

CORNERSTONE TOTAL RETURN FUND INC  
Form N-2/A  
October 18, 2013

As filed with the Securities and Exchange Commission on October 18, 2013

Registration File No. 333-191119  
Registration File No. 811-02363

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

FORM N-2  
(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT  
OF 1933  
 Pre-Effective Amendment No. 1  
 Post-Effective Amendment No. \_\_\_\_

and

REGISTRATION STATEMENT UNDER THE INVESTMENT  
COMPANY ACT OF 1940  
 Amendment No. 10

Cornerstone Total Return Fund, Inc.

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Exact Name of Registrant as Specified in Charter

200A Executive Drive, Edgewood, NY 11717

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

Registrant's Telephone Number, including Area Code (866) 668-6558

Frank J. Maresca- c/o AST Fund Solutions, LLC, 200A Executive Drive, Edgewood, NY 11717

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Name and Address (Number, Street, City, State, Zip Code) of Agent for

Copies of Communications to:

Thomas R. Westle, Esquire  
Blank Rome LLP  
405 Lexington Avenue  
New York, New York 10174

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement

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

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

when declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (3)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee (2)
Common Stock	6,892,384	\$6.03	\$41,561,076	\$5,353.07

(1) Estimated solely for the purpose of calculating fee as required by Rule 457(o) under the Securities Act of 1933, as amended, based upon the closing price reported on the New York Stock Exchange consolidated reporting system of \$6.70 on October 11, 2013.

(2) \$136.40 of which was previously paid.

(3) Over-Allotment Shares are also being registered.

Pursuant to Rule 473 under the Securities Act of 1933, as amended, the Registrant hereby amends the Registration Statement to delay its effective date until the Registrant shall file a further amendment that specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Cornerstone Total Return Fund, Inc.  
10,338,577 Rights for 3,446,192 Shares of Common Stock

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Cornerstone Total Return Fund, Inc. (the “Fund”) is issuing non-transferable rights (“Rights”) to its holders of record of shares of common stock (“Common Stock”) (such holders hereinafter referred to as “Stockholders” and the shares of Common Stock, the “Shares”). These Rights will allow Stockholders to subscribe for new Shares. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share. Each Stockholder will receive one Right for each outstanding Share it owns on October 28, 2013 (the “Record Date”). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Stockholders on the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the “Offering”), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its sole discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor over-subscription requests. See “The Offering” below.

The Rights are non-transferable, and may not be purchased or sold. Rights will expire without residual value at the Expiration Date (defined below). The Rights will not be listed for trading on the NYSE MKT LLC (“NYSE MKT”), and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE MKT, subject to the NYSE MKT being officially notified of the issuance of those Shares. On October 11, 2013, the last reported net asset value (“NAV”) per Share was \$4.83 and the last reported sales price per Share on the NYSE MKT was \$6.70, which represents a 38.72% premium to the Fund’s NAV per Share. The subscription price per Share (the “Subscription Price”) will be the greater of (i) 107% of NAV per Share as calculated at the close of trading on the date of expiration of the Offering and (ii) 90% of the market price per Share at such time. The considerable number of Shares that may be issued as a result of the Offering may cause the premium above NAV at which the Fund’s Shares are currently trading to decline, especially if Stockholders exercising the Rights attempt to sell sizeable numbers of shares immediately after such issuance.

**STOCKHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS BECAUSE THE OFFERING WILL EXPIRE (I.E., CLOSE) PRIOR TO THE AVAILABILITY OF THE FUND’S NAV AND OTHER RELEVANT MARKET INFORMATION ON THE EXPIRATION DATE. ONCE A STOCKHOLDER SUBSCRIBES FOR SHARES AND THE FUND RECEIVES PAYMENT, SUCH STOCKHOLDER WILL NOT BE ABLE TO CHANGE HIS, HER OR ITS DECISION. THE OFFERING WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON NOVEMBER 29, 2013 (THE “EXPIRATION DATE”), UNLESS EXTENDED, AS DISCUSSED IN THIS PROSPECTUS.**

The Fund is a diversified, closed-end management investment company. The Fund’s investment objective is capital appreciation with current income as a secondary objective. The Fund seeks to achieve its objectives by investing primarily in U.S. and non-U.S. companies. There can be no assurance that the Fund’s objective will be achieved.

For more information, please call AST Fund Solutions, LLC (the “Information Agent”) toll free at (800) 581-4001.

