# Federated Enhanced Treasury Income Fund

**A closed-end fund that employs an integrated U.S. Treasury-based strategy with an option overwrite and duration management overlay in order to provide the potential for current income and total return.**

- **Investing primarily in U.S. Treasury securities, with the flexibility to include U.S. government agency securities**
- **Enhanced monthly dividend potential through a strategy of writing call options**
- **Active duration management strategy that seeks to generate total return**
- **Combined expertise of two premier investment managers: Federated Investment Management Company ("FIMC" or "Adviser"), a wholly-owned subsidiary of Federated Investors, Inc. ("Federated"), and Dix Hills Partners, LLC ("Dix Hills" or "Sub-Adviser")**

## Initial Public Offering: January 2010 — NYSE: FTT*

***You should consider carefully the fund's investment objectives, risks, charges and expenses before investing. A preliminary prospectus that contains this and other information about the fund is available on request, or you may obtain additional copies from the fund by calling 1-888-400-7838.*** *The information contained herein and in the preliminary prospectus is incomplete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. This is not an offering, which can only be made by a final prospectus. The prospectus for the fund should be read carefully before investing or sending money. The fund involves a number of risks, including trading discount and income variability. The fund may differ from other investment companies in terms of investment objectives, risks, liquidity, charges and expenses, and other investment issues.*

**NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE**

* The fund has been approved for listing of its common shares on the New York Stock Exchange ("NYSE") under the ticker symbol "FTT," subject to notice of issuance.

## Current Environment

Federated believes that a challenged U.S. economy and an unclear interest rate outlook have caused investors to seek the safety of U.S. Treasury and other government agency securities.[1] In the last year alone, U.S. households have almost doubled their holdings in long-dated U.S. Treasury securities,[2] increasing their ownership from $430 billion a year ago to $802 billion at the end of the third quarter of 2009.[3] In so doing, U.S. households have silently surpassed the Federal Reserve (at $758 billion) and China (at $799 billion)[3] as the largest holder of U.S. Treasury securities. This trend, although not surprising given the events of 2008, is not without risk. As depicted in the chart below, the 10-year Treasury interest rate has been in a 25 – 30 year secular decline. Federated believes this is due to the increased demand mentioned above as well as declining inflation expectations.

**Federated's Outlook for Long-Term Interest Rates:**

***"Long-term interest rates will trend higher, with substantial volatility for the rest of this business cycle. Also, we believe long-term rates may be at a secular turning point."***

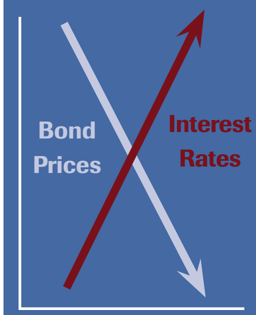
**Historical 10-Year Treasury Rate**


Source: Bloomberg, Data as of 9/30/09.

## Concerns over Rising Interest Rates

A critical factor to consider in fixed income investing is interest rates. Federated believes that investors have become increasingly concerned about the potential for both higher inflation and rising U.S. interest rates. These fears are fueled by a growing U.S. federal budget deficit and a highly accommodative monetary policy by the Federal Reserve. As such, although investors continue to seek the safety of U.S. Treasury securities, they have become much more mindful of the potentially negative impact of rising interest rates on the value of their fixed income portfolios.

**The Inverse Relationship between Interest Rates and Bond Prices**




**Typically, as interest rates rise, bond prices fall.**

1 U.S. Treasury securities are direct obligations of the U.S. Treasury, including U.S. Treasury notes, bills and bonds. U.S. government agency securities include debt securities issued and/or guaranteed as to payment of principal and interest by U.S. government agencies, U.S. government-sponsored enterprises and U.S. government instrumentalities that are not direct obligations of the United States. These securities may not be backed by the full faith and credit of the United States. U.S. government–sponsored enterprises and U.S. government instrumentalities are not agencies of the U. S. government.

2 Long-dated U.S. Treasury securities are those with 10-year or greater maturities.

3 Based on the Flow of Funds Report, Federal Reserve. Z.1 Statistical Release of the Board of Governors, 12/10/2009.

# Federated Enhanced Treasury Income Fund

**A closed-end fund that employs an integrated U.S. Treasury-based strategy with an option overwrite and duration management overlay in order to provide the potential for current income and total return.**

## Investment Characteristics

1. **An actively managed core portfolio** – Investing at least 80% of its total assets in U.S. Treasury securities and up to 20% of its total assets in U.S. government agency securities.
2. **Call option writing –** Writing call options on a continuous basis in an attempt to generate gains from option premiums. Under normal circumstances, it is anticipated that, on average over time, approximately 80% of the value of the fund's core portfolio will be subject to written call options – which Federated Investment Management Company believes may be a reasonably stable source of additional monthly dividends.
3. **Duration overlay[1] –** Pursuing additional returns through an active duration management strategy based on a proprietary investment model from Dix Hills.
   - Dix Hills' proprietary strategy is not correlated to movements in either stocks or bonds and has the potential to generate positive returns during rising or falling rate environments.
   - The approach is designed to be less sensitive to longer-term trends in interest rates, seeking to capture only monthly changes in the direction of interest rates.

