

GDL FUND
Form N-2/A
February 16, 2017
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As filed with the Securities and Exchange Commission on February 16, 2017

Securities Act File No. 333-213902

Investment Company Act File No. 811-21969

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form N-2

(Check Appropriate Box or Boxes)

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933
Pre-Effective Amendment No. 1
Post-Effective Amendment No.
and/or

REGISTRATION STATEMENT

UNDER

THE INVESTMENT COMPANY ACT OF 1940
Amendment No. 18

THE GDL FUND

(Exact name of Registrant as specified in Charter)

One Corporate Center, Rye, New York 10580-1422

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (914) 921-5100

Bruce N. Alpert

The GDL Fund

One Corporate Center

Rye, New York 10580-1422

(914) 921-5100

(Name and Address of Agent for Service)

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**The GDL Fund
One Corporate
Center**

**Rye, New York
10580-1422**

(914) 921-5100

Approximate date of proposed public offering: From time to time 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.

It is proposed that this filing will become effective (check appropriate box)

When declared effective pursuant to section 8(c)

If appropriate, check the following box:

This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee (2)
Common Shares of Beneficial Interest (2)		
Preferred Shares of Beneficial Interest (2)		
Notes (2)		
Subscription Rights for Common Shares (2)		
Subscription Rights for Preferred Shares (2)		
Subscription Rights for Common Shares and Preferred Shares (2)		
Total	\$1,000,000	\$100.70 (3)

- (1) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) There is being registered hereunder an indeterminate principal amount of common or preferred shares, notes, or subscription rights to purchase common shares, preferred shares or common and preferred shares as may be sold, from time to time. In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$1,000,000.
- (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 WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE

AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion

Preliminary Base Prospectus dated February 16, 2017

PROSPECTUS

[GRAPHIC OMITTED]

\$200,000,000

The GDL Fund

Common Shares

Preferred Shares

Notes

Subscription Rights to Purchase Common Shares

Subscription Rights to Purchase Preferred Shares

Subscription Rights to Purchase Common and Preferred Shares

Investment Objective. The GDL Fund (the Fund) is a diversified, closed-end management investment company, formed as a Delaware statutory trust, registered under the Investment Company Act of 1940. The Fund's investment objective is to achieve absolute returns in various market conditions without excessive risk of capital. Absolute returns are defined as positive total returns, regardless of the direction of securities markets. The Fund will seek to achieve its objective by investing, under normal market conditions, primarily in merger arbitrage transactions and, to a lesser extent, in corporate reorganizations involving stubs, spin-offs and liquidations. Gabelli Funds, LLC serves as

Investment Adviser to the Fund. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund will achieve its objective.

We may offer, from time to time, in one or more offerings, our common and/or fixed rate preferred shares, each with a par value \$0.001 per share (together, shares), our promissory notes (notes), and/or our subscription rights to purchase our common and/or fixed rate preferred shares, which we refer to collectively as the securities. Securities may be offered at prices and on terms to be set forth in one or more supplements to this prospectus (this Prospectus and each supplement thereto, a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our securities.

Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred shares will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any sale of notes will set forth the principal amount, interest rate, interest payment dates, prepayment protection (if any) and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of common and/or preferred shares issuable upon the exercise of each right and the other terms of such rights offering. We may offer subscription rights for common shares, preferred shares or common and preferred shares. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our securities. Our common shares are listed on the New York Stock Exchange (the NYSE) under the symbol GDL and our Series B Preferred shares are listed on the NYSE under the symbol GDL Pr B. On [], 2017, the last reported sale price of our common shares was \$9.88. The net asset value of the Fund's common shares at the close of business on [], 2017, was \$11.83 per share.

Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.

Investing in the Fund's securities involves risks. See Risk Factors and Special Considerations beginning on page 34 for factors that should be considered before investing in securities of the Fund.

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.

This Prospectus may not be used to consummate sales of securities by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

This Prospectus, together with an applicable Prospectus Supplement, sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, together with an applicable Prospectus Supplement, which contains important information about the Fund, before deciding whether to invest in the securities, and retain it for future reference. A Statement of Additional Information, dated [], 2017, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semiannual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 82 of this Prospectus, request other information about us and make shareholder inquiries by calling (800) GABELLI (422-3554) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the SEC's web site (<http://www.sec.gov>).

Our securities do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other government agency.

You should rely only on the information contained or incorporated by reference in this Prospectus and any applicable Prospectus Supplement. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus and any applicable Prospectus Supplement is accurate as of any date other than the date of this Prospectus or the date of the applicable Prospectus Supplement.

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PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in our securities. You should review the more detailed information contained in this prospectus (this Prospectus), including the section titled Risk Factors and Special Considerations beginning on page 34, the applicable Prospectus Supplement and the Statement of Additional Information, dated , 2017 (the SAI).

The Fund

The GDL Fund is a diversified, closed-end management investment company organized under the laws of the State of Delaware on October 17, 2006. Throughout this prospectus, we refer to The GDL Fund as the Fund or as we. See The Fund.

The Fund's outstanding common shares, par value \$0.001 per share, are listed on the New York Stock Exchange (NYSE) under the symbol GDL. On [], 2017, the last reported NYSE sale price of our common shares was \$9.88. The net asset value of the Fund's common shares at the close of business on [], 2017 was \$11.83 per share. As of December 31, 2016, the net assets of the Fund attributable to its common shares were \$216,779,035. As of December 31, 2016, the Fund had outstanding 18,248,752 common shares. The Fund's outstanding Series B Cumulative Puttable and Callable Preferred Shares, par value \$0.001 per share (the Series B Preferred), are listed on the NYSE under the symbol GDL Pr B . As of December 31, 2016, the Fund had outstanding 2,624,025 Series B Preferred at a liquidation value of \$50 per share for a total liquidation value of \$131,201,250.

The Offering

We may offer, from time to time, in one or more offerings, our common and/or fixed rate preferred shares, \$0.001 par value per share, our notes, or our subscription rights to purchase our common or fixed rate preferred shares or both, which we refer to collectively as the securities. The securities may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). The offering price per common share of the Fund will not be less than the net asset value per common share at the time we make the offering, exclusive of any underwriting commissions or discounts; however, transferable rights offerings that meet certain conditions may be offered at a price below the then current net asset value per common share of the Fund. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our securities. Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred shares will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any sale of notes will set forth the principal amount, interest rate, interest payment dates, prepayment protection (if any), and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number

of common and/or preferred shares issuable upon the exercise of each right and the other terms of such rights offering.

While the aggregate number and amount of securities we may issue pursuant to this registration statement is limited to \$200,000,000 of securities, our Board of Trustees (the Board) may, without any action by the shareholders, amend our Agreement and Declaration of Trust from time to time to increase or decrease the aggregate number of shares or the number of

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Investment Objective and Policies

shares of any class or series that we have authority to issue. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering.

