ING PRIME RATE TRUST
Form POS 8C
June 27, 2008

**As filed with the Securities and Exchange Commission on June 27, 2008**

**Securities Act File No. 333-61831**

**Investment Company Act File No. 811-05410**

# U.S. SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

---

# FORM N-2

(Check Appropriate box or boxes)

| | |
|---|---|
| **Registration Statement Under The Securities Act Of 1933** | **x** |
| **Pre-Effective Amendment No.** | **o** |
| **Post-Effective Amendment No. 20** | **x** |
| **and/or** | |
| **Registration Statement Under The Investment Company Act Of 1940** | **x** |
| **Amendment No. 73** | **x** |

(Check appropriate box or boxes)

# ING PRIME RATE TRUST

(Exact Name of Registrant Specified in Charter)

**7337 E. Doubletree Ranch Road**
**Scottsdale, AZ 85258**
(Address of Principal Executive Offices)

Registrant s Telephone Number, Including Area Code: **(800) 992-0180**

**Huey P. Falgout, Jr.**
**ING Investments, LLC**
**7337 East Doubletree Ranch Road**
**Scottsdale, AZ 85258**
(Name and Address of Agent for Service)

With copies to:
**Jeffrey S. Puretz, Esq.**
**Dechert LLP**
**1775 I Street, NW**
**Washington, DC 20006**

---

Approximate Date of Proposed Offering:

**As soon as practical 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, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective:

x When declared effective pursuant to Section 8(c) of the Securities Act of 1933.

---

ING PRIME RATE TRUST

( Registrant )

25,000,000 Common Shares

CONTENTS OF REGISTRATION STATEMENT

This Registration Statement consists of the following papers and documents:

* Cover Sheet
* Contents of Registration Statement
* Supplement dated June 30, 2008.
* ING Prime Rate Trust 25,000,000 Common Shares Prospectus dated June 30, 2008.
* ING Prime Rate Trust 5,000,000 and 25,000,000 Common Shares Statement of Additional Information dated June 30, 2008.
* Part C
* Signature Page

**ING Prime Rate Trust**

( **Registrant** )

Supplement dated June 30, 2008 to the Registrant s 25,000,000 Common Shares Prospectus dated June 30, 2008

The Prospectus for the Registrant is hereby supplemented with the following information relating to Information Regarding Trading of ING s U.S. Mutual Funds.

**Information Regarding Trading of ING s U.S. Mutual Funds**

As discussed in earlier supplements, ING Investments, LLC ( Investments ), the adviser to the ING Funds, has reported to the Boards of Directors/Trustees (the Boards ) of the ING Funds that, like many U.S. financial services companies, Investments and certain of its U.S. affiliates have received informal and formal requests for information since September 2003 from various governmental and self-regulatory agencies in connection with investigations related to mutual funds and variable insurance products. Investments has advised the Boards that it and its affiliates have cooperated fully with each request.

In addition to responding to regulatory and governmental requests, Investments reported that management of U.S. affiliates of ING Groep N.V., including Investments (collectively, ING ), on their own initiative, have conducted, through independent special counsel and a national accounting firm, an extensive internal review of trading in ING insurance, retirement, and mutual fund products. The goal of this review was to identify any instances of inappropriate trading in those products by third parties or by ING investment professionals and other ING personnel. ING s internal review related to mutual fund trading is now substantially completed. ING has reported that, of the millions of customer relationships that ING maintains, the internal review identified several isolated arrangements allowing third parties to engage in frequent trading of mutual funds within ING s variable insurance and mutual fund products, and identified other circumstances where frequent trading occurred, despite measures taken by ING intended to combat market timing. ING further reported that each of these arrangements has been terminated and fully disclosed to regulators. The results of the internal review were also reported to the independent members of the Boards.

Investments has advised the Boards that most of the identified arrangements were initiated prior to ING s acquisition of the businesses in question in the U.S. Investments further reported that the companies in question did not receive special benefits in return for any of these arrangements, which have all been terminated.

Based on the internal review, Investments has advised the Boards that the identified arrangements do not represent a systemic problem in any of the companies that were involved.

Despite the extensive internal review conducted through independent special counsel and a national accounting firm, there can be no assurance that the instances of inappropriate trading reported to the Boards are the only instances of such trading respecting the ING Funds.

Investments reported to the Boards that ING is committed to conducting its business with the highest standards of ethical conduct with zero tolerance for noncompliance. Accordingly, Investments advised the Boards that ING management was disappointed that its voluntary internal review identified these situations. Viewed in the context of the breadth and magnitude of its U.S. business as a whole, ING management does not believe that ING s acquired companies had systemic ethical or compliance issues in these areas. Nonetheless, Investments reported that given ING s refusal to tolerate any lapses, it has taken the steps noted below, and will continue to seek opportunities to further strengthen the internal controls of its affiliates.

- ING has agreed with the ING Funds to indemnify and hold harmless the ING Funds from all damages resulting from wrongful conduct by ING or its employees or from ING s internal investigation, any investigations conducted by any governmental or self-regulatory agencies, litigation or other formal proceedings, including any proceedings by the SEC. Investments reported to the Boards that ING management believes that the total amount of any indemnification obligations will not be material to ING or its U.S. business.

- ING updated its Code of Conduct for employees reinforcing its employees obligation to conduct personal trading activity consistent with the law, disclosed limits, and other requirements.

**Other Regulatory Matters.**

The New York Attorney General (the NYAG ) and other federal and state regulators are also conducting broad inquiries and investigations involving the insurance industry. These initiatives currently focus on, among other things, compensation and other sales incentives; potential conflicts of interest; potential anti-competitive activity; reinsurance; marketing practices (including suitability); specific product types (including group annuities and indexed annuities); fund selection for investment products and brokerage sales; and disclosure. It is likely that the scope of these industry investigations will further broaden before they conclude. ING has received formal and informal requests in connection with such investigations, and is cooperating fully with each request.

Other federal and state regulators could initiate similar actions in this or other areas of ING s businesses. These regulatory initiatives may result in new legislation and regulation that could significantly affect the financial services industry, including businesses in which ING is engaged. In light of these and other developments, ING continuously reviews whether modifications to its business practices are appropriate. At this time, in light of the current regulatory factors, ING U.S. is actively engaged in reviewing whether any modifications in our practices are appropriate for the future.

There can be no assurance that these matters, or the adverse publicity associated with them, will not result in increased fund redemptions, reduced sale of fund shares, or other adverse consequences to ING Funds.

**PLEASE RETAIN THIS SUPPLEMENT FOR FUTURE REFERENCE**

**Prospectus**

# Prospectus

**June 30, 2008**

25,000,000 Common Shares

**ING Prime Rate Trust**

This Prospectus sets forth concisely the information about ING Prime Rate Trust ("Trust") that a prospective investor ought to know before investing. You should read it carefully before you invest, and keep it for future reference.

The Trust has filed with the U.S. Securities and Exchange Commission ("SEC") a Statement of Additional Information ("SAI") dated June 30, 2008 containing additional information about the Trust. The SAI is incorporated by reference in its entirety into this Prospectus. You may obtain a free copy of the SAI, annual shareholder report and semi-annual shareholder report by contacting the Trust at (800) 992-0180 or by writing to the Trust at 7337 East Doubletree Ranch Road, Scottsdale, Arizona 85258. The Trust's SAI and annual and semi-annual shareholder reports are available, free of charge, on the Trust's website at www.ingfunds.com. The Prospectus, SAI and other information about the Trust are also available on the SEC's website (http://www.sec.gov). The table of contents for the SAI appears on page 32 of this Prospectus.

Common Shares of the Trust trade on the New York Stock Exchange (the "NYSE") under the symbol PPR.

Market fluctuations and general economic conditions can adversely affect the Trust. There is no guarantee that the Trust will achieve its investment objective. Investment in the Trust involves certain risks and special considerations, including risks associated with the Trust's use of leverage. See "Risk Factors and Special Considerations" on pages 5 and 17 for a discussion of any factors that make investment in the Trust speculative or high risk.

Neither the SEC nor any state securities commission has approved or disapproved these securities, or determined that this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

## WHAT'S INSIDE

INVESTMENT OBJECTIVE

PRINCIPAL INVESTMENT STRATEGIES

RISKS

WHAT YOU PAY TO INVEST

This Prospectus contains a description of ING Prime Rate Trust ("Trust"), including the Trust's investment objective, principal investment strategies and risks.

You'll also find:

**What you pay to invest.** A list of the fees and expenses you pay both directly and indirectlywhen you invest in the Trust.

(THIS PAGE INTENTIONALLY LEFT BLANK)

# INTRODUCTION TO ING PRIME RATE TRUST

Risk is the potential that your investment will lose money or not earn as much as you hope. All mutual funds have varying degrees of risk, depending upon the securities in which they invest.

This Trust involves certain risks and special considerations, including risks associated with investing in below investment grade assets and risks associated with the Trust's use of borrowing and other leverage strategies. See "Risk Factors and Special Considerations" on pages 5 and 17.

Please read this Prospectus carefully to be sure you understand the principal investment strategies and risks associated with the Trust. You should consult the SAI for a complete list of the principal investment strategies and risks.

If you have any questions about the Trust, please call your investment professional or us at 1-800-992-0180.

***This Prospectus is designed to help you make an informed decision about making an investment in the Trust. Please read it carefully and retain it for future reference.***

Who should invest in the Trust?

## THE TRUST MAY BE A SUITABLE INVESTMENT IF YOU:

- are seeking a high level of current income; and

- are willing to accept the risks associated with an investment in a leveraged portfolio consisting primarily of senior loans that are typically below investment grade credit quality.