Investing in the Fund involves risks. See “Risk Factors” on page 26 of this prospectus.

	Estimated Subscription Price (1)	Estimated Sales Load	Estimated Proceeds to the Fund (2)(3)
Per Share	\$ 6.03	None	\$ 6.03
Total	\$ 20,780,540	None	\$ 20,780,540

- (1) Because the Subscription Price will not be determined until after printing and distribution of this prospectus, the “Estimated Subscription Price” above is an estimate of the subscription price based on the Fund’s per-Share NAV and market price at the close of trading on October 11, 2013. See “The Offering - Subscription Price” and “The Offering - Payment for Shares.”
- (2) Proceeds to the Fund are before deduction of expenses incurred by the Fund in connection with the Offering, estimated to be approximately \$89,903. Funds received prior to the final due date of this Offering will be deposited in a segregated account pending allocation and distribution of Shares. Interest, if any, on subscription monies will be paid to the Fund regardless of whether Shares are issued by the Fund; interest will not be used as credit toward the purchase of Shares.
- (3) Fees and expenses incurred by the Fund in connection with the Offering are estimated to be approximately \$89,903. Proceeds to the Fund, after deduction of such fees and expenses incurred by the Fund in connection with the Offering, are estimated to be approximately \$20,690,637.

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

The date of this prospectus is [\_\_\_\_], 2013.

(continued on following page)

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The Fund's Shares are listed on the NYSE MKT under the ticker symbol "CRF."

Investment Adviser. Cornerstone Advisors, Inc. (the "Adviser") acts as the Fund's investment adviser. See "Management of the Fund." As of June 30, 2013, the Adviser managed two other closed-end funds with combined assets with the Fund of approximately \$263.1 million. The Adviser's address is 1075 Hendersonville Road, Suite 250, Asheville, North Carolina, 28803.

This prospectus sets forth concisely the information about the Fund that you should know before deciding whether to invest in the Fund. A Statement of Additional Information, dated October [\_\_\_\_], 2013 (the "Statement of Additional Information"), and other materials, containing additional information about the Fund, have been filed with the Securities and Exchange Commission (the "SEC"). The Statement of Additional Information is incorporated by reference in its entirety into this prospectus, which means it is considered to be part of this prospectus. You may obtain a free copy of the Statement of Additional Information, the table of contents of which is on page 43 of this prospectus, and other information filed with the SEC, by calling toll free (866) 668-6558 or by writing to the Fund c/o AST Fund Solutions, LLC, 200A Executive Drive, Edgewood, NY 11717, or by visiting the Fund's website at [www.cornerstonetotalreturnfund.com](http://www.cornerstonetotalreturnfund.com). The Fund files annual and semi-annual stockholder reports, proxy statements and other information with the SEC. You can obtain this information or the Fund's Statement of Additional Information or any information regarding the Fund filed with the SEC from the SEC's website at [www.sec.gov](http://www.sec.gov).

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

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus. The Fund will amend this prospectus if, during the period this prospectus is required to be delivered, there are any material changes to the facts stated in this prospectus subsequent to the date of this prospectus.

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## SUMMARY

This summary does not contain all of the information that you should consider before investing in the Fund. You should review the more detailed information contained or incorporated by reference in this prospectus and in the Statement of Additional Information, particularly the information set forth under the heading “Risk Factors.”

**The Fund** Cornerstone Total Return Fund, Inc. is a diversified, closed-end management investment company. It was incorporated in New York on March 16, 1973 and commenced investment operations on May 15, 1973. The Fund’s Shares are traded on the NYSE MKT under the ticker symbol “CRF.” As of September 30, 2013, the Fund had 10,338,578 Shares issued and outstanding.

**The Offering** The Fund is offering non-transferable rights (“Rights”) to its Stockholders as of the close of business on October 28, 2013. These Rights will allow Stockholders to subscribe for an aggregate of 3,446,192 Shares. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share at a subscription price equal to the greater of (i) 107% of NAV of the Shares as calculated on the Expiration Date and (ii) 90% of the market price at the close of trading on such date. Each Stockholder will receive one Right for each outstanding Share he or she owns on the Record Date (the “Basic Subscription”). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder as of the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Stockholders as of the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the “Offering”), subject to certain limitations discussed in this prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor over-subscription requests.

Shares will be issued within the 15-day period immediately following the record date of the Fund’s monthly’s distribution and Stockholders exercising rights will not be entitled to receive such distribution with respect to the shares issued pursuant to such exercise.