The Fund's investment objective is to achieve absolute returns in various market conditions without excessive risk of capital. Absolute returns are defined as positive total returns, regardless of the direction of securities markets. To achieve its investment objective, the Fund, under normal market conditions, will invest primarily in securities of companies (both domestic and foreign) involved in publicly announced mergers, takeovers, tender offers and leveraged buyouts (i.e., merger arbitrage transactions) and, to a lesser extent, in corporate reorganizations involving stubs, spin-offs and liquidations. The key determinants of the profitability of a merger arbitrage transaction are the probability that the deal will close, the length of time to closing, the likelihood that the deal price will be increased or decreased and the level of short term interest rates.

Merger arbitrage is a highly specialized investment approach generally designed to profit from the successful completion of proposed mergers, takeovers, tender offers and leveraged buyouts. Broadly speaking, an investor purchases the stock of a company in the process of being acquired by another company in anticipation of capturing the spread between the current market price and the acquisition price. A stub refers to a small stake in a target company division or subsidiary that is not purchased by an acquirer in a merger, takeover or leveraged buyout. The arbitrageur may buy the stub, and if the acquiring company is successful in boosting the target company's appeal, the shares will benefit from a boost in price and the arbitrageur will profit. A spin-off occurs when an independent company is created from an existing part of another company through a distribution of new shares. An arbitrageur may benefit from the share price differential in the same manner as in traditional merger arbitrage if, upon completion of the spin-off, the separate securities trade for more in the aggregate than the former single security. Finally, when a company makes the decision to liquidate, or sell all of its assets, it is often worth more in liquidation than as an ongoing entity. An arbitrageur benefits when the company is able to distribute more than the price at which the stock is trading at the time the arbitrageur acquires its position.

In order to minimize market exposure and volatility of such merger arbitrage strategies, the Fund may utilize hedging strategies, such as short selling and the use of options, futures, swaps, forward foreign exchange contracts and other derivatives. The Fund expects that it will invest in these types of instruments primarily for hedging and risk management purposes. The Fund may also invest in derivative instruments for the purposes of increasing the income of the Fund, hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against a specific transaction with respect to either the currency in which the transaction is denominated or another

currency. There is no specific limit on the proportion of its assets that the Fund may use to invest in derivatives and conduct short sales in connection with its investments in corporate transactions and reorganizations.

Under normal market conditions, the Fund will invest at least 80% of its assets in securities or hedging arrangements relating to companies involved in corporate transactions or reorganizations, giving rise to the possibility of realizing gains upon or within relatively short periods of time after the completion of such transactions, or reorganizations. This policy is not fundamental and may be changed by the Fund with notice of not less than 60 days to its shareholders. Securities in which the Fund may invest include both equity securities (e.g., common stocks and preferred stocks) and fixed-income securities. The Fund may make unlimited investments in securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality, including securities of issuers in default, which are likely to have the lowest rating. However, the Fund does not expect these investments to exceed 10% of its total assets. These securities, which may be preferred shares or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Securities that are rated lower than BBB by S&P, or lower than Baa by Moody's or unrated securities considered by the Investment Adviser to be of comparable quality, are commonly referred to as junk bonds or high yield securities. The Fund may also invest up to 15% of its assets in securities for which there is no readily available trading market or are otherwise illiquid. Illiquid securities include securities legally restricted as to resale, such as commercial paper issued pursuant to Section 4(a)(2) of the Securities Act of 1933 (the Securities Act) and securities eligible for resale pursuant to Rule 144A thereunder. Section 4(a)(2) and Rule 144A securities may, however, be treated as liquid by the Investment Adviser pursuant to procedures adopted by the Board, which require consideration of factors such as trading activity, availability of market quotations and number of dealers willing to purchase the security.

In applying the Fund's investment policies, Gabelli Funds, LLC (the Investment Adviser) considers normal market conditions to exist when there are a substantial number of corporate transactions or reorganizations that, in the Investment Adviser's judgment, have an attractive investment profile. Depending upon the level of merger activity and other economic and market conditions, and the availability of corporate transactions or reorganizations that, in the Investment Adviser's judgment, have an attractive investment profile, the Fund may

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invest a substantial portion of its assets in other securities, including money market instruments such as U.S. Treasury bills and other short term obligations of the U.S. Government, its agencies or instrumentalities; shares of one or more money market funds managed by the Investment Adviser or unaffiliated managers; negotiable bank certificates of deposit; prime commercial paper; and repurchase agreements with respect to the above securities. During periods in which a substantial portion of the Fund's assets are invested in other securities, it is less likely that the Fund will achieve its investment objective or an attractive rate of return.

The Fund may invest without limitation in the securities of foreign and domestic issuers. The Fund's investment strategy is to invest in merger arbitrage transactions and corporate reorganizations throughout the world. To the extent that the majority of mergers, takeovers, tender offers and leveraged buyouts and corporate reorganizations are concentrated in any given geographic region, such as Europe, North America or Asia, a relatively high proportion of the Fund's assets may be invested in that particular region.

No assurances can be given that the Fund's objective will be achieved. Neither the Fund's investment objective nor, except as expressly stated herein, any of its policies are fundamental, and each may be modified by the Board without shareholder approval. The percentage and ratings limitations stated herein and in the SAI apply only at the time of investment and are not considered violated as a result of subsequent changes to the value, or downgrades to the ratings, of the Fund's portfolio investments.

Gabelli Funds, LLC, a New York limited liability company, with offices at One Corporate Center, Rye, New York 10580-1422, serves as investment adviser to the Fund. The Investment Adviser believes that blending traditional merger arbitrage for announced deals with strategies that focus on stubs, spin-offs and liquidations will produce absolute returns in excess of short term interest rates with less volatility than the returns typically associated with equity investing. A systematic and disciplined arbitrage program may produce attractive rates of return even in flat or down markets. The Investment Adviser will consider a number of factors in selecting merger arbitrage transactions in which to invest, including, but not limited to, the credibility, strategic motivation, and financial resources of the participants and the liquidity of the securities involved in the transaction.

Preferred Shares

The terms of each series of preferred shares may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund's common shares. If the Fund's Board determines that it may be advantageous to the holders of the Fund's common shares for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred shares. Any fixed rate preferred shares issued by the Fund will pay distributions at a fixed rate. Leverage creates a greater risk of loss as well as a potential for more gains for the common shares than if leverage were not used. See Risk Factors and Special Considerations Special Risk

Factors to Holders of Common Shares Leverage Risk. The Fund may also determine in the future to issue other forms of senior securities, such as securities representing debt, subject to the limitations of the Investment Company Act of 1940, as amended (the 1940 Act). The Fund may also engage in investment management techniques which will not be considered senior securities if the Fund establishes a segregated account with cash or other liquid assets or sets aside assets on the accounting records equal to the Fund s obligations in respect of such techniques. The Fund may also borrow money, to the extent permitted by the 1940 Act.