## DESCRIPTION OF THE TRUST

The Trust is a diversified, closed-end management investment company that seeks to provide investors with as high a level of current income as is consistent with the preservation of capital. The Trust seeks to achieve this objective by investing in a professionally managed portfolio comprised primarily of senior loans, an investment typically not available directly to individual investors.

Since the senior loans in the Trust's portfolio typically are below investment grade credit quality and the portfolio is leveraged, the Trust has speculative characteristics. The Trust cannot guarantee that it will achieve its investment objective.

Common Shares of the Trust trade on the New York Stock Exchange ("NYSE") under the symbol PPR.

The Trust's investment adviser is ING Investments, LLC. The Trust's sub-adviser is ING Investment Management Co.

If you have any questions, please call 1-800-992-0180.

## PROSPECTUS SYNOPSIS

The following synopsis is qualified in its entirety by reference to the more detailed information appearing elsewhere in this Prospectus.

**DESCRIPTION OF THE TRUST**

| | |
|---|---|
| **The Trust** | The Trust is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended ("1940 Act"). It was organized as a Massachusetts business trust on December 2, 1987. As of June 16, 2008, the Trust's net asset value ("NAV") per Common Share was $6.52. |
| **NYSE Listed** | As of June 16, 2008, the Trust had 145,094,493 Common Shares outstanding, which are traded on the NYSE under the symbol PPR. At that date, the last reported sales price of a Common Share of the Trust was $5.83. |
| **Investment Objective** | To provide investors with as high a level of current income as is consistent with the preservation of capital. There is no assurance that the Trust will achieve its investment objective. |
| **Adviser/Sub-Adviser** | The Trust's investment adviser is ING Investments, LLC ("ING Investments" or "Adviser"), an Arizona limited liability company. As of March 31, 2008, ING Investments managed approximately $49.7 billion in assets.<br>The Adviser is an indirect, wholly-owned subsidiary of ING Groep N.V. ("ING Groep") (NYSE: ING). ING Groep is one of the largest financial services organizations in the world with approximately 120,000 employees. Based in Amsterdam, ING Groep offers an array of banking, insurance and asset management services to both individual and institutional investors.<br>The Adviser receives an annual fee, payable monthly, in an amount equal to 0.80% of the Trust's average daily gross asset value, minus the sum of the Trust's accrued and unpaid dividends on any outstanding preferred shares and accrued liabilities (other than liabilities for the principal amount of any borrowings incurred, commercial paper or notes issued by the Trust and the liquidation preference of any outstanding preferred shares) ("Managed Assets"). This definition includes the assets acquired through the Trust's use of leverage.<br>ING Investment Management Co. ("ING IM" or "Sub-Adviser") serves as sub-adviser to the Trust. See "Investment Management and Other Service Providers Sub-Adviser" on page 25. ING IM is an affiliate of the Adviser. |
| **Distributions** | Income dividends on Common Shares accrue and are declared and paid monthly. Income dividends may be distributed in cash or reinvested in additional full and fractional shares of the Trust through the Trust's Shareholder Investment Program. |
| **Principal Investment Strategies** | The Trust seeks to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in U.S. dollar denominated floating rate secured senior loans ("Senior Loans"). The Trust will provide shareholders with at least 60 days' prior notice of any change in this investment policy. Under normal circumstances, the Trust invests at least 80% of its assets in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and that are domiciled in the United States or in U.S. territories or possessions or Canada.<br>The Senior Loans in which the Trust invests either hold the most senior position in the capital structure of the borrower or hold an equal ranking with other senior debt or have characteristics that the Adviser or Sub-Adviser believes justifies treatment as senior debt. These Senior Loans are typically below investment grade quality.<br>The Trust typically makes its investments in Senior Loans by purchasing a portion of the overall loan, *i.e.*, the Trust becomes one of a number of lenders investing in the loan. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps, and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counterparty risk, *i.e.*, the risk that the party from which such instrument is purchased will not perform as agreed. |

The Trust seeks to minimize such counterparty risk by purchasing such investments from large, well established and highly rated counterparties.

PROSPECTUS SYNOPSIS

| | |
|---|---|
| **Other Investment Strategies and Policies** | Assets not invested in Senior Loans may be invested in unsecured loans, subordinated loans, tranches of floating rate asset-backed securities, including structured notes, short-term debt securities, and equities acquired in connection with investments in loans. See "Investment Objective and Policies" on page 13.<br>Loans in which the Trust invests typically have multiple reset periods at the same time, with each reset period applicable to a designated portfolio of the loan. The maximum duration of an interest rate reset on any loan in which the Trust may invest is one year. In order to achieve overall reset balance, the Trust will ordinarily maintain a dollar-weighted average time until the next interest rate adjustment on its loans of 90 days or less.<br>Normally at least 80% of the Trust's portfolio will be invested in Senior Loans with maturities of one to ten years. The maximum maturity on any loan in which the Trust may invest is ten years.<br>To seek to increase the yield on the Common Shares, the Trust may engage in lending its portfolio securities. Such lending will be fully secured by investment grade collateral held by an independent agent.<br>The Fund may invest up to 20% of its total assets, measured at the time of investment, in a combination of one or more of the following types of investments: loans to borrowers organized outside the United States and in U.S. territories and possessions or Canada, unsecured floating rate loans, notes and other debt instruments; floating rate subordinated loans; tranches of floating rate asset-backed securities, short-term debt securities; and equity securities incidental to investment in loans. See "Investment Objective and Policies" on page 13.<br>The Trust may engage in executing repurchase and reverse repurchase agreements. |
| **Leverage** | To seek to increase the yield on the Common Shares, the Trust employs financial leverage by borrowing money and issuing preferred shares. The timing and terms of leverage will be determined by the Trust's Board of Trustees ("Board") in consultation with the Adviser or Sub-Adviser. See "Risk Factors and Special Considerations Leverage" on page 18. |
| **Borrowings** | Under the 1940 Act, the Trust may borrow up to an amount equal to $33^1/_3$% of its total assets (including the proceeds of the borrowings) less all liabilities other than borrowings. The Trust's obligations to holders of its debt are senior to its ability to pay dividends on, or repurchase, Common Shares and preferred shares, or to pay holders of Common Shares and preferred shares in the event of liquidation. |

If you have any questions, please call 1-800-992-0180.

PROSPECTUS SYNOPSIS

**Preferred Shares**

Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares.

The Trust is authorized to issue an unlimited number of shares of a class of preferred stock in one or more series. In November 2000, the Trust issued 3,600 shares each of Series M, T, W, Th and F Auction Rate Cumulative Preferred Shares, $0.01 par value, $25,000 liquidation preference per share, for a total issuance of $450 million ("Preferred Shares"). The Trust's obligations to holders of the Preferred Shares are senior to its ability to pay dividends on, or repurchase, Common Shares, or to pay holders of Common Shares in the event of liquidation.

The 1940 Act also requires that the holders of the Preferred Shares, voting as a separate class, have the right to:

- elect at least two trustees at all times; and
- elect a majority of the trustees at any time when dividends on any series of Preferred Shares are unpaid for two full years.

In each case, the holders of Common Shares voting separately as a class will elect the remaining trustees.

Since early February 2008, the Trust has not received hold orders and purchase requests for its Preferred Shares during their weekly auctions that equaled the full amount of such shares. As a result, under the terms of the Preferred Shares, the amount sold by each selling shareholder was reduced pro rata or to zero. In addition, the dividend rate on such preferred shares, which is normally set by means of a Dutch auction procedure, automatically reset to the maximum rate permitted under the Preferred Shares program. That maximum rate is 150% of the applicable commercial paper base rate on the day of the auction. It is unclear whether the dividend rate for the Preferred Shares will be set by means of an auction again in the future. On June 9, 2008, the Trust announced the approval by the Board of Trustees of a partial redemption of its outstanding Preferred Shares. The Trust expects to redeem approximately $225 million of the $450 million of its outstanding Preferred Shares. The Preferred Shares are expected to be redeemed using proceeds available through the Trust's existing bank loan facility. Redemption costs and the on-going costs of obtaining leverage through a bank loan facility may reduce returns to Common Shares and may be higher than the costs of leverage obtained through the Preferred Shares. The Trust and the Board of Trustees will continue to closely monitor the situation and evaluate potential options to restore liquidity to and/or provide additional refinancing options for this market in the context of regulatory guidelines, as well as the economic and tax implications for both its Common and Preferred shareholders.

**Diversification**

The Trust maintains a diversified investment portfolio, an investment strategy which seeks to limit exposure to any one issuer or industry.

As a diversified investment company, the Trust may not make investments in any one issuer (other than the U.S. government) if, immediately after such purchase or acquisition, more than 5% of the value of the Trust's total assets would be invested in such issuer, or the Trust would own more than 25% of any outstanding issue. The Trust will consider a borrower on a loan, including a loan participation, to be the issuer of that loan. In addition, with respect to a loan under which the Trust does not have privity with the borrower or would not have a direct cause of action against the borrower in the event of the failure of the borrower to pay scheduled principal or interest, the Trust will also separately meet the foregoing requirements and consider each interpositioned bank (a lender from which the Trust acquires a loan) to be an issuer of the loan. This investment strategy is a fundamental policy that may not be changed without shareholder approval. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

**Concentration**

In addition, a maximum of 25% of the Trust's total assets, measured at the time of investment, may be invested in any one industry. This investment strategy is also a fundamental policy that may not be changed without shareholder approval.