The Fund previously conducted a rights offering that expired on December 21, 2012 (the “2012 Offering”) and included similar terms and conditions as this Offering. Pursuant to the 2012 Offering, which was fully subscribed, the Fund issued 3,364,521 Shares (1,117,791 Shares of which were Over-Allotment Shares) at a subscription price of \$5.33 per Share, for a total offering of \$17,932,897.

Prior to the 2012 Offering, the Fund previously conducted a rights offering that expired on December 16, 2011 (the “2011 Offering”) and included similar terms and conditions as this Offering. Pursuant to the 2011 Offering, which was fully subscribed, the Fund issued 2,628,010 Shares (1,314,005 Shares of which were Over-Allotment Shares) at a subscription price of \$5.54 per Share, for a total offering of \$14,559,175.

Prior to the 2011 Offering, the Fund conducted a rights offering that expired on December 10, 2010 (the “2010 Offering”) and included similar terms and conditions as this Offering. Pursuant to the 2010 Offering, which was fully subscribed, the Fund issued 1,006,384 Shares (46,351 Shares of which were Over-Allotment Shares) at a subscription price of \$7.23 per Share, for a total offering of \$7,275,425.

The proceeds from the 2012 Offering, the 2011 Offering, and the 2010 Offering (collectively, the “Prior Rights Offerings”) may have been, and the proceeds from the current Offering and any future rights offerings, may be used to maintain the Fund’s Distribution Policy (as defined below) by providing funding for future distributions, which may constitute a return of its Stockholders’ capital.

Purpose of the Offering

At its meeting held on September 11, 2013, the Board of Directors considered, in addition to other factors, the success of the Prior Rights Offerings, and determined that the current Offering was in the best interests of the Fund and its Stockholders to increase the assets of the Fund. The primary reasons include:

- The Basic Subscription will provide existing Stockholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges.
- Raising more cash will better position the Fund to take advantage of investment opportunities that exist or may arise.
- The Fund’s assets, including those resulting from the Prior Rights Offerings, have been used to maintain the Fund’s managed distribution policy (the “Distribution Policy”).
- Increasing the Fund’s assets will provide the Fund additional flexibility in maintaining the Fund’s Distribution Policy (see discussion below). This policy permits Stockholders to receive a predictable level of cash flow and some liquidity periodically with respect to their Shares without having to sell Shares. Stockholders should be aware that substantially all of the distributions that the Fund made to its Stockholders for years 2008-2011 consisted of a return of its Stockholders’ capital, and not of income or gains generated from the Fund’s investment portfolio, and a majority of the distributions that the Fund made to its Stockholders in 2012 consisted of a return of its Stockholders’ capital, and not of income or gains generated from the Fund’s investment portfolio.
- Increasing the Fund’s assets results in a benefit to the Fund’s Investment Adviser because the Management fee that is paid to the Investment Adviser increases as the Fund’s net assets increase.
- Increasing Fund assets may lower the Fund’s expenses as a proportion of net assets because the Fund’s fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund’s expense ratio will be lowered.
- Because the Offering will increase the Fund’s outstanding Shares, it may increase the number of Stockholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE MKT.
- The Offering is expected to be anti-dilutive to all Stockholders, including those electing not to participate notwithstanding, the fact that all the costs of the Offering will be borne by the Stockholders whether or not they exercise their Rights, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Stockholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Stockholders is not materially less than a full exercise of the Basic



Subscription amount.

**Investment Objective and Policies** The Fund's investment objective is capital appreciation with current income as a secondary objective.

There is no assurance that the Fund will achieve its investment objective. The Fund's investment objective and some of its investment policies are considered fundamental policies and may not be changed without Stockholder approval. The Statement of Additional Information contains a list of the fundamental and non-fundamental investment policies of the Fund under the heading "Investment Restrictions."

During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its net assets in cash or cash equivalents.

**Investment Strategies** Under normal market conditions, the Fund's portfolio consists principally of the equity securities of large, mid and small-capitalization companies. Equity securities in which the Fund may invest include common and preferred stocks, convertible securities, warrants and other securities having the characteristics of common stocks, such as American Depositary Receipts ("ADRs") and International Depositary Receipts ("IDRs").