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Dividends and Distributions

Preferred Shares Distributions. In accordance with the Fund's Governing Documents (as defined below) and as required by the 1940 Act, all preferred shares of the Fund must have the same seniority with respect to distributions. Accordingly, no complete distribution due for a particular dividend period will be declared or paid on any series of preferred shares of the Fund for any dividend period, or part thereof, unless full cumulative dividends and distributions due through the most recent dividend payment dates for all series of outstanding preferred shares of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred shares of the Fund, any distributions on such preferred shares will be made as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred shares on the relevant dividend payment date. As used herein, "Governing Documents" means the Fund's Agreement and Declaration of Trust and By-Laws, together with any amendments or supplements thereto, including any Statement of Preferences establishing a series of preferred shares.

The distributions to the Fund's preferred shareholders for the fiscal year ended December 31, 2016, were comprised of net investment income, short term capital gains and long term capital gains, and return of capital. ***The Fund's annualized distributions may in the future contain a return of capital. Shareholders who receive the payment of a distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit.*** The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each year's distributions will be based on the Fund's investment activity through the end of the applicable calendar year. In addition, any amount treated as a tax free return of capital will reduce a shareholder's adjusted tax basis in its shares, thereby increasing the shareholder's potential taxable gain or reducing the potential taxable loss on the sale of the shares.

Distributions on fixed rate preferred shares, at the applicable annual rate of the per share liquidation preference, are cumulative from the original issue date and are payable, when, as and if declared by the Board, out of funds legally available therefor.

Common Shares Distributions. The Fund currently intends to make quarterly cash distributions of all or a portion of its investment company taxable income (which includes ordinary income and realized net short term capital gains) to common shareholders. The Fund also intends to make annual distributions of its realized net long term capital gains, if any. A portion of each distribution may be a return of capital. Various factors will affect the level of the Fund's income, such as its asset

mix and use of merger arbitrage strategies. To permit the Fund to maintain more stable distributions, the Fund may from time to time distribute more or less than the entire amount of income earned in a particular period. The Fund's distribution policy may be modified from time to time by the Board as it deems appropriate, including in light of market and economic conditions and the Fund's current, expected and historical earnings and investment performance. Common shareholders are expected to be notified of any such modifications by press release or in the Fund's periodic shareholder reports. Because the Fund's current quarterly distributions are subject to modification by the Board at any time and the Fund's income will fluctuate, there can be no assurance that the Fund will pay distributions at a particular rate or frequency. ***The Fund's annualized distributions may contain a return of capital and should not be considered as the dividend yield or total return of an investment in its common shares. Shareholders who receive the payment of a distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not***

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assume that the source of a distribution from the Fund is net profit. In addition, the amount treated as a tax free return of capital will reduce a shareholder's adjusted tax basis in its shares, thereby increasing the shareholder's potential taxable gain or reducing the potential taxable loss on the sale of the shares.

For the fiscal year ended December 31, 2016, the Fund made distributions of \$0.64 per common share, approximately \$0.05 of which constituted a return of capital.

Tax Treatment of Preferred Share Distributions

The Fund expects that distributions on the preferred shares may consist of (i) long term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations) and (iii) investment company taxable income (other than qualified dividend income), including interest income, short term capital gain, and income from certain hedging and interest rate transactions. The Fund expects that a substantial portion of its income will consist of short term capital gains. For a more detailed discussion, see Taxation.

Indebtedness

Under applicable state law and our Agreement and Declaration of Trust, we may borrow money without prior approval of holders of common and preferred shares. We may issue debt securities, including notes, or other evidence of indebtedness and may secure any such notes or borrowings by mortgaging, pledging or otherwise subjecting as security our assets to the extent permitted by the 1940 Act or rating agency guidelines. Any borrowings, including without limitation any notes, will rank senior to the preferred shares and the common shares. The Prospectus Supplement will describe the interest payment provisions relating to notes. Interest on notes will be payable when due as described in the related Prospectus Supplement. If we do not pay interest when due, it will trigger an event of default and we will be restricted from declaring dividends and making other distributions with respect to our common shares and preferred shares.

Use of Proceeds

The Fund will use the net proceeds from the offering to purchase portfolio securities in accordance with its Investment Objective and Policies. The Investment Adviser anticipates that the investment of the proceeds will be made as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. Depending on market conditions and operations, a portion of the proceeds may be used to pay distributions. See Use of Proceeds.

The Fund may also use the net proceeds from the offering to call, redeem or repurchase shares of its Series B Preferred. The Series B Preferred pay quarterly distributions in March, June, September, and December of each year. On January 23, 2015, the Board reset the annual dividend rate to 3.00% on the Series B Preferred for dividend periods through March 26, 2018, the mandatory call date for the Series B Preferred.

Exchange Listing

The Fund's outstanding common shares have been listed and traded on the NYSE under the trading or ticker symbol GDL and our Series B Preferred shares are listed on the NYSE under the symbol GDL Pr B. See Description of the Securities. The Fund's common shares have historically traded at a discount to the Fund's net asset value. Since the Fund commenced trading on the NYSE, the Fund's common shares have traded at a discount to

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net asset value as high as 29.06% and a premium as high as 9.74%. Any additional series of fixed rate preferred shares or subscription rights issued in the future pursuant to a Prospectus Supplement by the Fund would also likely be listed on the NYSE.

Risk Factors and Special Considerations

Risk is inherent in all investing. Therefore, before investing in the Fund's shares, you should consider the risks carefully.

Merger Arbitrage Risk. The principal risk associated with the Fund's investment strategy is that certain of the proposed reorganizations in which the Fund invests may be renegotiated, terminated or involve a longer time frame than originally contemplated, in which case losses may be realized. The investment policies of the Fund are expected to lead to frequent changes in investments, which increase transaction costs to the Fund, and may also result in accelerated recognition of short term capital gain, which will be taxable to shareholders when distributed by the Fund. See Risk Factors and Special Considerations General Risks Merger Arbitrage Risk.

Foreign Securities Risk. Investing in securities of foreign companies, which are generally denominated in foreign currencies, may involve certain risks and opportunities not typically associated with investing in domestic companies. Foreign companies generally are not subject to the same accounting, auditing, and financial standards and requirements as those applicable to U.S. companies.

Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading volume compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates and corresponding currency devaluations have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries.

