requirements which are higher than the exchange requirements. After a futures contract position is opened, the value of the contract is marked to market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional "variation" margin is required. Conversely, reduction in the contract value may reduce the required margin resulting in a repayment of excess margin to the Fund. Variation margin payments are made to and from the futures broker for as long as the contract remains open.

Notwithstanding the foregoing, the Fund will generally only purchase or sell futures contracts (including foreign currency exchange contracts), or options thereon, for bona fide hedging purposes, as defined in applicable CFTC regulations. If the Fund purchases or sells such futures contracts (including foreign currency exchange contracts), or options thereon for purposes other than bona fide hedging transactions, in accordance with CFTC regulations, the Fund will in no event purchase or sell futures contracts if immediately thereafter the sum of the amounts of initial margin deposits and premiums on the Fund's existing futures contracts would exceed 5% of the fair market value of the Fund's total assets. The Adviser reserves the right to comply with such different standards as may be established by the CFTC with respect to the purchase or sale of futures contracts and foreign futures contracts.

Options on Securities and Options on Indices

The Fund may purchase or sell exchange traded or over-the-counter put and call options on its portfolio securities.

The Fund may write covered put and call options on portfolio securities to generate additional revenue for the Fund and, in certain circumstances, as a partial hedge (to the extent of the premium received less transaction costs) against a decline in the value of portfolio securities and in circumstances in which the Adviser anticipates that the price of the underlying securities will not increase above or fall below (in the case of put options) the exercise price of the option by an amount greater than the premium received (less transaction costs incurred) by the Fund. Although writing put and call options may generate additional revenue for the Fund, such revenue is incidental to the Fund's efforts to achieve its investment objective. The Fund's strategy limits potential capital appreciation in the portfolio securities subject to the options.

The Fund may write only covered options. "Covered" means that, so long as the Fund is obligated as the writer of a call option, it will own either the underlying securities or an option to purchase the same underlying securities having an expiration date not earlier than the expiration date of the covered option and an exercise price equal to or less than the exercise price of the covered option, or establish or maintain with its custodian for the term of the option a segregated account consisting of cash, U.S. government securities or other liquid, high-grade debt obligations having a value equal to the fluctuating market value of the option securities. The Fund will continue to cover any put option it writes by maintaining a segregated account with its custodian as described above.

The Fund may not purchase or write options on securities or options on indices if, as a result, the Fund will have more than 5% of the value of its total assets invested in, or at risk with respect to, either such class of options.

The Fund's successful use of options and futures depends on the ability of the Adviser to predict the direction of the market, and is subject to various additional risks. The investment techniques and skills required to use options and futures successfully are different from those required to select equity and equity-linked securities for investment. The correlation between movements in the price of the option or future and the price of the securities being hedged is imperfect and the risk from imperfect correlation increases, with respect to stock index futures and options, as the composition of the Fund's portfolio diverges from the composition of the index underlying such index futures and options. In addition, the ability of the Fund to close out a futures or options position depends on a liquid secondary market. There is no assurance that liquid secondary markets will exist for any particular option or futures contract at any particular time. The securities the Fund is required to maintain in segregated accounts in connection with its hedging transactions are not available for investment in accordance with the Fund's investment objective of long-term capital appreciation.

On U.S. exchanges, once an option contract has been accepted for clearance, the exchange clearing organization is substituted as both buyer and seller of the contract, thereby guaranteeing the financial integrity of the option contract. Options on securities and on indices traded on certain non-U.S. exchanges may not be so guaranteed by a clearing organization. The absence of such a role for a clearing organization on such a non-U.S. exchange would expose the

Fund to the credit risk of its counterparty. If its counterparty were to default on its obligations, the Fund could lose the expected benefit of the transaction.

Repurchase Agreements

When cash may be available to the Fund for only a few days, the Fund may invest such cash in repurchase agreements until such time as it otherwise may be invested or used for payments of obligations of the Fund. In these transactions, the Fund purchases a security and simultaneously commits to resell that security to the seller at an agreed-upon price and date. The resale price reflects the purchase price plus an agreed-upon market rate of interest, which is unrelated to the coupon rate or maturity of the security purchased. The obligation of the seller to pay the agreed-upon price is secured by the value of the underlying securities, which is maintained at the Fund's custodian at a value at least equal to the resale price.