PROSPECTUS SYNOPSIS

**Plan of Distribution**

The Common Shares are offered by the Trust through the Trust's Shareholder Investment Program. The Shareholder Investment Program allows participating shareholders to reinvest all dividends in additional shares of the Trust, and also allows participants to purchase additional Common Shares through optional cash investments in amounts ranging from a minimum of $100 to a maximum of $100,000 per month. The Trust and ING Funds Distributor, LLC ("ING Funds Distributor") reserve the right to reject any purchase order. Please note that cash, travelers checks, third-party checks, money orders and checks drawn on non-U.S. banks (even if payment may be effected through a U.S. bank) generally will not be accepted. Common Shares may be issued by the Trust under the Shareholder Investment Program only if the Trust's Common Shares are trading at a premium to NAV. If the Trust's Common Shares are trading at a discount to NAV, Common Shares purchased under the Shareholder Investment Program will be purchased on the open market. See "Plan of Distribution" on pages 23 and 24.

Shareholders may elect to participate in the Shareholder Investment Program by telephoning the Trust or submitting a completed Participation Form to DST Systems, Inc. ("DST"). Common Shares also may be offered pursuant to privately negotiated transactions between the Trust or ING Funds Distributor and individual investors. Common Shares of the Trust issued in connection with privately negotiated transactions will be issued at the greater of (i) NAV per Common Share of the Trust's Common Shares or (ii) at a discount ranging from 0% to 5% of the average daily market price of the Trust's Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. See "Plan of Distribution" on pages 23 and 24.

**Administrator**

The Trust's administrator is ING Funds Services, LLC ("Administrator"). The Administrator is an affiliate of the Adviser. The Administrator receives an annual fee, payable monthly, in a maximum amount equal to 0.25% of the Trust's Managed Assets.

**RISK FACTORS AND SPECIAL CONSIDERATIONS**

**Credit Risk on Senior Loans**

The Trust invests a substantial portion of its assets in below investment grade Senior Loans and other below investment grade assets. Below investment grade loans involve a greater risk that borrowers may not make timely payment of the interest and principal due on their loans. They also involve a greater risk that the value of such loans could decline significantly. If borrowers do not make timely payments of the interest due on their loans, the yield on the Trust's Common Shares will decrease. If borrowers do not make timely payment of the principal due on their loans, or if the value of such loans decreases, the Trust's NAV will decrease.

**Interest Rate Risk**

Changes in short-term market interest rates will directly affect the yield on the Trust's Common Shares. If short-term market interest rates fall, the yield on the Trust's Common Shares will also fall. To the extent that the interest rate spreads on loans in the Trust's portfolio experience a general decline, the yield on the Trust's Common Shares will fall and the value of the Trust's assets may decrease, which will cause the Trust's NAV to decrease. Conversely, when short-term market interest rates rise, because of the lag between changes in such short-term rates and the resetting of the floating rates on assets in the Trust's portfolio, the impact of rising rates will be delayed to the extent of such lag.

**Discount from NAV**

As with any security, the market value of the Common Shares may increase or decrease from the amount that you paid for the Common Shares.

The Trust's Common Shares may trade at a discount to NAV. This is a risk separate and distinct from the risk that the Trust's NAV per Common Share may decrease.

If you have any questions, please call 1-800-992-0180.

PROSPECTUS SYNOPSIS

| | |
|---|---|
| **Leverage** | The Trust's use of leverage through borrowings and the issuance of Preferred Shares can adversely affect the yield on the Trust's Common Shares. To the extent that the Trust is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Trust's Common Shares will decrease. In addition, in the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the leverage. As of June 16, 2008, the Trust had $592 million of total leverage, including $142 million of borrowings under two credit facilities and $450 million Preferred Shares (issued and outstanding). |
| **Limited Secondary Market For Loans** | Because of the limited secondary market for loans, the Trust may be limited in its ability to sell loans in its portfolio in a timely fashion and/or at a favorable price. |
| **Demand For Loans** | An increase in demand for loans may adversely affect the rate of interest payable on new loans acquired by the Trust, and it may also increase the price of loans in the secondary market. A decrease in the demand for loans may adversely affect the price of loans in the Trust's portfolio, which could cause the Trust's NAV to decline. |
| **Impact of Shareholder Investment Program and Privately Negotiated Transactions** | The issuance of Common Shares through the Shareholder Investment Program and/or through privately negotiated transactions may have an adverse effect on prices in the secondary market for the Trust's Common Shares by increasing the number of Common Shares available for sale. In addition, the Common Shares may be issued at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Trust. |
| **Investment in Foreign Borrowers** | The Trust may hold a portion of its assets in short-term interest bearing instruments. Moreover, in periods when, in the opinion of the Adviser or Sub-Adviser, a temporary defensive position is appropriate, up to 100% of the Trust's assets may be held in cash or short-term interest bearing instruments. The Trust may not achieve its investment objective when pursuing a temporary defensive position.<br>The Trust may invest up to 20% of its total assets, measured at the time of investment, in loans, secured or unsecured, to borrowers that are organized or located in countries outside the United States and U.S. territories and possessions or Canada. The Trust may invest up to 15% of its total assets, measured at the time of investment, in investments denominated in the Organization for Economic Co-operation and Development ("OECD") currencies (including the Euro), other than the U.S. dollar. The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations. The Trust may not be entirely successful in implementing this hedging strategy, resulting in the Trust being adversely affected by foreign currency fluctuations. Investment in foreign borrowers involves special risks, including that foreign borrowers may be subject to:<br>less rigorous regulatory, accounting and reporting requirements than U.S. borrowers;<br>differing legal systems and laws relating to creditors' rights;<br>the potential inability to enforce legal judgments;<br>economic adversity that would result if the value of the borrower's non-U.S. dollar denominated revenues and assets were to fall because of fluctuations in currency values; and<br>the potential for political, social and economic adversity in the foreign borrower's country. |

## WHAT YOU PAY TO INVEST TRUST EXPENSES

The cost you pay to invest in the Trust includes the expenses incurred by the Trust. In accordance with SEC requirements, the table below shows the expenses of the Trust, including interest expense on borrowings, as a percentage of the average net assets of the Trust, and not as a percentage of gross assets or Managed Assets. By showing expenses as a percentage of net assets, expenses are not expressed as a percentage of all of the assets that are invested for the Trust. The Table below assumes that the Trust has issued $450 million of Preferred Shares and has borrowed an amount equal to 25% of its Managed Assets. For information about the Trust's expense ratios if the Trust had not borrowed or issued Preferred Shares, see "Risk Factors and Special Considerations Annual Expenses Without Borrowings or Preferred Shares."

| | |
|---|---|
| **Shareholder Transaction Expenses** | |
| Shareholder Investment Program Fees | NONE |
| Privately Negotiated Transactions Maximum Sales Load on Your Investment (as a percentage of offering price) | 3.00% |
| **Annual Expenses (as a percentage of net assets attributable to Common Shares)** | |
| Management and Administrative Fees[1] | 2.01% |
| Interest Expense on Borrowed Funds | 2.74% |
| Other Operating Expenses[2] | 0.31% |
| Total Annual Expenses[3] | 5.06% |

(1) Pursuant to the Investment Advisory Agreement with the Trust, ING Investments is paid a fee of 0.80% of the Trust's Managed Assets. Pursuant to its Administration Agreement with the Trust, the Trust's Administrator is paid a fee of 0.25% of the Trust's Managed Assets. See "Investment Management and Other Service Providers The Administrator."

(2) Other Operating Expenses are based on estimated amounts for the current fiscal year, which, in turn, are based on other operating expenses for the fiscal year ended February 29, 2008, and do not include the expenses of borrowing.

(3) If the Total Annual Expenses of the Trust were expressed as a percentage of Managed Assets (assuming the same 25% borrowing), the Total Annual Expense ratio would be 2.65%.

If you have any questions, please call 1-800-992-0180.

## WHAT YOU PAY TO INVEST  TRUST EXPENSES

### Examples

The following hypothetical Examples show the amount of the expenses that an investor in the Trust would bear on a $1,000 investment that is held for the different time periods in the table. The examples assume that all dividends and other distributions are reinvested at NAV and that the percentage amounts listed under Total Annual Expenses remain the same in the years shown. The tables and the assumption in the hypothetical examples of a 5% annual return are required by regulations of the SEC applicable to all investment companies. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Trust's Common Shares. For more complete descriptions of certain of the Trust's costs and expenses, see "Investment Management and Other Service Providers."

### Example #1

The following Example applies to shares issued in connection with the Trust's Shareholder Investment Program. This example does not take into account whether such shares are purchased at a discount or a premium to the Trust's NAV.

| | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return and where the Trust has borrowed in an amount equal to 25% of its Managed Assets. | $ 51 | $ 155 | $ 263 | $ 547 |
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return and where the Trust has not borrowed. | $ 18 | $ 57 | $ 98 | $ 213 |

### Example #2

The following Example applies to shares issued in connection with privately negotiated transactions, which have the maximum front-end sales load of 3%.

| | **1 Year** | **3 Years** | **5 Years** | **10 Years** |
|---|---|---|---|---|
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return and where the Trust has borrowed in an amount equal to 25% of its Managed Assets. | $ 79 | $ 181 | $ 285 | $ 560 |
| You would pay the following expenses on a $1,000 investment, assuming a 5% annual return and where the Trust has not borrowed. | $ 48 | $ 85 | $ 125 | $ 236 |

The purpose of each table is to assist you in understanding the various costs and expenses that an investor in the Trust will bear directly or indirectly.