The Fund may invest in companies whose securities are denominated or quoted in currencies other than U.S. dollars or have significant operations or markets outside of the United States. In such instances, the Fund will be exposed to currency risk, including the risk of fluctuations in the exchange rate between U.S. dollars (in which the Fund's shares are denominated) and such foreign currencies, the risk of currency devaluations and the risks of non-exchangeability and blockage. As non-U.S. securities may be purchased with and payable in currencies of countries other than the U.S. dollar, the value of these assets measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. Fluctuations in currency rates may adversely affect the ability of the Investment Adviser to acquire such securities at advantageous prices and may also adversely affect the performance of such assets.

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For more details on certain pronounced risks with foreign investing see Risk Factors and Special Considerations General Risks Foreign Securities Risk.

Equity Risk. A principal risk of investing in the Fund is equity risk, which is the risk that the securities held by the Fund will fall in market value due to adverse market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate and the particular circumstances and performance of particular companies whose securities the Fund holds. An investment in the Fund represents an indirect investment in the securities owned by the Fund, which are for the most part traded on securities exchanges or in the over-the-counter markets. The market value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The net asset value of the Fund may at any point in time be worth less than the amount at the time the shareholder invested in the Fund, even after taking into account any reinvestment of distributions. See Risk Factors and Special Considerations General Risks Equity Risk.

Special Risks Related to Investing in Preferred Shares. Special risks associated with the Fund investing in preferred shares include deferral of distributions or dividend payments, in some cases the right of an issuer never to pay missed dividends, subordination to debt and other liabilities, illiquidity, limited voting rights and redemption by the issuer. Because the Fund has no limit on its investment in non-cumulative preferred shares, the amount of dividends the Fund pays may be adversely affected if an issuer of non-cumulative preferred shares held by the Fund determines not to pay dividends on such shares. There is no assurance that dividends or distributions on preferred shares in which the Fund invests will be declared or otherwise made payable. See Risk Factors and Special Considerations General Risks Special Risks Related to Investing in Preferred Shares.

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

Interest Rate Risk. The market value of bonds and other fixed-income or dividend paying securities changes in response to interest rate changes and other factors. Interest rate risk is the risk that prices of bonds and other income or dividend paying securities will increase as interest rates fall and decrease as interest rates rise. The Fund may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates and the Federal Reserve's indication that it may raise the federal funds rate in the near future.

Issuer Risk. Issuer risk is the risk that the value of an income or dividend paying security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer's goods and services, historical and prospective earnings of the issuer, and the value of the assets of the issuer.

Credit Risk. Credit risk is the risk that one or more income or dividend paying securities in the Fund's portfolio will decline in price or fail to pay interest/distributions or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates.

Prepayment Risk. Prepayment risk is the risk that during periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For income or dividend paying securities, such payments often occur during periods of declining interest rates, forcing the Fund to reinvest in lower yielding securities, resulting in a possible decline in the Fund's income and distributions to shareholders.

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

Duration and Maturity Risk. The Fund may incur costs in seeking to adjust the portfolio average duration or maturity. In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Specifically, duration measures the anticipated percentage change in NAV that is expected for every percentage point change in interest rates. The two have an inverse relationship. Duration can be a useful tool to estimate anticipated price changes to a fixed pool of income securities associated with changes in interest rates. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in addition to the amount of time until the security matures. As the value of a security changes over time, so will its duration. There can be no assurance that the Investment Adviser's assessment of current and projected market conditions will be correct or that any strategy to adjust duration or maturity will be successful at any given time.

See Risk Factors and Special Considerations General Risks Fixed Income Securities Risk.

Non-Investment Grade Securities. The Fund may invest in securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Securities of below investment grade quality those securities rated below Baa by Moody's Investors Service, Inc. (Moody's) or below BBB by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default and are commonly referred to as junk bonds or high yield securities. See Risk Factors and Special Considerations General Risks Non-Investment Grade Securities.

U.S. Government Securities Risk. The Fund may invest in direct obligations of the government of the United States or its agencies. Obligations issued or guaranteed

by the U.S. government, its agencies, authorities and instrumentalities and backed by the full faith and credit of the U.S. guarantee only that principal and interest will be timely paid to holders of the securities. These entities do not guarantee that the value of such obligations will increase, and, in fact, the market values of such obligations may fluctuate. In addition, not all U.S. government securities are backed by the full faith and credit of the United States; some are the obligation solely of the entity through which they are issued. There is no guarantee that the U.S. government would provide financial support to its agencies and instrumentalities if not required to do so by law. Risk Factors and Special Considerations General Risks U.S. Government Securities and Credit Rating Downgrade Risk.

Derivative Transactions. The Fund may participate in certain derivative transactions. Such transactions entail certain execution, market, liquidity, counterparty, correlation, volatility, hedging and tax risks. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave the Fund in a worse position than if it had not used such strategies. See Risk Factors and Special Considerations General Risks Special Risks Related to Investment in Derivatives.

Leverage Risk. The Fund currently uses financial leverage for investment purposes by issuing preferred shares and is also permitted to use other types of financial leverage, such as through the issuance of debt securities or additional preferred shares and borrowing from financial institutions. As provided in the 1940 Act and subject to certain exceptions, the Fund

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may issue additional senior securities (which may be stock, such as preferred shares, and/or securities representing debt) only if immediately after such issuance the value of the Fund's total assets, less certain ordinary course liabilities, exceeds 300% of the amount of the debt outstanding and exceeds 200% of the amount of preferred shares and debt outstanding. As of December 31, 2016, the amount of leverage represented approximately 38% of the Fund's assets.

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage for the preferred shares. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make distributions on the preferred shares or principal or interest payments on debt securities, or to redeem preferred shares or repay debt, when it may be disadvantageous to do so. The Fund's use of leverage may require it to sell portfolio investments at inopportune times in order to raise cash to redeem preferred shares or otherwise de-leverage so as to maintain required asset coverage amounts or comply with the mandatory redemption terms of any outstanding preferred shares. The use of leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. To the extent that the Fund employs leverage in its investment operations, the Fund is subject to substantial risk of loss. The Fund cannot assure you that borrowings or the issuance of preferred shares will result in a higher yield or return to the holders of the common shares. Also, since the Fund utilizes leverage, a decline in net asset value could affect the ability of the Fund to make common share distributions and such a failure to make distributions could result in the Fund ceasing to qualify as a regulated investment company (a "RIC") under the Internal Revenue Code of 1986, as amended (the "Code").

Any decline in the net asset value of the Fund's investments would be borne entirely by the holders of common shares. Therefore, if the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value to the holders of common shares than if the Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the common shares. The Fund might be in danger of failing to maintain the required asset coverage of its borrowings, notes or preferred shares or of losing its ratings on its notes or preferred shares or, in an extreme case, the Fund's current investment income might not be sufficient to meet the distribution or interest requirements on the borrowings, preferred shares or notes. In order to counteract such an event, the Fund might need to liquidate investments in order to fund redemption or repayment of some or all of the borrowings, preferred shares or notes.