The Fund may invest without limitation in other closed-end investment companies and ETFs, provided that the Fund limits its investment in securities issued by other investment companies so that not more than 3% of the outstanding voting stock of any one investment company will be owned by the Fund. As a stockholder in any investment company, the Fund will bear its ratable share of the investment company's expenses and would remain subject to payment of the Fund's advisory and administrative fees with respect to the assets so invested.

The Fund may invest a portion of its assets in U.S. dollar denominated debt securities when the Adviser believes that it is appropriate to do so in order to achieve the Fund's secondary investment objective (e.g., when interest rates are high in comparison to anticipated returns on equity investments). Debt securities in which the Fund may invest include U.S. dollar denominated bank, corporate or government bonds, notes, and debentures of any maturity determined by the Adviser to be suitable for investment by the Fund. The Fund may invest in the securities of issuers that it determines to be suitable for investment by the Fund regardless of their rating, provided, however, that the Fund may not invest directly in debt securities that are determined by the Adviser to be rated below "BBB" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("S&P") or Moody's Investor Services, Inc. ("Moody's"), commonly referred to as "junk bonds."

In determining which securities to buy for the Fund's portfolio, the Adviser uses a balanced approach, including "value" and "growth" investing by seeking out companies at reasonable prices, without regard to sector or industry, which demonstrate favorable long-term growth characteristics. Valuation and growth characteristics may be considered for purposes of selecting potential investment securities. In general, valuation analysis is used to determine the inherent value of the company by analyzing financial information such as a company's price to book, price to sales, return on equity, and return on assets ratios; and growth analysis is used to determine a company's potential for long-term dividends and earnings growth due to market-oriented factors such as growing market share, the launch of new products or services, the strength of its management and market demand. Fluctuations in these characteristics may trigger trading decisions to be made by the Adviser.

To comply with provisions of the 1940 Act, on any matter upon which the Fund is solicited to vote as a shareholder in an investment company in which it invests, the Adviser votes such shares in the same general proportion as shares held by other shareholders of that investment company. The Fund does not and will not invest in any other closed-end funds managed by the Adviser.

The Fund may, without limitation, hold cash or invest in assets in money market instruments, including U.S. and non-U.S. government securities, high grade commercial paper and certificates of deposit and bankers' acceptances issued by U.S. and non-U.S. banks having deposits of at least \$500 million.

The Fund may invest up to 20% of its assets in illiquid U.S. securities. The Fund will invest only in such illiquid securities that, in the opinion of the Adviser, present opportunities for substantial growth over a period of two to five years.

With respect to 75% of its total assets, the Fund may not purchase a security, other than securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, if as a result of such purchase, more than 5% of the value of the Fund's total assets would be invested in the securities of any one issuer, or the Fund would own more than 10% of the voting securities of any one issuer.

The Fund's annual portfolio turnover rate is expected to continue to be relatively low, ranging between 10% and 90%.

Investment Adviser  
and Fee

Cornerstone Advisors, Inc. (the "Adviser"), the investment adviser of the Fund, is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940, as amended. As of June 30, 2013, the Adviser managed two other closed-end funds with combined assets under management, with the Fund, of approximately \$263.1 million.

The Adviser is entitled to receive a monthly fee at the annual rate of 1.00% of the Fund's average weekly net assets. See "Management of the Fund."

Administrator	<p>AST Fund Solutions, LLC (“AFS”), 200A Executive Drive, Edgewood, NY 11717, serves as administrator and accounting agent to the Fund. Under the administration agreement with the Fund, AFS is responsible for generally managing the administrative affairs of the Fund, including supervising the preparation of reports to Stockholders, reports to and filings with the SEC and materials for meetings of the Board and is entitled to receive a monthly fee at the annual rate of 0.075% of the Fund’s average daily net assets, subject to a minimum annual fee of \$30,000. See “Management of the Fund.”</p>
Fund Accounting Agent	<p>Ultimus Fund Solutions, LLC (“Ultimus”), 225 Pictoria Drive, Suite 450, Cincinnati, OH 45246, serves as accounting agent to the Fund. Under the Fund Accounting Agreement, Ultimus is responsible for calculating the net asset value per share and maintaining the financial books and records of the Fund. For the performance of these services, Ultimus is entitled to receive a base fee of \$2,500 per month plus an asset based fee of 0.010% of the first \$500 million of average daily net assets and 0.005% of such assets in excess of \$500 million. See “Management of the Fund.”</p>
Closed-End Fund Structure	<p>Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds do not redeem their shares at the option of the stockholder and generally list their shares for trading on a securities exchange. By comparison, mutual funds issue securities that are redeemable daily at net asset value at the option of the stockholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund’s investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities.</p> <p>Although the Fund’s Shares have frequently traded at a premium to its net asset value during the past several years, shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of the possibility that the Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Stockholders, the Fund’s Board of Directors, in consultation with the Adviser, may, from time to time, review possible actions to reduce any such discount, including considering open market repurchases or tender offers for the Fund’s Shares. There can be no assurance that the Board of Directors will decide to undertake any of these actions or that, if undertaken, such actions would result in the Shares trading at a price equal to or close to net asset value per Share.</p> <p>In addition, the Fund’s managed distribution policy may continue to be an effective action to counter a trading discount. See “Distribution Policy.”</p> <p>The Board of Directors may also consider the conversion of the Fund to an open-end investment company. The Board of Directors believes, however, that the closed-end structure is desirable, given the Fund’s investment objective and policies. Investors should assume, therefore, that it is highly unlikely that the Board of Directors would vote to convert the Fund to an open-end investment company.</p>
Summary of Principal Risks	<p>Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore,</p>