## FTT Seeks an Integrated Approach to Generating Current Income and Total Return


## Who May Want to Invest

You should consider your own investment goals, time horizons and risk tolerance before investing in the fund, which may not be appropriate for all investors and is not intended to be a complete investment program. This fund may be an appropriate investment if you are seeking:

- A core Treasury portfolio managed to provide current income.
- A fund with enhanced duration management that may increase the potential for total return in a wide variety of economic environments.
- A core holding that balances income and total return and generally improves portfolio diversification.

**Shares of Federated Enhanced Treasury Income Fund are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Investment in the fund involves a number of risks, including trading discount and income variability. The fund may differ from other investment companies in terms of investment objectives, risks, liquidity, charges and expenses, and other investment issues. Shares are subject to investment risks, including possible loss of principal invested. See Risks at the back of this brochure, in the preliminary prospectus and in the prospectus for a description of risks related to investing in the fund.**

**There can be no assurances that the fund will achieve its investment objectives.**

1 Duration will be managed to +/- 5 years of the fund's benchmark index, the Barclays Capital U.S. Treasury Bond Index (the "Treasury Index") (approximately a zero to 10-year range).

The Treasury Index is composed of all U.S. Treasury publicly issued obligations. It includes only notes and bonds with a minimum outstanding principal amount of $50 million and a minimum maturity of one year. Flower bonds are excluded. Total return consists of price appreciation/depreciation plus income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization. It is not possible to invest directly in the Treasury Index.

## Combined Expertise of Two Premier Investment Advisers

The portfolio combines Federated Investment Management Company's experience and in-depth knowledge of the fixed income markets with Dix Hills' proprietary quantitative duration management approach. Federated and Dix Hills have an established working relationship that was launched in 2007, with Dix Hills' strategies being applied to over $1 billion of Federated client assets in three investment vehicles.[1]

**Federated Investment Management Company,** the fund's Adviser, is responsible for the fund's overall investment program, structuring and actively managing the fund's core portfolio, developing and monitoring the call option strategy and executing the transactions to implement the fund's duration strategy in accordance with the advice of Dix Hills, the fund's Sub-Adviser. The potential alpha[2] generated from duration management enables the economic exploitation of the options writing strategy without potential erosion of the fund's value.

Since 1955, millions of investors in the United States and around the globe have relied on Federated. The firm has been managing bond funds since it introduced one of the first U.S. government bond funds in 1969 and one of the first high-yield bond funds in 1972.

As of September 30, 2009, Federated and its affiliates managed approximately $392.3 billion, including $45 billion in fixed income portfolios.[3]

**Dix Hills,** the fund's Sub-Adviser, is primarily an institutional asset manager and is responsible for providing advice on the fund's duration strategy. Founded in July 2003, the firm is an SEC-registered investment adviser and Commodity Trading Adviser, specializing in U.S. fixed income management of active duration strategies. Dix Hills has a proven track record in generating "uncorrelated alpha"[4] using solely U.S. Treasury securities.

As of October 31, 2009, Dix Hills had over $800 million in assets under management.

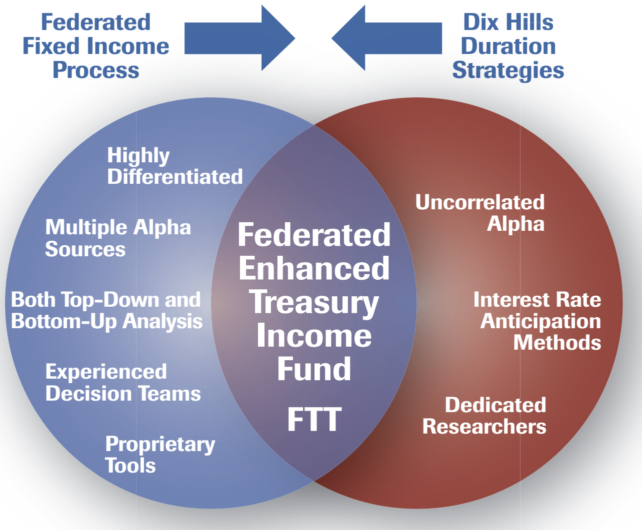
1 Federated, the parent company of the Adviser, owns a 12% minority interest in Dix Hills.