**The foregoing Examples should not be considered a representation of future expenses, and actual expenses may be greater or less than those shown.**

(THIS PAGE INTENTIONALLY LEFT BLANK)

## FINANCIAL HIGHLIGHTS

### Financial Highlights Table

The table below sets forth selected financial information. The financial information for the most recent 5 fiscal years has been derived from the financial statements in the Trust's annual shareholder report dated as of February 29, 2008. The information in the table below has been audited by KPMG LLP, an independent registered public accounting firm. A report of the Trust's independent registered public accounting firm along with the Trust's financial statements for the most recent 5 fiscal years is included in the Trust's annual shareholder report dated as of February 29, 2008. A free copy of the annual shareholder report may be obtained by calling (800) 992-0180.

| | Years Ended February 28 or February 29, | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2005** | **2004** | **2003** |
| **Per Share Operating Performance** | | | | | | |
| Net asset value, beginning of year | $ 7.65 | $ 7.59 | $ 7.47 | $ 7.34 | $ 6.73 | $ 7.20 |
| Income (loss) from investment operations: | | | | | | |
| Net investment income | 0.75 | 0.71 | 0.57 | 0.45 | 0.46 | 0.50 |
| Net realized and unrealized gain (loss) on investments | (1.57) | 0.06 | 0.12 | 0.16 | 0.61 | (0.47) |
| Total from investment operations | (0.82) | 0.77 | 0.69 | 0.61 | 1.07 | 0.03 |
| Distributions to Common Shareholders from net investment income | (0.56) | (0.55) | (0.46) | (0.43) | (0.42) | (0.45) |
| Distribution to Preferred Shareholders | (0.16) | (0.16) | (0.11) | (0.05) | (0.04) | (0.05) |
| Increase on net asset value from share offerings | | | | | | |
| Reduction in net asset value from Preferred Shares offerings | | | | | | |
| Net asset value, end of year | $ 6.11 | $ 7.65 | $ 7.59 | $ 7.47 | $ 7.34 | $ 6.73 |
| Closing market price at end of year | $ 5.64 | $ 7.40 | $ 7.02 | $ 7.56 | $ 7.84 | $ 6.46 |
| **Total Investment Return**(1) | | | | | | |
| Total investment return at closing market price(2) | (17.25)% | 13.84% | (0.82)% | 2.04% | 28.77% | 2.53% |
| Total investment return at net asset value(3) | (13.28)% | 8.85% | 8.53% | 7.70% | 15.72% | 0.44% |
| **Ratios/Supplemental Data** | | | | | | |
| Net assets end of year (000's) | $ 886,976 | $ 1,109,539 | $ 1,100,671 | $ 1,082,748 | $ 1,010,325 | $ 922,383 |
| Preferred Shares-Aggregate amount | $ 450,000 | $ 450,000 | $ 450,000 | $ 450,000 | $ 450,000 | $ 450,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| outstanding (000's) | | | | | | |
| Liquidation and market value per share of Preferred Shares | $ 25,000 | $ 25,000 | $ 25,000 | $ 25,000 | $ 25,000 | $ 25,000 |
| Borrowings at end of year (000's) | $ 338,000 | $ 281,000 | $ 465,000 | $ 496,000 | $ 225,000 | $ 167,000 |
| Asset coverage per $1,000 of debt(4) | $ 2,125 | $ 2,517 | $ 2,203 | $ 2,140 | $ 2,500 | $ 2,500 |
| Average borrowings (000's) | $ 391,475 | $ 459,982 | $ 509,178 | $ 414,889 | $ 143,194 | $ 190,671 |
| **Ratios to average net assets including Preferred Shares(5)** | | | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 1.54% | 1.57% | 1.64% | 1.60% | 1.45% | 1.49% |
| Net expenses after expense reimbursement | 3.05% | 3.27% | 3.02% | 2.21% | 1.65% | 1.81% |
| Gross expenses prior to expense reimbursement | 3.05% | 3.27% | 3.02% | 2.22% | 1.65% | 1.81% |
| Net investment income | 7.23% | 6.68% | 5.44% | 4.21% | 4.57% | 4.97% |
| **Ratios to average net assets plus borrowings** | | | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 1.60% | 1.56% | 1.58% | 1.63% | 1.84% | 1.82% |
| Expenses | | | | | | |
| Net expenses after expense reimbursement(6) | 3.17% | 3.25% | 2.90% | 2.26% | 2.09% | 2.23% |
| Gross expenses prior to expense reimbursement(6) | 3.17% | 3.25% | 2.90% | 2.27% | 2.09% | 2.23% |
| Net investment income | 7.53% | 6.63% | 5.24% | 4.32% | 5.82% | 6.10% |
| **Ratios to average net assets** | | | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 2.20% | 2.21% | 2.33% | 2.29% | 2.11% | 2.19% |
| Net expenses after expense reimbursement | 4.36% | 4.62% | 4.27% | 3.17% | 2.40% | 2.68% |
| Gross expenses prior to expense reimbursement | 4.36% | 4.62% | 4.27% | 3.18% | 2.40% | 2.68% |
| Net investment income | 10.35% | 9.42% | 7.71% | 6.04% | 6.68% | 7.33% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Portfolio turnover rate | 60% | 60% | 81% | 93% | 87% | 48% |
| Common shares outstanding at end of year (000's) | 145,094 | 145,033 | 145,033 | 145,033 | 137,638 | 136,973 |

(1) Total investment return calculations are attributable to common shares.

(2) Total investment return at closing market price measures the change in the market value of your investment assuming reinvestment of dividends and capital gain distributions, if any, in accordance with the provisions of the Trust's dividend reinvestment plan.

(3) Total investment return at net asset value has been calculated assuming a purchase at net asset value at the beginning of each period and a sale at net asset value at the end of each period and assumes reinvestment of dividends and capital gain distributions in accordance with the provisions of the dividend reinvestment plan. This calculation differs from total investment return because it excludes the effects of changes in the market values of the Trust's shares.

(4) Asset coverage represents the total assets available for settlement of Preferred Stockholder's interest and notes payables in relation to the Preferred Shareholder interest and notes payable balance outstanding. The Preferred Shares were first offered November 2, 2000.

(5) Ratios do not reflect the effect of dividend payments to Preferred Shareholders; income ratios reflect income earned on assets attributable to the Preferred Shares; ratios do not reflect any add-back for the borrowings.

(6) The Adviser agreed to reduce its fee for a period of three years from the Expiration Date of the November 12, 1996 Rights Offering to 0.60% of the average daily net assets, plus the proceeds of any outstanding borrowings, over $1.15 billion.

(7) Calculated on total expenses before impact of earnings credits.

(A) Had the Trust not amortized premiums and accreted discounts, the ratio of net investment income to average net assets including Preferred Shares would have been 6.43% for the year ended February 28, 2002.

(B) Had the Trust not amortized premiums and accreted discounts, the ratio of net investment income to average net assets plus borrowings applicable to common shares would have been 6.82% for the year ended February 28, 2002.

(C) Had the Trust not amortized premiums and accreted discounts, the ratio of net investment income to average net assets applicable to common shares would have been 9.22% for the year ended February 28, 2002.

## FINANCIAL HIGHLIGHTS

| | Years Ended February 28 or February 29, | | | |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999[6] |
| **Per Share Operating Performance** | | | | |
| Net asset value, beginning of year | $ 8.09 | $ 8.95 | $ 9.24 | $ 9.34 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.74 | 0.88 | 0.79 | 0.79 |
| Net realized and unrealized gain (loss) on investments | (0.89) | (0.78) | (0.30) | (0.10) |
| Total from investment operations | (0.15) | 0.10 | 0.49 | 0.69 |
| Distributions to Common Shareholders from net investment income | (0.63) | (0.86) | (0.78) | (0.82) |
| Distribution to Preferred Shareholders | (0.11) | (0.06) | | |
| Increase on net asset value from share offerings | | | | 0.03 |
| Reduction in net asset value from Preferred Shares offerings | | (0.04) | | |
| Net asset value, end of year | $ 7.20 | $ 8.09 | $ 8.95 | $ 9.24 |
| Closing market price at end of year | $ 6.77 | $ 8.12 | $ 8.25 | $ 9.56 |
| **Total Investment Return**[1] | | | | |
| Total investment return at closing market price[2] | (9.20)% | 9.10% | (5.88)% | 1.11% |
| Total investment return at net asset value[3] | (3.02)% | 0.19% | 5.67% | 7.86% |
| **Ratios/Supplemental Data** | | | | |
| Net assets end of year (000's) | $ 985,982 | $ 1,107,432 | $ 1,217,339 | $ 1,202,565 |
| Preferred Shares-Aggregate amount outstanding (000's) | $ 450,000 | $ 450,000 | $ | $ |
| Liquidation and market value per share of Preferred Shares | $ 25,000 | $ 25,000 | $ | $ |
| Borrowings at end of year (000's) | $ 282,000 | $ 510,000 | $ 484,000 | $ |
| Asset coverage per $1,000 of debt[4] | $ 2,350 | $ 2,150 | $ 3,520 | $ |
| Average borrowings (000's) | $ 365,126 | $ 450,197 | $ 524,019 | $ 490,978 |
| **Ratios to average net assets including Preferred Shares**[5] | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 1.57% | 1.62% | | |
| Net expenses after expense reimbursement | 2.54% | 3.97% | | |
| Gross expenses prior to expense reimbursement | 2.54% | 3.97% | | |
| Net investment income | 6.83%[A] | 9.28% | | |
| **Ratios to average net assets plus borrowings** | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 1.66% | 1.31% | 1.00%[7] | 1.05%[7] |

| | | | | |
|---|---|---|---|---|
| Expenses | | 3.21% | 2.79%(7) | 2.86%(7) |
| Net expenses after expense reimbursement(6) | 2.70% | | | |
| Gross expenses prior to expense reimbursement(6) | 2.70% | | | |
| Net investment income | 7.24%(B) | 7.50% | 6.12% | 6.00% |
| **Ratios to average net assets** | | | | |
| Expenses (before interest and other fees related to revolving credit facility) | 2.25% | 1.81% | 1.43%(7) | 1.50%(7) |
| Net expenses after expense reimbursement | 3.64% | 4.45% | 4.00%(7) | 4.10%(7) |
| Gross expenses prior to expense reimbursement | 3.64% | 4.45% | 4.00%(7) | 4.10%(7) |
| Net investment income | 9.79%(C) | 10.39% | 8.77% | 8.60% |
| Portfolio turnover rate | 53% | 46% | 71% | 68% |
| Common shares outstanding at end of year (000's) | 136,973 | 136,847 | 136,036 | 130,206 |

If you have any questions, please call 1-800-992-0180.