before investing you should consider carefully the following principal risks that you assume when you invest in the Fund.

**Stock Market Volatility.** Stock markets can be volatile. In other words, the prices of stocks can rise or fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions.

The Fund is subject to the general risk that the value of its investments may decline if the stock markets perform poorly. There is also a risk that the Fund's investments will underperform either the securities markets generally or particular segments of the securities markets.

**Issuer Specific Changes.** Changes in the financial condition of an issuer, changes in the specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer's securities. Lower-quality debt securities tend to be more sensitive to these changes than higher-quality debt securities.

**Common Stock Risk.** The Fund will invest a significant portion of its net assets in common stocks. Common stocks represent an ownership interest in a company. The Fund may also invest in securities that can be exercised for or converted into common stocks (such as convertible preferred stock). Common stocks and similar equity securities are more volatile and more risky than some other forms of investment. Therefore, the value of your investment in the Fund may sometimes decrease instead of increase. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer, the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise for issuers. Because convertible securities can be converted into equity securities, their values will normally increase or decrease as the values of the underlying equity securities increase or decrease. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and assets and, therefore, will be subject to greater risk than the preferred securities or debt instruments of such issuers.

**Foreign Securities Risk.** Investments in securities of non-U.S. issuers involve special risks not presented by investments in securities of U.S. issuers, including the following: less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices; the impact of political, social or diplomatic events, including war; possible seizure, expropriation or nationalization of the company or its assets; possible imposition of currency exchange controls; and changes in foreign currency exchange rates. These risks are more pronounced to the extent that the Fund invests a significant amount of its investments in companies located in one region. These risks may be greater in emerging markets and in less developed countries. For example, prior governmental approval for foreign investments may be required in some emerging market countries, and the extent of foreign investment may be subject to limitation in other emerging countries. With respect to risks associated with changes in foreign currency exchange rates, the Fund does not expect to engage in foreign currency hedging transactions. See "Foreign Currency Risk."

**Market Discount from Net Asset Value.** Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of its investment activities and may be greater for investors expecting to sell their Shares in a relatively short period following completion of the Offering. The net asset value of the

Shares will be reduced immediately following the Offering as a result of the payment of certain costs of the Offering. Whether investors will realize gains or losses upon the sale of the Shares will depend not upon the Fund's net asset value but entirely upon whether the market price of the Shares at the time of sale is above or below the investor's purchase price for the Shares. Because the market price of the Shares will be determined by factors such as relative supply of and demand for the Shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Shares will trade at, below or above net asset value.

**Defensive Positions.** During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its assets in cash or cash equivalents. The Fund would not be pursuing its investment objective in these circumstances and could miss favorable market developments.

**Management Risk.** The Fund is subject to management risk because it is an actively managed portfolio. The Fund's successful pursuit of its investment objective depends upon the Adviser's ability to find and exploit market inefficiencies with respect to undervalued securities. Such situations occur infrequently and sporadically and may be difficult to predict, and may not result in a favorable pricing opportunity that allows the Adviser to fulfill the Fund's investment objective. The Adviser's security selections and other investment decisions might produce losses or cause the Fund to underperform when compared to other funds with similar investment goals. If one or more key individuals leave the employ of the Adviser, the Adviser may not be able to hire qualified replacements, or may require an extended time to do so. This could prevent the Fund from achieving its investment objective. The Adviser may also benefit from the Offering because its fee is based on the assets of the Fund, which could be perceived as a conflict of interest.