The issuance of preferred shares or notes causes the net asset value and market value of the common shares to become more volatile. If the interest rate on the notes or the dividend rate on the preferred shares approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to the holders of the common shares would be reduced. If the interest rates on the notes or the dividend rate on the preferred shares plus the Fund's management fee rate exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to the holders of common shares than if the Fund had not issued preferred shares or notes.

In addition, the Fund pays (and the holders of common shares bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares or notes, including

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any additional advisory fees on the incremental assets attributable to such preferred shares or notes. Holders of preferred shares and notes may have different interests than holders of common shares and at times may have disproportionate influence over the Fund's affairs. As provided in the 1940 Act and subject to certain exceptions, the Fund may issue senior securities (which may be stock, such as preferred shares, and/or securities representing debt, such as notes) only if immediately after such issuance the value of the Fund's total assets, less certain ordinary course liabilities, exceeds 300% of the amount of the debt outstanding and exceeds 200% of the amount of preferred shares and debt outstanding, which is referred to as the asset coverage required by the 1940 Act. In the event the Fund fails to maintain an asset coverage of 100% for any notes outstanding for certain periods of time, the 1940 Act requires that either an event of default be declared or that the holders of such notes have the right to elect a majority of the Fund's trustees (the Trustees) until asset coverage recovers to 110%. In addition, holders of preferred shares, voting separately as a single class, have the right to elect two members of the Board at all times and in the event dividends become in arrears for two full years would have the right (subject to the rights of noteholders) to elect a majority of the Trustees until the arrearage is completely eliminated. In addition, preferred shareholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion of the Fund to open-end status, and accordingly can veto any such changes. See Risk Factors and Special Considerations Special Risks to Holders of Common Shares Leverage Risk and Description of the Securities Preferred Shares Asset Maintenance Requirements and Description of the Securities Notes Limitations.

Market Discount Risk. The Fund is a diversified, closed-end management investment company. Whether investors will realize gains or losses upon the sale of additional securities of the Fund will depend upon the market price of the securities at the time of sale, which may be less or more than the Fund's net asset value per share or the liquidation value of any Fund preferred shares issued. The Fund cannot predict whether any such securities will trade at, below or above net asset value or at, below or above their public offering price. The risk of a market price discount from net asset value is separate and in addition to the risk that net asset value itself may decline. The Fund's securities are designed primarily for long term investors, and investors in the shares should not view the Fund as a vehicle for trading purposes. See Risk Factors and Special Considerations General Risks Market Discount Risk.

Special Risks to Holders of Fixed Rate Preferred Shares. Prior to the offering of any additional series of fixed rate preferred shares, there will be no public market for such shares. During an initial period, not expected to exceed 30 days after the date of initial issuance, such shares may not be listed on any securities exchange. During such period, the underwriters may make a market in such shares, although they will have no obligation to do so. Consequently, an investment in such shares

may be illiquid during such period. Fixed rate preferred shares may trade at a premium to or discount from liquidation preference for a variety of reasons, including changes in interest rates. See Risk Factors and Special Considerations Special Risks to Holders of Fixed Rate Preferred Shares.

Special Risks to Holders of Notes. An investment in our notes is subject to special risks. Our notes are not likely to be listed on an exchange or automated quotation system. We cannot assure you that any market will exist for our notes or if a market does exist, whether it will provide holders with liquidity. Broker-dealers that maintain a secondary trading market for the notes are not required to maintain this market, and the Fund is not required to redeem

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notes if an attempted secondary market sale fails because of a lack of buyers. To the extent that our notes trade, they may trade at a price either higher or lower than their principal amount depending on interest rates, the rating (if any) on such notes and other factors. See Risk Factors and Special Considerations Special Risks to Holders of Notes.

Special Risk to Holders of Subscription Rights. There is a risk that changes in market conditions may result in the underlying common or preferred shares purchasable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of common or preferred shares issued may be reduced, and the common or preferred shares may trade at less favorable prices than larger offerings for similar securities. See Risk Factors and Special Considerations Special Risk to Holders of Subscription Rights.

Common Share Repurchases. Repurchases of common shares by the Fund may reduce the net asset coverage of the notes and preferred shares, which could adversely affect their liquidity or market prices. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Common Share Repurchases.

Common Share Distribution Policy. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount at least equal to its distributions for a given year, the Fund may return capital as part of its distributions on common shares. This would decrease the asset coverage per share with respect to the Fund's notes or preferred shares, which could adversely affect their liquidity or market prices. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Common Share Distribution Policy.

Credit Quality Ratings. The Fund may obtain credit quality ratings for its preferred shares or notes; however, it is not required to do so and may issue preferred shares or notes without any rating. If rated, the Fund does not impose any minimum rating necessary to issue such preferred shares or notes. In order to obtain and maintain attractive credit quality ratings for preferred shares or borrowings, if desired, the Fund's portfolio must satisfy over-collateralization tests established by the relevant rating agencies. These tests are more difficult to satisfy to the extent the Fund's portfolio securities are of lower credit quality, longer maturity or not diversified by

issuer and industry. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act. A rating (if any) by a rating agency does not eliminate or necessarily mitigate the risks of investing in our preferred shares or notes, and a rating may not fully or accurately reflect all of the securities' credit risks. A rating (if any) does not address liquidity or any other market risks of the securities being rated. A rating agency could downgrade the rating of our notes or preferred shares, which may make such securities less liquid in the secondary market. If a rating agency downgrades the rating assigned to notes or preferred shares, we may alter our portfolio or redeem the preferred securities or notes under certain circumstances. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Credit Quality Ratings.

Preferred Shares Subordinated to Debt Securities. As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue debt securities. In the event the Fund were to issue such securities, the Fund's obligations to make distributions and, upon liquidation of the Fund, liquidation payments in respect of its preferred shares would be subordinate to the Fund's obligations to make any principal and interest payments due and owing with respect to its outstanding debt securities. Accordingly, the Fund's issuance of debt securities would have the effect of creating special risks for the Fund's

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preferred shareholders that would not be present in a capital structure that did not include such securities. See Risk Factors and Special Considerations Special Risks of Notes to Holders of Preferred Shares.

Dilution. Shareholders who do not exercise their subscription rights may, at the completion of such an offering, own a smaller proportional interest in the Fund than if they exercised their subscription rights. As a result of such an offering, a shareholder may experience dilution in net asset value per share if the subscription price per share is below the net asset value per share on the expiration date. If the subscription price per share is below the net asset value per share of the Fund's shares on the expiration date, a shareholder will experience an immediate dilution of the aggregate net asset value of such shareholder's shares if the shareholder does not participate in such an offering and the shareholder will experience a reduction in the net asset value per share of such shareholder's shares whether or not the shareholder participates in such an offering. The Fund cannot state precisely the extent of this dilution (if any) if the shareholder does not exercise such shareholder's subscription rights because the Fund does not know what the net asset value per share will be when the offer expires or what proportion of the subscription rights will be exercised.