2 A measure of performance on a risk-adjusted basis. Alpha is defined as the excess return of a fund relative to the return of the Treasury Index.

3 Source: Strategic Insight, 9/30/09.

4 Alpha independent of the returns of the traditional asset classes.

### A Powerful Team that Creates Differentiated Products for Fixed Income Investors




## Portfolio Management Team

### Federated Investment Management Company

**Donald Ellenberger**
*Senior Vice President and Senior Portfolio Manager*

Mr. Ellenberger is responsible for portfolio management and investment research in the fixed income area, concentrating on government/mortgage-backed securities. Mr. Ellenberger brings 23 years of investment experience to his position. Prior to joining Federated in 1996, Mr. Ellenberger worked as a portfolio manager and senior derivatives trader for Mellon Bank. Mr. Ellenberger earned his M.B.A. from Stanford University and a B.A. degree from Pennsylvania State University.

**Chris (Chengjun) Wu, CFA**
*Senior Quantitative Analyst*

Mr. Wu is responsible for quantitative analysis in the domestic fixed income area. Prior to joining Federated in 2006, Mr. Wu was a Financial Analyst at Quantitative Risk Management, Inc. He received his M.B.A. from the University of Chicago and an M.S. degree in Computer Sciences from the University of Illinois at Chicago.

### Dix Hills Partners, LLC

**Joseph A. Baggett, CFA**
*Founder, Managing Member, Head, Portfolio Management & Research*

Mr. Baggett works closely with Federated in implementing duration strategies. Mr. Baggett brings 11 years of investment experience to his position. Mr. Baggett is responsible for developing the quantitative approach the Dix Hills team uses in generating its interest rate direction forecast and the subsequent implementation of the duration position. He holds a B.A. in Economics from Columbia University.

# Fund-at-a-Glance

## Investment Objectives

Provide current income, with total return as a secondary objective.

## Investment Strategy

Under normal market conditions, the fund's investment program will consist primarily of (1) actively managing a portfolio of U.S. Treasury and U.S. government agency securities that pay interest in order to generate current income; (2) selling call options on a continuous basis on individual or baskets of U.S. Treasury securities and U.S. government agency securities and/or options on futures on U.S. Treasury securities and U.S. government agency securities in order to generate gains from option premiums (the "Option Strategy"); and (3) actively managing the duration of the fund's portfolio (the "Duration Strategy") in order to generate additional returns versus the Treasury Index.

## Regular Monthly Distributions

The fund's initial distribution is expected to be declared approximately 45 days and paid within 60-90 days from the completion of the offering, depending upon market conditions. Thereafter, distributions are expected to be declared monthly, depending on market conditions.

## Convenient Distribution Reinvestment

All cash dividends, capital gains distributions, and other distributions are automatically reinvested in additional common shares unless a common shareholder elects otherwise ("opt out").

## Investment Parameters/Credit Quality

Will invest at least 80% of the value of its net assets in U.S. Treasury securities. May invest up to 20% of its net assets in U.S. government agency securities (including mortgage-backed securities). Expects to sell call options under the Option Strategy on a continuous basis on at least 50% (and under most market circumstances approximately 80%) of the value of its holding of U.S. Treasury securities and U.S. government agency securities. Will also seek to generate total returns through the Adviser's active management of the core portfolio based on the Adviser's assessment of the U.S. Treasury yield curve and use of the Duration Strategy in an attempt to outperform the total return performance of the Treasury Index. The Adviser will actively manage the core portfolio based on the Adviser's views of changes in the slope of the U.S. Treasury yield curve and will adjust the core portfolio based on these assumptions. The fund will adjust overall portfolio duration by up to five years above or below the current duration level of the Treasury Index through the use of derivative instruments (such as interest rate swaps and futures on U.S. Treasury securities) or through direct investment in U.S. Treasury securities in accordance with the Sub-Adviser's assessment.

## Initial Investment

$20 per share, 100 share minimum.

$0.90 per share, 4.50% sales load on initial offering price, plus other offering costs. The fund's common share price will fluctuate and, at the time of sale, may be above or below net asset value and may be worth more or less than the original investment.

## Total Net Annual Expenses[1]

Management fee: 0.85%
Estimated other expenses: 0.36%
Less fee waiver: (0.16%)[1]
Estimated net total annual expenses: 1.05%[1]

## NYSE Liquidity

The fund's common shares have been approved for listing on the New York Stock Exchange (subject to notice of issuance), which should provide liquidity, convenience and daily price visibility through electronic quote services and some newspaper stock tables. The fund's ticker symbol is "FTT."[2]

Shares of closed-end funds frequently trade at prices lower than net asset value (often referred to as a "discount"), which creates a risk of loss for investors when they sell shares purchased in an initial public offering.