**Managed Distribution Risk.** Under the Fund's managed distribution policy (the "Distribution Policy"), the Fund makes monthly distributions to Stockholders at a rate that may include periodic distributions of its net income and net capital gains ("Net Earnings"), or from return-of-capital. For any fiscal year where total cash distributions exceeded Net Earnings (the "Excess"), the Excess would decrease the Fund's total assets and, as a result, would have the likely effect of increasing the Fund's expense ratio. There is a risk that the total Net Earnings from the Fund's portfolio would not be great enough to offset the amount of cash distributions paid to Stockholders. If this were to be the case, the Fund's assets would be depleted, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio, including securities purchased with the proceeds of the Offering, at a time when independent investment judgment might not dictate such action. Furthermore, such assets used to make distributions will not be available for investment pursuant to the Fund's investment objective. In fact, during most of the past ten years, the Fund's distributions have exceeded its Net Earnings. The Fund may use the proceeds of this Offering to maintain the Distribution Policy by providing funding for future distributions, which may constitute a return of capital to Stockholders and lower the tax basis in their Shares which, for the taxable Stockholders, will defer any potential gains until the Shares are sold. A return of capital is non-taxable to the extent of the Stockholder's basis in the shares. The Stockholders would reduce their basis in the Shares by the amount of the distribution. Any return of capital will be separately identified when Stockholders receive their tax statements. Any return of capital that exceeds cost basis may be treated as capital gain. Stockholders are advised to consult with their own tax advisers with respect to the tax consequences of their investment in the Fund. Furthermore, the Fund may need to raise additional capital in order to maintain the Distribution Policy.

**Preferred Securities Risk.** Investment in preferred securities carries risks including credit risk, deferral risk, redemption risk, limited voting rights, risk of subordination and lack of liquidity. Fully taxable or hybrid preferred securities typically contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. Traditional preferreds also contain provisions that allow an issuer, under certain conditions to skip (in the case of "noncumulative preferreds") or defer (in the case of "cumulative preferreds"), dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases when dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as U.S. government securities, corporate debt or common stocks. Dividends paid on preferred securities will generally not qualify for the reduced federal income tax rates applicable to qualified dividends under the Code. See "Federal Income Tax Matters."





**Convertible Securities Risk.** The value of a convertible security, including, for example, a warrant, is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Fund’s ability to achieve its investment objective.

**Other Investment Company Securities Risk.** The Fund invests in the securities of other closed-end investment companies. Investing in other investment companies involves substantially the same risks as investing directly in the underlying instruments, but the total return on such investments at the investment company level may be reduced by the operating expenses and fees of such other investment companies, including advisory fees. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company’s portfolio securities, and a Stockholder will bear not only his proportionate share of the expenses of the Fund, but also, indirectly, the expenses of the purchased investment company. There can be no assurance that the investment objective of any investment company in which the Fund invests will be achieved.

**Repurchase Agreement Risk.** The Fund could suffer a loss if the proceeds from a sale of the securities underlying a repurchase agreement to which it is a party turns out to be less than the repurchase price stated in the agreement. In addition, repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund’s ability to dispose of the underlying securities.

**Real Estate Investment Trust (“REIT”) Risk.** Investments in REITs will subject the Fund to various risks. The first, real estate industry risk, is the risk that REIT share prices will decline because of adverse developments affecting the real estate industry and real property values. In general, real estate values can be affected by a variety of factors, including supply and demand for properties, the economic health of the country or of different regions, and

the strength of specific industries that rent properties. REITs often invest in highly leveraged properties. The second risk is the risk that returns from REITs, which typically are small or medium capitalization stocks, will trail returns from the overall stock market. The third, interest rate risk, is the risk that changes in interest rates may hurt real estate values or make REIT shares less attractive than other income producing investments. REITs are also subject to heavy cash flow dependency, defaults by borrowers and self liquidation.

Qualification as a REIT under the Code in any particular year is a complex analysis that depends on a number of factors. There can be no assurance that the entities in which the Fund invests with the expectation that they will be taxed as a REIT will qualify as a REIT. An entity that fails to qualify as a REIT would be subject to a corporate level tax, would not be entitled to a deduction for dividends paid to its shareholders and would not pass through to its shareholders the character of income earned by the entity. If the Fund were to inve