## TRADING AND NAV INFORMATION

The following table shows for the Trust's Common Shares for the periods indicated: (1) the high and low closing prices as shown on the NYSE Composite Transaction Tape; (2) the NAV per Common Share represented by each of the high and low closing prices as shown on the NYSE Composite Transaction Tape; and (3) the discount from or premium to NAV per Share (expressed as a percentage) represented by these closing prices. The table also sets forth the aggregate number of shares traded as shown on the NYSE Composite Transaction Tape during the respective quarter.

| | **Price** | | **NAV** | | **Premium/(Discount) To NAV** | | **Reported** |
|---|---|---|---|---|---|---|---|
| **Calendar Quarter Ended** | **High** | **Low** | **High** | **Low** | **High** | **Low** | **NYSE Volume** |
| March 31, 2006 | 7.12 | 6.72 | 7.62 | 7.42 | (6.19) | (9.43) | 21,188,110 |
| June 30, 2006 | 7.11 | 6.83 | 7.63 | 7.48 | (4.95) | (10.13) | 20,530,200 |
| September 30, 2006 | 7.14 | 7.00 | 7.52 | 7.45 | (4.67) | (6.54) | 22,496,800 |
| December 31, 2006 | 7.25 | 7.09 | 7.57 | 7.39 | (3.38) | (5.47) | 24,088,200 |
| March 31, 2007 | 7.44 | 7.20 | 7.65 | 7.53 | (2.38) | (4.51) | 24,173,486 |
| June 30, 2007 | 7.90 | 7.33 | 7.68 | 7.61 | 3.40 | (3.93) | 28,919,700 |
| September 30, 2007 | 7.65 | 6.23 | 7.63 | 7.02 | 0.39 | (12.38) | 34,681,500 |
| December 31, 2007 | 7.07 | 6.16 | 7.28 | 6.90 | (2.35) | (11.24) | 27,286,400 |
| March 31, 2008 | 6.41 | 5.25 | 6.92 | 5.87 | (4.33) | (13.08) | 38,127,200 |

On June 16, 2008, the last reported sale price of a Common Share of the Trust's Common Shares on the NYSE was $5.83. The Trust's NAV on June 16, 2008 was $6.52. See "Transaction Policies Net Asset Value." On June 16, 2008 the last reported sale price of a share of the Trust's Common Shares on the NYSE ($5.83) represented a (10.58%) discount below the NAV ($6.52) as of that date.

The Trust's Common Shares have traded in the market above, at, and below NAV since March 9, 1992, when the Trust's Common Shares were listed on the NYSE. The Trust cannot predict whether its Common Shares will trade in the future at a premium or discount to NAV, and if so, the level of such premium or discount. Shares of closed-end investment companies frequently trade at a discount from NAV.

# INVESTMENT OBJECTIVE AND POLICIES

## Investment Objective

The Trust's investment objective is to provide investors with as high a level of current income as is consistent with the preservation of capital. The Trust seeks to achieve this investment objective by investing in the types of assets described below:

**1. Senior Loans**. Under normal circumstances, at least 80% of the Trust's net assets, plus the amount of any borrowings for investment purposes, will be invested in Senior Loans. This investment policy may be changed without shareholder approval so long as the Trust provides its shareholders with at least 60 days' prior notice of any changes in this investment policy. Under normal circumstances, the Trust invests at least 80% of its assets in Senior Loans made to corporations or other business entities organized under U.S. or Canadian law and that are domiciled in the United States and in U.S. territories and possessions or Canada.

The Senior Loans in which the Trust invests either hold the most senior position in the capital structure of the borrower or hold an equal ranking with other senior debt or have characteristics (such as a senior position secured by liens on a borrower's assets) that the Adviser or Sub-Adviser believes justify treatment as senior debt. These Senior Loans are typically below investment grade credit quality.

The Trust typically makes its investments in Senior Loans by purchasing a portion of the overall loan, *i.e.,* the Trust becomes one of a number of lenders investing in the loan. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counterparty risk, *i.e.,* the risk that the party from which such instrument is purchased will not perform as agreed. The Trust seeks to minimize such counterparty risk by purchasing such investments only from large, well established and highly rated counter-parties.

**2. Other Investments.** Under normal circumstances, the Trust may invest up to 20% of its total assets, measured at the time of investment, in a combination of one or more of the following types of investments ("Other Investments"):

- loans to borrowers organized outside the United States and U.S. territories and possessions or Canada;
- unsecured floating rate loans, notes and other debt instruments;
- floating rate subordinated loans;
- tranches of floating rate asset-backed securities, including structured notes;
- short-term debt securities; and
- equity securities incidental to investments in loans.

**3. Cash and Short-Term Instruments.** Under normal circumstances, the Trust may invest in cash and/or short-term instruments. During periods when, in the opinion of the Adviser or Sub-Adviser, a temporary defensive posture in the market is appropriate, the Trust may hold up to 100% of its assets in cash and/or short-term instruments.

**4. Other Investment Strategies.** The Trust may lend its portfolio securities, on a short-term or long-term basis, in an amount equal to up to $33^1/_3$% of its total assets.

## Fundamental Diversification Policies

**1. Industry Diversification.** The Trust may invest in any industry. The Trust may not invest more than 25% of its total assets, measured at the time of investment, in any single industry.

**2. Borrower Diversification.** As a diversified investment company, the Trust may not make investments in any one issuer (other than the U.S. government) if, immediately after such purchase or acquisition, more than 5% of the value of the Trust's total assets would be invested in such issuer, or the Trust would own more than 25% of any outstanding issue. The Trust will consider the borrower on a loan, including a loan participation, to be the issuer of such loan. With respect to no more than 25% of its total assets, the Trust may make investments that are not subject to the foregoing restrictions.

These fundamental diversification policies may only be changed with approval by a majority of all shareholders, including the vote of a majority of the holders of Preferred Shares, and holders of any other preferred shares, voting separately as a class.

## Investment Policies

The Adviser and Sub-Adviser follow certain investment policies set by the Trust's Board. Some of those policies are set forth below. Please refer to the SAI for additional information on these and other investment policies.

1. **Limitations on Currencies.** The Trust's investments must be denominated in U.S. dollars, provided that the Trust may invest up to 15% of its total assets in investments denominated in the OECD currencies (including the Euro), other than the U.S. dollar. The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations.

2. **Maturity.** Although the Trust has no restrictions on portfolio maturity, under

## INVESTMENT OBJECTIVE AND POLICIES

normal circumstances, at least 80% of the Trust's total assets will be invested in assets with remaining maturities of one to ten years. The maximum maturity on any loan in which the Trust can invest is ten years.

**3. Limitations on Other Investments.** The Trust may also invest up to 20% of its total assets, measured at the time of investment, in Other Investments. The following additional limitations apply to Other Investments:

**a. Unsecured Debt Instruments.** The Trust may not invest in unsecured floating rate loans, notes and other debt instruments in an aggregate amount that exceeds 20% of the Trust's total assets, measured at the time of investment.

**b. Equities.** The Trust may acquire equity securities only as an incident to the purchase or ownership of a loan or in connection with a reorganization of a borrower or its debt.

**c. Subordinated Loans.** The Trust may not invest in floating rate subordinated loans, whether or not secured, in an aggregated amount that exceeds 5% of its total assets, measured at the time of investment.

**4. Investment Quality; Credit Analysis.** Loans in which the Trust invests generally are rated below investment grade credit quality or are unrated. In acquiring a loan, the Adviser or Sub-Adviser will consider some or all of the following factors concerning the borrower: ability to service debt from internally generated funds; adequacy of liquidity and working capital; appropriateness of capital structure; leverage consistent with industry norms; historical experience of achieving business and financial projections; the quality and experience of management; and adequacy of collateral coverage. The Adviser or Sub-Adviser performs its own independent credit analysis of each borrower. In so doing, the Adviser or Sub-Adviser may utilize information and credit analyses from agents that originate or administer loans, other lenders investing in a loan, and other sources. The Adviser or Sub-Adviser also may communicate directly with management of the borrowers. These analyses continue on a periodic basis for any Senior Loan held by the Trust. See "Risk Factors and Special Considerations Credit Risk on Senior Loans."

**5. Use of Leverage.** The Trust may borrow money and issue preferred shares to the fullest extent permitted by the 1940 Act. See "Policy on Borrowing" and "Policy on Issuance of Preferred Shares" below.

**6. Short-term Instruments**. Short-term instruments in which the Trust invests may include (i) commercial paper rated A-1 by Standard and Poor's Rating Services ("S&P") or P-1 by Moody's Investors Service, Inc. ("Moody's"), or of comparable quality as determined by the Adviser or Sub-Adviser, (ii) certificates of deposit, banker's acceptances, and other bank deposits and obligations, and (iii) securities issued or guaranteed by the U.S. government, its agencies or instrumentalities.

### Policy on Borrowing

The Trust has a policy of borrowing for investment purposes. The Trust seeks to use proceeds from borrowing to acquire loans and other investments which pay interest at a rate higher than the rate the Trust pays on borrowings. Accordingly, borrowing has the potential to increase the Trust's total income available to holders of its Common Shares.