Long Term Objective; Not a Complete Investment Program. The Fund is intended for investors seeking long term growth of capital. The Fund is not meant to provide a vehicle for those who wish to play short term swings in the stock market. An investment in shares of the Fund should not be considered a complete investment program. Each shareholder should take into account the Fund's investment objective as well as the shareholder's other investments when considering an investment in the Fund. See Risk Factors and Special Considerations General Risks Long Term Objective; Not a Complete Investment Program.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. See Risk Factors and Special Considerations General Risks Management Risk.

Dependence on Key Personnel. The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See Risk Factors and Special Considerations General Risks Dependence

on Key Personnel.

Market Disruption and Geopolitical Risk. The occurrence of events similar to those in recent years may result in market volatility, may have long term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties in the U.S. and worldwide. Any such event(s) could have a significant adverse impact on the value and risk profile of the Fund's portfolio. The Fund does not know how long the securities markets may be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. There can be no assurance that similar events and other market disruptions will not have other material and adverse implications. See Risk Factors and Special Considerations General Risks Market Disruption and Geopolitical Risk.

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Economic Events and Market Risk. Periods of market volatility remain, and may continue to occur in the future, in response to various political, social and economic events both within and outside of the United States. These conditions have resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Fund's securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings. If there is a significant decline in the value of the Fund's portfolio, this may impact the asset coverage levels for the Fund's outstanding leverage.

Risks resulting from any future debt or other economic crisis could also have a detrimental impact on the global economic recovery, the financial condition of financial institutions and our business, financial condition and results of operation. Downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, Federal Reserve policy, including with respect to certain interest rates and the decision to end its quantitative easing policy, may also adversely affect the value, volatility and liquidity of dividend- and interest-paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could impair the Fund's ability to achieve its investment objective.

See Risk Factors and Special Considerations General Risks Economic Events and Market Risk.

Government Intervention in Financial Markets Risk. The U.S. government and certain foreign governments have in the past taken actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity, including through direct purchases of equity and debt securities. Federal, state, and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the issuers in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable. Legislation or regulation may also change the way in which the Fund is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objective. See Risk Factors and Special Considerations General Risks Government Intervention in Financial Markets Risk.

Status as a Regulated Investment Company. The Fund has elected to qualify as a RIC under Subchapter M of the Code. Qualification requires, among other things,

compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common shares if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. While the Fund presently intends to purchase or redeem notes or preferred shares, if any, to the extent necessary in order to maintain compliance with such asset coverage requirements, there can be no assurance that such actions can be effected in time to meet the Code's requirements. See Risk Factors and Special Considerations General Risks Status as a Regulated Investment Company. See Taxation for a more complete discussion of these and other U.S. federal income tax considerations.

Anti-Takeover Provisions. The Fund's Governing Documents (as defined herein) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund's Governing Documents.

Table of Contents**Management and Fees**

Gabelli Funds, LLC serves as the Fund's Investment Adviser and its fee is calculated on the basis of the Fund's managed assets, which includes all of the assets of the Fund without deduction for borrowings, repurchase transactions and other leveraging techniques, the liquidation value of any outstanding preferred shares or other liabilities except for certain ordinary course expenses. The fee may be higher when leverage is utilized, giving the Investment Adviser an incentive to utilize such leverage. The base rate is an annual rate of 0.50% of the Fund's average weekly managed assets payable monthly in arrears. In addition, the Investment Adviser will be entitled to receive an annual performance fee as of the end of each calendar year if the total return of the Fund on its common shares during the calendar year in question exceeds the total return of an index of three-month U.S. Treasury bills (the T-Bill Index) during the same period. If the Fund's total return for the calendar year equals the total return of the T-Bill Index for the same period plus 3.0 percentage points (300 basis points), the Investment Adviser will receive a performance fee of 0.75% of the Fund's average weekly managed assets during the period. This performance fee will be increased by 0.01 percentage point (one basis point) for each 0.04 percentage point (four basis points) by which the Fund's total return during the period exceeds the T-Bill Index total return plus 3.0 percentage points (300 basis points), up to a maximum performance fee of 1.50% if the excess performance over the T-Bill Index is 6.0 percentage points (600 basis points) or greater and will be decreased at the same rate for the amount by which the Fund's total return during the period is less than the T-Bill Index total return plus 3.0 percentage points (300 basis points), until no performance fee is payable if the Fund's total return is less than or equal to the T-Bill Index total return. See Management of the Fund.

Under the performance fee arrangement, the annual rate of the total fees paid to the Investment Adviser can range from 0.50% to 2.00% of the Fund's average weekly managed assets.

Because the investment advisory fees are based on a percentage of managed assets, which includes assets attributable to the Fund's use of leverage, the Investment Adviser may have a conflict of interest in the input it provides to the Board regarding whether to use or increase the Fund's use of leverage. The Board bases its decision, with input from the Investment Adviser, regarding whether and how much leverage to use for the Fund on its assessment of whether such use of leverage is in the best interests of the Fund, and the Board seeks to manage the Investment Adviser's potential conflict of interest by retaining the final decision on these matters and by periodically reviewing the Fund's performance and use of leverage.

Total Investment Advisory Fee Rate

(as a percentage of average weekly managed assets)

T-Bill Index	The Fund's Total Return														
Total Return	0% or less	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
2%	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00
3%	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	2.00
4%	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00
5%	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00	2.00
6%	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00	2.00
7%	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.00
8%	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00

Repurchase of Common Shares

The Fund's Board has authorized the Fund to consider the repurchase of its common shares in the open market when the common shares are trading at a discount of 7.5% or more from net asset value (or such other percentage as the Board may determine from time to time). Although the Board has authorized such repurchases, the Fund is not required to repurchase its common shares. During the year ended December 31, 2016, the Fund repurchased and

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retired 1,273,240 common shares in the open market at a cost of \$12,561,413 and an average discount of approximately 16.56% from its net asset value. Such repurchases are subject to certain notice and other requirements under the 1940 Act. See [Repurchase of Common Shares](#).

Anti-Takeover Provisions

Certain provisions of the Fund's Governing Documents may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of three classes of trustees is elected each year; super-majority voting requirements apply to the authorization of the conversion of the Fund from a closed-end to an open-end investment company or to the authorization of certain transactions between the Fund and a beneficial owner of more than 5% of any class of the Fund's capital stock; advance notice to the Fund of any shareholder proposal is required; and any shareholder proposing the nomination or election of a person as a Trustee must supply significant amounts of information designed to enable verification of whether such person satisfies the qualifications required of potential nominees to the Board. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal shareholder. These provisions may have the effect of depriving the Fund's common shareholders of an opportunity to sell their shares at a premium to the prevailing market price. The issuance of preferred shares could make it more difficult for the holders of common shares to avoid the effect of these provisions. See [Anti-Takeover Provisions of the Fund's Governing Documents](#).