The Trust may issue notes, commercial paper, or other evidences of indebtedness and may be required to secure repayment by mortgaging, pledging, or otherwise granting a security interest in the Trust's assets. The terms of any such borrowings are subject to the provisions of the 1940 Act, and also subject to the more restrictive terms of the credit agreements relating to borrowings and additional guidelines imposed by rating agencies which are more restrictive than the provisions of the 1940 Act. The Trust is permitted to borrow an amount equal to up to $33^1/_3$%, or such other percentage permitted by law, of its total assets (including the amount borrowed) less all liabilities other than borrowings. See "Risk Factors and Special Considerations Leverage" and "Risk Factors and Special Considerations Restrictive Covenants and 1940 Act Restrictions."

### Policy on Issuance of Preferred Shares

The Trust has a policy of issuing preferred shares for investment purposes. The Trust seeks to use the proceeds from preferred shares to acquire loans and other investments which pay interest at a rate higher than the dividends payable on preferred shares. The terms of the issuance of preferred shares are subject to the 1940 Act and to additional guidelines imposed by rating agencies, which are more restrictive than the provisions of the 1940 Act. Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares. In November 2000, the Trust issued 18,000 Preferred Shares for a total of $450 million. See "Risk Factors and Special Considerations Leverage."

# THE TRUST'S INVESTMENTS

As stated above under "Investment Objective and Policies", the Trust will invest primarily in Senior Loans. This section contains a discussion of the characteristics of Senior Loans and the manner in which those investments are made.

## Senior Loan Characteristics

Senior Loans are loans that are typically made to business borrowers to finance leveraged buy-outs, recapitalizations, mergers, stock repurchases and internal growth. Senior Loans generally hold the most senior position in the capital structure of a borrower and are usually secured by liens on the assets of the borrowers, including tangible assets such as cash, accounts receivable, inventory, property, plant and equipment, common and/or preferred stock of subsidiaries, and intangible assets including trademarks, copyrights, patent rights and franchise value. The Trust may also receive guarantees as a form of collateral.

Senior Loans are typically structured to include two or more types of loans within a single credit agreement. The most common structure is to have a revolving loan and a term loan. A revolving loan is a loan that can be drawn upon, repaid fully or partially, and then the repaid portions can be drawn upon again. A term loan is a loan that is fully drawn upon immediately and once repaid it cannot be drawn upon again. Sometimes there may be two or more term loans, and they may be secured by different collateral and have different repayment schedules and maturity dates. In addition to revolving loans and term loans, Senior Loan structures can also contain facilities for the issuance of letters of credit, and may contain mechanisms for lenders to pre-fund letters of credit through credit-linked deposits.

The Trust typically invests only in the term loan portions of Senior Loan structures, although it does sometimes invest in the revolving loan portions and the pre-funded letters of credit portions.

By virtue of their senior position and collateral, Senior Loans typically provide lenders with the first right to cash flows or proceeds from the sale of a borrower's collateral if the borrower becomes insolvent (subject to the limitations of bankruptcy law, which may provide higher priority to certain claims such as, for example, employee salaries, employee pensions and taxes). This means Senior Loans are generally repaid before unsecured bank loans, corporate bonds, subordinated debt, trade creditors, and preferred or common stockholders.

Senior Loans typically pay interest at least quarterly at rates which equal a fixed percentage spread over a base rate such as LIBOR. For example, if the London Inter-Bank Offered Rate ("LIBOR") were 3% and the borrower were paying a fixed spread of 2.50%, the total interest rate paid by the borrower would be 5.50%. Base rates and, therefore, the total rates paid on Senior Loans float, *i.e.,* they change as market rates of interest change.

Although a base rate such as LIBOR can change every day, loan agreements for Senior Loans typically allow the borrower the ability to choose how often the base rate for its loan will change. A single loan may have multiple reset periods at the same time, with each reset period applicable to a designated portion of the loan. Such periods can range from one day to one year, with most borrowers choosing monthly or quarterly reset periods. During periods of rising interest rates, borrowers will tend to choose longer reset periods, and during periods of declining interest rates, borrowers will tend to choose shorter reset periods. The fixed spread over the base rate on a Senior Loan typically does not change.

Senior Loans generally are arranged through private negotiations between a borrower and several financial institutions represented by an agent who is usually one of the originating lenders. In larger transactions, it is common to have several agents; however, generally only one such agent has primary responsibility for ongoing administration of a Senior Loan. Agents are typically paid fees by the borrower for their services. The agent is primarily responsible for negotiating the loan agreement which establishes the terms and conditions of the Senior Loan and the rights of the borrower and the lenders. The agent also is responsible for monitoring collateral and for exercising remedies available to the lenders such as foreclosure upon collateral.

Loan agreements may provide for the termination of the agent's agency status in the event that it fails to act as required under the relevant loan agreement, becomes insolvent, enters Federal Deposit Insurance Corporation ("FDIC") receivership or, if not FDIC insured, enters into bankruptcy. Should such an agent, lender or assignor with respect to an assignment interpositioned between the Trust and the borrower become insolvent or enter FDIC receivership or bankruptcy, any interest in the Senior Loan of such person and any loan payment held by such person for the benefit of the Trust should not be included in such person's or entity's bankruptcy estate. If, however, any such amount were included in such person's or entity's bankruptcy estate, the Trust would incur certain costs and delays in realizing payment or could suffer a loss of principal or interest. In this event, the Trust could experience a decrease in the NAV.

The Trust acquires Senior Loans from lenders such as commercial and investment banks, insurance companies, finance companies, other investment companies and private investment funds.

## Investment by the Trust

The Trust typically invests in Senior Loans primarily by purchasing an assignment of a portion of a Senior Loan from a third-party, either in connection with the original loan transaction (*i.e.,* in the

## THE TRUST'S INVESTMENTS

primary market) or after the initial loan transaction (*i.e.,* in the secondary market). When the Trust purchases a Senior Loan in the primary market, it may share in a fee paid to the original lender. When the Trust purchases a Senior Loan in the secondary market, it may pay a fee to, or forego a portion of interest payments from, the lender making the assignment. The Trust may also make its investments in Senior Loans through the use of derivative instruments such as participations, credit-linked notes, credit default swaps and total return swaps as long as the reference obligation for any such instrument is a Senior Loan. Investments through the use of such derivative instruments involve counter party risk, *i.e.,* the risk that the party from which such instrument is purchased will not perform as agreed. Unlike an assignment, as described below, the Trust does not have a direct contractual relationship with the borrower. The Trust seeks to minimize such counter party risk by purchasing such investments only from large, well established and highly rated counter parties.

Except for rating agency guidelines imposed on the Trust's portfolio while it has outstanding Preferred Shares, there is no minimum rating or other independent evaluation of a borrower limiting the Trust's investments and most Senior Loans that the Trust may acquire, if rated, will be rated below investment grade credit quality. See "Risk Factors and Special Considerations    Credit Risk on Senior Loans."

**Assignments.** When the Trust is a purchaser of an assignment, it succeeds to all the rights and obligations under the loan agreement of the assigning lender and becomes a lender under the loan agreement with the same rights and obligations as the assigning lender. These rights include the ability to vote along with the other lenders on such matters as enforcing the terms of the loan agreement, (*e.g.*, declaring defaults, initiating collection action, *etc.*). Taking such actions usually requires at least a vote of the lenders holding a majority of the investment in the loan, and may require a vote by lenders holding two-thirds or more of the investment in the loan. Because the Trust typically does not hold a majority of the investment in any loan, it will not be able by itself to control decisions that require a vote by the lenders.

**Acquisition Costs**. When the Trust acquires an interest in a Senior Loan in the primary market, it typically acquires the loan at par less its portion of the fee paid to all originating lenders. When the Trust acquires an interest in a Senior Loan, in the secondary market, it may be at par, but typically the Trust will do so at premium or discount to par.

# RISK FACTORS AND SPECIAL CONSIDERATIONS

**Risk is inherent in all investing. The following discussion summarizes some of the risks that you should consider before deciding whether to invest in the Trust. For additional information about the risks associated with investing in the Trust, see "Additional Information About Investments and Investment Techniques" in the SAI.**

## Credit Risk on Senior Loans

The Trust's ability to pay dividends and repurchase its Common Shares is dependent upon the performance of the assets in its portfolio. That performance, in turn, is subject to a number of risks, chief among which is credit risk on the underlying assets.

Credit risk is the risk of nonpayment of scheduled interest or principal payments. In the event a borrower fails to pay scheduled interest or principal payments on a Senior Loan held by the Trust, the Trust will experience a reduction in its income and a decline in the market value of the Senior Loan, which will likely reduce dividends and lead to a decline in the NAV of the Trust's Common Shares. See "The Trust's Investments Investment by the Trust."

Senior Loans generally involve less risk than unsecured or subordinated debt and equity instruments of the same issuer because the payment of principal and interest on Senior Loans is a contractual obligation of the issuer that, in most instances, takes precedence over the payment of dividends, or the return of capital, to the issuer's shareholders and payments to bond holders. The Trust generally invests in Senior Loans that are secured with specific collateral. However, the value of the collateral may not equal the Trust's investment when the loan is acquired or may decline below the principal amount of the Senior Loan subsequent to the Trust's investment. Also, to the extent that collateral consists of stock of the borrower or its subsidiaries or affiliates, the Trust bears the risk that the stock may decline in value, be relatively illiquid, or may lose all or substantially all of its value, causing the Senior Loan to be undercollateralized. Therefore, the liquidation of the collateral underlying a Senior Loan may not satisfy the issuer's obligation to the Trust in the event of non-payment of scheduled interest or principal, and the collateral may not be readily liquidated.

In the event of the bankruptcy of a borrower, the Trust could experience delays and limitations on its ability to realize the benefits of the collateral securing the Senior Loan. Among the credit risks involved in a bankruptcy are assertions that the pledge of collateral to secure a loan constitutes a fraudulent conveyance or preferential transfer that would have the effect of nullifying or subordinating the Trust's rights to the collateral.

The Senior Loans in which the Trust invests are generally rated lower than investment grade credit quality, *i.e.,* rated lower than "Baa" by Moody's or "BBB" by S&P, or have been issued by issuers who have issued other debt securities which, if unrated, would be rated lower than investment grade credit quality. Investment decisions will be based largely on the credit analysis performed by the Adviser or Sub-Adviser, and not on rating agency evaluation. This analysis may be difficult to perform. Information about a Senior Loan and its issuer generally is not in the public domain. Moreover, Senior Loans are not often rated by any nationally recognized rating service. Many issuers have not issued securities to the public and are not subject to reporting requirements under federal securities laws. Generally, however, issuers are required to provide financial information to lenders and information may be available from other Senior Loan participants or agents that originate or administer Senior Loans.

## Interest Rate Risk

During normal market conditions, changes in market interest rates will affect the Trust in certain ways. The principal effect will be that the yield on the Trust's Common Shares will tend to rise or fall as market interest rates rise and fall. This is because almost all of the assets in which the Trust invests pay interest at rates which float in response to changes in market rates. However, because the interest rates on the Trust's assets reset over time, there will be an imperfect correlation between changes in market rates and changes to rates on the portfolio as a whole. This means that changes to the rate of interest paid on the portfolio as a whole will tend to lag behind changes in market rates.

Market interest rate changes may also cause the Trust's NAV to experience moderate volatility. This is because the value of a loan asset in the Trust is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. If market interest rates change, a loan's value could be affected to the extent the interest rate paid on that loan does not reset at the same time. As discussed above, the rates of interest paid on the loans in which the Trust invests have a weighted average reset period that typically is less than 90 days. Therefore, the impact of the lag between a change in market interest rates and the change in the overall rate on the portfolio is expected to be minimal.

To the extent that changes in market rates of interest are reflected not in a change to a base rate such as LIBOR but in a change in the spread over the base rate which is payable on loans of the type and quality in which the Trust invests, the Trust's NAV could also be adversely affected. This is because the value of a loan asset in the Trust is partially a function of whether it is paying what the market perceives to be a market rate of interest for the particular loan, given its individual credit and other characteristics. However, unlike changes in market rates of interest for which there is only a temporary lag before the portfolio reflects those changes, changes in a loan's value based on changes in the market spread on loans in the Trust's portfolio may be of longer duration.

Finally, substantial increases in interest rates may cause an increase in loan defaults as borrowers may lack the resources to meet higher debt service requirements.

## Changes to NAV

The NAV of the Trust is expected to change in response to a variety of factors, primarily in response to changes in the creditworthiness of the borrowers on the loans in which the Trust invests. See "Risk Factors and Special Considerations Credit Risk on Senior Loans" above. Changes in market interest rates may also have an impact on the Trust's NAV. See "Risk Factors and Special Considerations Interest Rate Risk." Another factor which can affect the Trust's NAV is changes in the pricing obtained for the Trust's assets. See "Transaction

If you have any questions, please call 1-800-992-0180.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Policies Valuation of the Trust's Assets."

**Discount From NAV**

The Trust's Common Shares have traded in the market above, at, and below NAV since March 9, 1992, when the Trust's shares were initially listed on the NYSE. The reasons for the Trust's Common Shares trading at a premium to or discount from NAV are not known to the Trust, and the Trust cannot predict whether its Common Shares will trade in the future at a premium to or discount from NAV, and if so, the level of such premium or discount. Shares of closed-end investment companies frequently trade at a discount from NAV. The possibility that Common Shares of the Trust will trade at a discount from NAV is a risk separate and distinct from the risk that the Trust's NAV may decrease.

**Leverage**

The Trust may borrow an amount equal to up to $33^1/_3$% (or such other percentage permitted by law) of its total assets (including the amount borrowed) less all liabilities other than borrowings. Under the 1940 Act, the Trust may issue preferred shares so long as immediately after any issuance of preferred shares the value of the Trust's total assets (less all Trust liabilities and indebtedness that is not senior indebtedness) is at least twice the amount of the Trust's senior indebtedness plus the involuntary liquidation preference of all outstanding shares. In November 2000, the Trust issued 18,000 Preferred Shares for a total of $450 million. Borrowings and the issuance of preferred shares are referred to in this Prospectus collectively as "leverage." The Trust may use leverage for investment purposes, to finance the repurchase of its Common Shares, and to meet other cash requirements. The use of leverage for investment purposes increases both investment opportunity and investment risk.

Capital raised through leverage will be subject to interest and other costs, and these costs could exceed the income earned by the Trust on the proceeds of such leverage. There can be no assurance that the Trust's income from the proceeds of leverage will exceed these costs. However, the Adviser or Sub-Adviser seeks to use leverage for the purposes of making additional investments only if they believe, at the time of using leverage, that the total return on the assets purchased with such funds will exceed interest payments and other costs on the leverage.

To the extent that the Trust is unable to invest the proceeds from the use of leverage in assets which pay interest at a rate which exceeds the rate paid on the leverage, the yield on the Trust's Common Shares will decrease. In addition, in the event of a general market decline in the value of assets such as those in which the Trust invests, the effect of that decline will be magnified in the Trust because of the additional assets purchased with the proceeds of the leverage. The Trust's lenders and Preferred shareholders have priority to the Trust's assets over the Trust's Common shareholders.

The Trust currently uses leverage by borrowing money on a floating rate basis and by the issuance of Preferred Shares. The current rate on the borrowings (as of June 16, 2008) is 3.16%. The current dividend rate on the Preferred Shares (as of June 16, 2008) is 3.08%.

Since early February 2008, the Trust has not received hold orders and purchase requests for its Preferred Shares during their weekly auctions that equaled the full amount of such shares. As a result, under the terms of the Preferred Shares, the amount sold by each selling shareholder was reduced pro rata or to zero. In addition, the dividend rate on such preferred shares, which is normally set by means of a Dutch auction procedure, automatically reset to the maximum rate permitted under the Preferred Shares program. That maximum rate is 150% of the applicable commercial paper base rate on the day of the auction. It is unclear whether the dividend rate for the Preferred Shares will be set by means of an auction again in the future. On June 9, 2008, the Trust announced the approval by the Board of Trustees of a partial redemption of its outstanding Preferred Shares. The Trust expects to redeem approximately $225 million of the $450 million of its outstanding Preferred Shares. The Preferred Shares are expected to be redeemed using proceeds available through the Trust's existing bank loan facility. Redemption costs and the on-going costs of obtaining leverage through a bank loan facility may reduce returns to Common Shares and may be higher than the costs of leverage obtained through the Preferred Shares. The Trust and the Board of Trustees will continue to closely monitor the situation and evaluate potential options to restore liquidity to and/or provide additional refinancing options for this market in the context of regulatory guidelines, as well as the economic and tax implications for both its Common and Preferred shareholders. To cover the annual interest and dividends on the borrowings and the Preferred Shares for the current fiscal year (assuming that the current interest and dividend rates remain in effect for the entire fiscal year and assuming that the Trust borrows an amount equal to 25% of its Managed Assets and the current Preferred Shares remain outstanding), the Trust would need to earn 1.58% on its amount of Managed Assets as of June 16, 2008.

The Trust's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The funds borrowed pursuant to the credit facilities or obtained through the issuance of Preferred Shares, or any other preferred shares, may constitute a substantial lien and burden by reason of their prior claim against the income of the Trust and against the net assets of the Trust in liquidation.

The Trust is not permitted to declare dividends or other distributions, including dividends and distributions with respect to Common Shares or Preferred Shares, or to purchase Common Shares or, Preferred Shares unless (i) at the time thereof the Trust meets certain asset coverage requirements and (ii) there is no event of default under any credit facility program that is continuing. See "Risk Factors and Special Considerations Restrictive Covenants and 1940 Act Restrictions" below. In the event of a default under a credit facility program, the lenders have the right to cause a liquidation of the collateral (*i.e.,* sell Senior Loans and other assets of the Trust) and, if any such default is not cured, the lenders may be able to control the liquidation as well.

In addition, the Trust is not permitted to pay dividends on or redeem Common Shares unless all accrued dividends on the Preferred Shares and all accrued interest on borrowings have been paid or set aside for payment.

Because the fee paid to the Adviser will be calculated on the basis of Managed Assets, the fee will be higher when leverage is utilized, giving the Adviser an incentive to utilize leverage.

The Trust is subject to certain restrictions imposed by lenders to the Trust and by guidelines of one or more rating agencies which issue ratings for the Preferred Shares issued by the Trust. These restrictions impose asset coverage, fund composition requirements and limits on investment techniques, such as the use of financial derivative products, that are more stringent than those imposed on the Trust by the 1940 Act. These covenants or guidelines could impede the Adviser or Sub-Adviser from fully managing the Trust's portfolio in accordance with the Trust's investment objective and policies.

## RISK FACTORS AND SPECIAL CONSIDERATIONS

### Annual Expenses Without Borrowings or Preferred Shares

If the Trust were not to have borrowed or have Preferred Shares outstanding, the remaining expenses, as a percentage of the net assets of the Trust, would be as follows:

| | |
|---|---|
| **Annual Expenses Without Borrowings or Preferred Shares** | |
| **(as a percentage of net assets attributable to Common Shares)** | |
| Management and Administrative Fees(1) | 1.05% |
| Other Operating Expenses(2) | 0.31% |
| Total Annual Expenses | 1.36% |

(1) Pursuant to the Investment Advisory Agreement with the Trust, ING Investments is paid a fee of 0.80% of the Trust's Managed Assets. Pursuant to its Administration Agreement with the Trust, the Trust's Administrator is paid a fee of 0.25% of the Trust's Managed Assets. See "Investment Adviser and Other Service Providers The Administrator."