Custodian

The Bank of New York Mellon (the [Custodian](#)), located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian receives a monthly fee based upon, among other things, the average value of the total assets of the Fund, plus certain charges.

Transfer Agent and Dividend Disbursing Agent

American Stock Transfer & Trust Company, located at 59 Maiden Lane, New York, New York 10038, serves as the Fund's dividend disbursing agent, as agent under the Fund's automatic dividend reinvestment and voluntary cash purchase plan, and as transfer agent and registrar with respect to the Series B Preferred and the common shares of the Fund.

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USE OF PROCEEDS

The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objective and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. Depending on market conditions and operations, a portion of the cash held by the Fund, including any proceeds raised from this offering, may be used to pay distributions in accordance with the Fund's distribution policy. Such distribution may include a return of capital and should not be considered as dividend yield or the total return from an investment in the Fund.

The Fund may also use the net proceeds from the offering to call, redeem or repurchase shares of one or more of its Series B Preferred. The Series B Preferred pay quarterly distributions in March, June, September, and December of each year. On January 23, 2015, the Board reset the annual dividend rate to 3.00% on the Series B Preferred for dividend periods through March 26, 2018, the mandatory call date for the Series B Preferred.

Table of Contents**SUMMARY OF FUND EXPENSES**

The following table shows the Fund's expenses, including preferred shares offering expenses, as a percentage of net assets attributable to common shares. All expenses of the Fund are borne, directly or indirectly, by the common shareholders.

<i>Shareholder Transaction Expenses</i>	
Sales Load (as a percentage of offering price)	1.86%(1)
Offering Expenses Borne by the Fund (excluding Preferred Shares Offering Expenses) (as a percentage of offering price)	0.56%(1)
Dividend Reinvestment and Cash Purchase Plan Fees	
Sale Transactions	\$1.00(2)
Preferred Shares Offering Expenses Borne by the Fund (as a percentage of net assets attributable to common shares)	0.10%(3)
	Percentage of Net Assets Attributable to Common Shares
<i>Annual Expenses (as a percentage of net assets attributable to common shares)</i>	
Management Fees	2.36%(4)(5)
Base Fee	0.80%
Performance Fee	1.56%(5)
Interest Expense	1.12%(6)
Other Expenses	0.41%(7)
Total Annual Expenses	3.89%
Dividends on Preferred Shares	1.19%(8)
Total Annual Expenses and Dividends on Preferred Shares	5.08%

- (1) Estimated maximum amount based on offering of \$120 million in common shares and \$80 million in preferred shares. The estimates assume a 1.00% sales load on common shares and \$673,000 in common offering expenses, and 3.15% sales load on preferred shares and \$365,000 in preferred offering expenses. Actual sales loads and offering expenses may be higher or lower than these estimates and will be set forth in the Prospectus Supplement if applicable.
- (2) Shareholders participating in the Fund's Automatic Dividend Reinvestment Plan do not incur any additional fees. Shareholders participating in the Voluntary Cash Purchase Plan would pay their pro rata share of brokerage commissions for transactions to purchase shares and \$1.00 plus their pro rata share of brokerage commissions per transaction to sell shares. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans.
- (3)

Assumes issuance of \$80 million in liquidation preference of fixed rate preferred shares, net assets attributable to common shares of \$353 million (which includes issuance of \$120 million in common shares) and \$365,000 in preferred offering expenses. The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

- (4) The base fee rate charged by the Investment Adviser is an annual rate of 0.50% of the Fund's average weekly managed assets payable monthly in arrears. In addition, the Investment Adviser will be entitled to receive an annual performance fee as of the end of each calendar year described below. The Fund's managed assets includes all of the assets of the Fund without deduction for borrowings, repurchase transactions and other leveraging techniques, the liquidation value of any outstanding preferred shares or other liabilities except for certain ordinary course expenses. Consequently, since the Fund has preferred shares outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common shares may be higher than if the Fund does not utilize a leveraged capital structure.
- (5) Based on year ended December 31, 2015, assuming completion of the proposed issuances. In addition to the base fee, the Investment Adviser will be entitled to receive an annual performance fee as of the end of each calendar year if the total return of the Fund on its common shares during the calendar year in question exceeds the total return of the T-Bill Index during the same period. If the Fund's total return for the calendar year equals the total return of the T-Bill Index for the same period plus 3.0 percentage points (300 basis points), the Investment Adviser will receive a performance fee of 0.75% of the Fund's average weekly managed assets during the period. This performance fee will be increased by 0.01 percentage point (one basis point) for each 0.04 percentage point (four basis points) by which the Fund's total return during the period exceeds the T-Bill Index total return plus 3.0 percentage points (300 basis points), up to a maximum performance fee of 1.50% if the excess performance over the T-Bill Index is 6.0 percentage points (600 basis points) or greater and will be decreased at the same rate for the amount by which the Fund's total return during the period is less than the T-Bill Index total return plus 3.0 percentage points (300 basis points), until no performance fee is payable if the Fund's total return is less than or equal to the T-Bill Index total return. Under the performance fee arrangement, the annual rate of the total fees paid to the Investment Adviser can range from 0.50% to 2.00% of the Fund's average weekly managed assets.

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- (6) The Series B Preferred have a mandatory call date of March 26, 2018. Therefore, for financial reporting purposes only, the dividends paid on the Series B Preferred are included as a component of Interest Expense.
- (7) Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.
- (8) Dividends on Preferred Shares represent the distributions that would be made assuming \$80 million of preferred shares are issued with a fixed dividend rate of 5.25%, with no mandatory call date. There can, of course, be no guarantee that any preferred shares would be issued or, if issued, the terms thereof.

The purpose of the table above and the example below is to help you understand the various costs and expenses that you, as a shareholder, would bear directly or indirectly. For a more complete description of the various costs and expenses a common shareholder would bear in connection with the issuance and ongoing maintenance of any preferred shares or notes issued by the Fund, see Risk Factors and Special Considerations Special Risks to Holders of Common Shares Leverage Risk.

The following example illustrates the expenses (including the maximum estimated sales load on common shares of \$10 and on preferred shares of \$31.50, and estimated offering expenses of \$2.94 from the issuance of \$120 million in common shares and \$80 million in preferred shares) you would pay on a \$1,000 investment in common shares, followed by a preferred shares offering, assuming a 5% annual portfolio total return.* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	1 Year	3 Years	5 Years	10 Years
Total Expenses incurred	\$ 71	\$ 170	\$ 269	\$ 516

* The example should not be considered a representation of future expenses. The example is based on total Annual Expenses and Dividends on Preferred Shares shown in the table above and assumes that the amounts set forth in the table do not change and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

The example includes Dividends on Preferred Shares. If Dividends on Preferred Shares were not included in the example calculation, the expenses for the 1-, 3-, 5- and 10-year periods in the table above would be as follows (based on the same assumptions as above): \$60, \$138, \$217 and \$424.