(2) Other Operating Expenses are based on estimated amounts for the current fiscal year, which, in turn, are based on other operating expenses for the fiscal year ended February 29, 2008, and does not include the expenses of borrowing.

### Effect of Leverage

The following table is designed to illustrate the effect on return to a holder of the Trust's Common Shares of the leverage created by the Trust's use of borrowing, using the annual interest rate of 5.75%, assuming the Trust has used leverage by borrowing an amount equal to 25% of the Trust's Managed Assets and assuming hypothetical annual returns on the Trust's portfolio of minus 10% to plus 10%. As can be seen, leverage generally increases the return to shareholders when portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

| Assumed Portfolio Return, net of expenses(1) | (10)% | (5)% | 0% | 5% | 10% |
|---|---|---|---|---|---|
| Corresponding Return to Common Shareholders(2) | (15.25)% | (8.58)% | (1.92)% | 4.75% | 11.42% |

(1) The Assumed Portfolio Return is required by regulation of the SEC and is not a prediction of, and does not represent, the projected or actual performance of the Trust.

(2) In order to compute the Corresponding Return to Common Shareholders, the Assumed Portfolio Return is multiplied by the total value of the Trust's assets at the beginning of the Trust's fiscal year to obtain an assumed return to the Trust. From this amount, all interest accrued during the year is subtracted to determine the return available to shareholders. The return available to shareholders is then divided by the total value of the Trust's net assets attributable to Common Shares as of the beginning of the fiscal year to determine the Corresponding Return to Common Shareholders.

### Impact of Shareholder Investment Program and Privately Negotiated Transactions

The issuance of Common Shares through the Trust's Shareholder Investment Program may have an adverse effect on the secondary market for the Trust's Common Shares. The increase in the number of the Trust's outstanding Common Shares resulting from issuances pursuant to the Trust's Shareholder Investment Program or pursuant to privately negotiated transactions, and the discount to the market price at which such Common Shares may be issued, may put downward pressure on the market price for Common Shares of the Trust. Common Shares will not be issued pursuant to the Trust's Shareholder Investment Program at any time when Common Shares are trading at a price lower than the Trust's NAV per Common Share.

### Limited Secondary Market for Loans

Although the resale, or secondary, market for loans has grown substantially over the past decade, both in overall size and number of market participants, there is no organized exchange or board of trade on which loans are traded. Instead, the secondary market for loans is a private, unregulated inter-dealer or inter-bank re-sale market.

Loans usually trade in large denominations (typically in $1 million or larger) and trades can be infrequent. The market has limited transparency so that information about actual trades may be difficult to obtain. Accordingly, some or many of the loans in which the Trust invests will be relatively illiquid.

In addition, loans in which the Trust invests may require the consent of the borrower and/or the agent prior to sale or assignment. These consent requirements can delay or impede the Trust's ability to sell loans and can adversely affect the price that can be obtained. The Trust may have difficulty disposing of loans if it needs cash to repay debt, to pay dividends, to pay expenses or to take advantage of new investment opportunities. Although the Trust has not conducted a tender offer since 1992, if it determines to again conduct a tender offer, limitations of a secondary market may result in difficulty raising cash to purchase tendered Common Shares.

These considerations may cause the Trust to sell securities at lower prices than

## RISK FACTORS AND SPECIAL CONSIDERATIONS

it would otherwise consider to meet cash needs or cause the Trust to maintain a greater portion of its assets in cash equivalents than it would otherwise, which could negatively impact performance. The Trust seeks to avoid the necessity of selling assets to meet such needs by the use of borrowings.

The Trust values its assets daily. However, because the secondary market for loans is limited, it may be difficult to value loans. Reliable market value quotations may not be readily available for some loans and valuation of such loans may require more research than for liquid securities. In addition, elements of judgment may play a greater role in valuation of loans than for securities with a more developed secondary market, because there is less reliable, objective market value data available. In addition, if the Trust purchases a relatively large portion of a loan to generate extra income sometimes paid to large lenders, the limitations of the secondary market may inhibit the Trust from selling a portion of the loan and reducing its exposure to a borrower when the Adviser or Sub-Adviser deems it advisable to do so.

### Lending Portfolio Securities

To generate additional income, the Trust may lend portfolio securities in an amount equal to up to $33^1/_3$% of the Trust's total assets to broker-dealers, major banks, or other recognized domestic institutional borrowers of securities. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower default or fail financially. The Trust intends to engage in lending portfolio securities only when such lending is fully secured by investment grade collateral held by an independent agent.

### Demand for Loans

At times during recent years, the volume of loans has increased. However, during such periods, demand for loans has also grown. An increase in demand may benefit the Trust by providing increased liquidity for loans and higher sales prices, but it may also adversely affect the rate of interest payable on loans acquired by the Trust, the rights provided to the Trust under the terms of a loan agreement, and increase the price of loans that the Trust wishes to purchase in the secondary market. A decrease in the demand for loans may adversely affect the price of loans in the Trust's portfolio, which could cause the Trust's NAV to decline.

### Unsecured Debt Instruments and Subordinated Loans

Subject to the aggregate 20% limit on Other Investments, the Trust may invest up to 20% of its total assets in unsecured floating rate loans, notes and other debt instruments and 5% of its total assets in floating rate subordinated loans. Unsecured loans and subordinated loans share the same credit risks as those discussed above under "Credit Risk on Senior Loans" except that unsecured loans are not secured by any collateral of the borrower and subordinated loans are not the most senior debt in a borrower's capital structure. Unsecured loans do not enjoy the security associated with collateralization and may pose a greater risk of nonpayment of interest or loss of principal than do secured loans. The primary additional risk in a subordinated loan is the potential loss in the event of default by the issuer of the loan. Subordinated loans in an insolvency bear an increased share, relative to senior secured lenders, of the ultimate risk that the borrower's assets are insufficient to meet its obligations to its creditors.

### Short-Term Debt Securities

Subject to the aggregate 20% limit on Other Investments, the Trust may invest in short-term debt securities. Short-term debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and also may be subject to price volatility due to such factors as interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Because short-term debt securities typically pay interest at a fixed-rate, when interest rates decline, the value of the Trust's short-term debt securities can be expected to rise, and when interest rates rise, the value of those securities can be expected to decline.

### Pre Payment or Call Risk

During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. An issuer may redeem a lower-grade obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer.

### Investment in Non-U.S. and Non-Canadian Issuers

Subject to the aggregate 20% limit on Other Investments, the Trust may invest up to 20% of its total assets in loans, secured or unsecured, to borrowers that are organized or located in countries outside the United States and U.S. territories and possessions or Canada. Investment in non-U.S. entities involves special risks, including that non-U.S. entities may be subject to less rigorous accounting and reporting requirements than U.S. entities, less rigorous regulatory requirements, differing legal systems and laws relating to creditors' rights, the potential inability to enforce legal judgments, fluctuations in currency values and the potential for political, social and economic adversity. The Trust may invest up to 15% of its total assets in investments denominated in OECD currencies (including the Euro), other than the U.S. dollar.

The Trust will engage in currency exchange transactions to seek to hedge, as closely as practicable, 100% of the economic impact to the Trust arising from foreign currency fluctuations.

**Investments in Equity Securities Incidental to Investment in Loans**

Subject to the aggregate 20% on Other Investments, the Trust may acquire equity securities as an incident to

RISK FACTORS AND SPECIAL CONSIDERATIONS

the purchase or ownership of a loan or in connection with a reorganization of a borrower or its debt. Investments in equity securities incidental to investment in loans entail certain risks in addition to those associated with investment in loans. The value of these securities may be affected more rapidly, and to a greater extent, by company-specific developments and general market conditions. These risks may increase fluctuations in the Trust's NAV. The Trust may frequently possess material non-public information about a borrower as a result of its ownership of a loan of such borrower. Because of prohibitions on trading in securities of issuers while in possession of such information the Trust might be unable to enter into a transaction in a security of such a borrower when it would otherwise be advantageous to do so.

**Borrowings under the Credit Facility Program**

The Trust has a policy of borrowing to acquire income-producing investments which, by their terms, pay interest at a rate higher than the rate the Trust pays on borrowings. Accordingly, borrowing has the potential to increase the Trust's total income. The Trust currently is a party to two credit facilities with financial institutions that permit the Trust to borrow up to an aggregate of $450 million. Interest is payable on the credit facilities by the Trust at a variable rate that is tied to either LIBOR, the federal funds rate, or a commercial paper based rate and includes a facility fee on unused commitments. As of June 16, 2008, the Trust had outstanding borrowings under the credit facilities of approximately $142 million. Collectively, the lenders under the credit facilities have a security interest in all assets of the Trust.

Under each of the credit facilities, the lenders have the right to liquidate Trust assets in the event of default by the Trust under such credit facility, and the Trust may be prohibited from paying dividends in the event of certain adverse events or conditions respecting the Trust or Adviser or Sub-Adviser until the credit facility is repaid in full or until the event or condition is cured.

**Ranking of Senior Indebtedness**

The rights of lenders to receive payments of interest on and repayments of principal of any borrowings made by the Trust under the credit facility program are senior to the rights of holders of Common Shares and Preferred Shares with respect to the payment of dividends or upon liquidation.

**Restrictive Covenants and 1940 Act Restrictions**

The credit agreements governing the credit facility program ("Credit Agreements") include usual and customary covenants for their respective type of transaction, including limits on the Trust's ability to (i)