Table of Contents**FINANCIAL HIGHLIGHTS**

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are []. The financial information for the fiscal years ended December 31, 2015, 2014, 2013, 2012 and 2011 have been audited by [], the Fund's independent registered public accounting firm, whose unqualified report on such Financial Statements is [].

Selected data for a common share of beneficial interest outstanding throughout the period.

	Six Months Ended June 30, 2016 (Unaudited)	2015	2014	2013	2012	2011
Operating Performance:						
Net asset value, beginning of year	\$ 11.93	\$ 12.10	\$ 12.78	\$ 13.26	\$ 13.94	\$ 15.02
Net investment loss	(0.15)	(0.44)	(0.26)	(0.33)	(0.46)	(0.55)
Net realized and unrealized gain/(loss) on investments, securities sold short, swap contracts, written options, and foreign currency transactions	0.28	0.85	0.33	1.13	1.06	0.74
Total from investment operations	0.13	0.41	0.07	0.80	0.60	0.19
Distributions to Common Shareholders:						
Net investment income	(0.01)**		(0.06)		(0.08)	(0.02)
Net realized gain	(0.09)**	(0.56)	(0.53)	(0.28)		(0.39)
Return of capital	(0.22)**	(0.08)	(0.21)	(1.00)	(1.20)	(0.87)
Total distributions to common shareholders	(0.32)	(0.64)	(0.80)	(1.28)	(1.28)	(1.28)
Common Share Transactions:						
Increase in net asset value from repurchase	0.05	0.06	0.05	0.00	(a)	0.00

of common shares

Net Asset Value (NAV), End of Year	\$ 11.79	\$ 11.93	\$ 12.10	\$ 12.78	\$ 13.26	\$ 13.94
NAV total return *	1.52%	3.95%	0.94%	6.31%	4.44%	1.26%
Market value, end of year	\$ 9.93	\$ 10.01	\$ 10.23	\$ 11.02	\$ 11.42	\$ 11.80
Investment total return	2.41%	4.12%	(0.07)%	7.79%	7.67%	(2.51)%
Ratios to Average Net Assets and Supplemental Data:						
Net assets including liquidation value of preferred shares, end of year (in 000 s)	\$ 354,391	\$ 364,160	\$ 381,126	\$ 404,984	\$ 422,956	\$ 437,755
Net assets attributable to common shares, end of year (in 000 s)	\$ 223,189	\$ 232,959	\$ 244,894	\$ 268,751	\$ 278,968	\$ 293,767
Ratio of net investment income to average net assets attributable to common shares including interest and offering costs(b)	(0.94)%(h)	(2.75)%	(1.38)%	(2.50)%	(3.33)%	(3.71)%
Ratio of operating expenses excluding the effect of dividends on securities sold short to average net assets attributable to common shares(c)(d)	3.06%(e)(h)	4.23%(e)	2.99%	4.76%	4.58%	4.87%
Portfolio turnover rate	135%	268%	315%	319%	335%	336%
Series B Cumulative Preferred Shares (f)						
Liquidation value, end of year (in 000 s)	\$ 131,201	\$ 131,201	\$ 136,232	\$ 136,232	\$ 143,988	\$ 143,988
Total shares outstanding (in 000 s)	2,624	2,624	2,725	2,725	2,880	2,880
Liquidation preference per share	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00
Average market value (g)	\$ 50.69	\$ 50.30	\$ 50.36	\$ 50.41	\$ 50.63	\$ 52.46
Asset coverage per share	\$ 135.01	\$ 138.78	\$ 139.88	\$ 148.64	\$ 146.87	\$ 152.01
Asset coverage	270%	278%	280%	297%	294%	304%

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan.

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- * Based on market value per share, adjusted for reinvestment of distributions at prices obtained under the Fund's dividend reinvestment plan.
- ** Based on year to date book income. Amounts are subject to change and recharacterization at year end.
- (a) Amount represents less than \$0.005 per share.
- (b) The Fund incurred interest expense during all periods presented. Interest expense on preferred shares and offering costs include amounts relating to the 8.50% Series A Preferred Shares from its issuance in 2009 to its repayment in 2011 and to the Series B Preferred shares from its issuance in 2011 through December 31, 2015 (see Footnotes 2 and 5).
- (c) Ratio of operating expenses including interest, dividends on securities sold short, and offering costs to average net assets attributable to common shares for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 would have been 4.43%, 3.07%, 4.80%, 4.66%, and 4.89%, respectively.
- (d) Ratio of operating expenses excluding interest, dividends on securities sold short, and offering costs to average net assets attributable to common shares for the years ended December 31, 2015, 2014, 2013, 2012, and 2011, would have been 2.87%, 1.35%, 3.22%, 2.58%, and 1.56%, respectively.
- (e) The Fund received credits from a designated broker who agreed to pay certain Fund operating expenses. For the six months ended June 30, 2016 and the year ended December 31, 2015, there was no impact on the expense ratios.
- (f) Series B Cumulative Preferred Shares were first issued on April 15, 2011.
- (g) Based on weekly prices.
- (h) Annualized

Table of Contents*Financial Highlights, cont.*

	Year Ended December 31,			Period Ended
	2010	2009	2008	December 31, 2007 (f)
Operating Performance:				
Net asset value, beginning of period	\$ 15.84	\$ 16.20	\$ 18.50	\$ 19.06(g)
Net investment income/(loss)	(0.56)	(0.54)	0.18	0.37
Net realized and unrealized gain/(loss) on investments, swap contracts, securities sold short, and foreign currency transactions	1.02	1.46	(0.89)	0.27
Total from investment operations	0.46	0.92	(0.71)	0.64
Distributions to Common Shareholders:				
Net investment income			(0.18)	(0.30)
Net realized gain	(0.03)		(0.43)	(0.90)
Return of capital	(1.25)	(1.28)	(0.99)	
Total distributions to common shareholders	(1.28)	(1.28)	(1.60)	(1.20)
Common Share Transactions:				
Increase in net asset value from common share transactions			0.01	0.00(e)
Decrease in net asset value from repurchase of common shares	(0.00)(e)	(0.00)(e)		
Recapture of gain on sale of Fund shares by an affiliate	0.00(e)			
Total fund share transactions	0.00(e)	0.00(e)	0.01	0.00(e)
Net Asset Value, End of Period	\$ 15.02	\$ 15.84	\$ 16.20	\$ 18.50