## Ticker Symbol

FTT[2]

## Leverage

Although the fund has no current intention to do so, it is authorized and reserves the flexibility to use leverage through the issuance of preferred shares and/or borrowings, including the issuance of debt securities.

1 Based on estimates for the fund's first year of operations and assumes that the fund issues 5,000,000 common shares, the Adviser has contractually agreed to waive its management fees and/or reimburse expenses so that total annual fund operating expenses paid by the fund's common shares (after the waivers and/or reimbursements) will not exceed 1.05% (excluding acquired fund fees and expenses, if any). This contractual fee waiver will be in place for the first 5 years of the fund's operations and may only be terminated or revised by the fund's Board of Trustees.

2 The fund's common shares have been approved for listing on the NYSE under the ticker symbol "FTT," subject to notice of issuance.

# Federated Enhanced Treasury Income Fund

## Q. What is a call option?

**A.** A call option is a sophisticated instrument often used by investment professionals (including some mutual fund and closed-end fund portfolio managers) seeking to enhance returns by taking advantage of changes in the market price of a security. The principal factors affecting the market value of an option include supply and demand, interest rates, the current market price of the underlying security in relation to the exercise price of the option, the actual or perceived volatility of the underlying security, and the time remaining until the expiration date.

A call option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from the seller of the option the security underlying the option at a specified exercise or "strike" price.

The fund's options activity may include writing (selling) call options on individual or baskets of government securities. As the seller of call options, the fund will receive cash (the premium) from the option buyer. The buyer of a call option has the right to purchase the security at the price set in the contract (the strike price) as of a specified date in the future (the option valuation date). The fund earns money from the premium received for the contract. This premium adds to the income earned by the fund.

## Q. What is duration?

**A.** Duration is a measure of the sensitivity of the price of a fixed income security to a change in interest rates and is expressed as a number of years. Securities with longer durations are more sensitive to changes in interest rates than similar securities of shorter durations. Key factors determining the duration of a portfolio include the maturity of bonds in it and the current level of interest rates. Generally speaking if a portfolio has a duration of 5 years this implies a 1% change in (like kind) interest rates up or down will cause approximately a 5% movement in the NAV of the portfolio in the opposite direction.

## Q. How can duration management benefit the fund?

**A.** Duration management is a tool used to seek out performance of the fund versus its benchmark, in this case, the Treasury Index. Dix Hills, the fund's Sub-Adviser, has been able to show there is a clear directional overlay between the short-term movement of interest rates and the monthly cycle of macro economic data released by the U.S. government. Their approach seeks to quantify their level of conviction on the direction of this movement by reestablishing a new duration target once a month.

## Q. What other strategies are used in managing the fund?

**A.** While the bulk of the total return outperformance versus a passively managed Treasury portfolio is anticipated to come from duration management, the fund will also employ other strategies to enhance total return potential. This will include positioning securities of varying maturities to benefit from changes in the shape of the yield curve, sector allocation between Treasury and other forms of government guaranteed securities (including potentially agency mortgage-backed securities, up to 20% of portfolio market value), and individual security selection decisions (such as investments in Treasury Inflation Protected securities).

# Risks

**No Operating History.** The fund is a diversified closed-end investment company with no history of operations and is designed for long-term investors and not as a trading vehicle.

**Market Price of Shares.** The shares of closed-end management investment companies often trade at a discount from their net asset value, and the trading price of the common shares may be less than the public offering price. The risk may be greater for investors who sell their common shares in a relatively short period after completion of the public offering.

**Investment and Market Risk.** An investment in common shares is subject to investment risk, including the possible loss of the entire principal amount invested, and represents an indirect investment in the securities owned by the fund. The value of these securities will fluctuate. The common shares at any point in time may be worth less than the original investment.

**Issuer Risk.** Issuer risk is the risk that the value of securities may decline for a number of reasons directly related to the issuer or borrower.

**Interest Rate Risk.** The value of the fund's shares will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate securities held by the fund can be expected to rise. Conversely, when interest rates rise, the value of fixed-rate securities held by the fund can be expected to decline. Prices of longer-term securities generally change more in response to interest rate changes than prices of shorter-term securities. There is no guarantee that the fund's Duration Strategy will work and correctly predict the movement of interest rates or will mitigate the impact of the fund's Option Strategy.

**Reinvestment Risk.** Income from the fund's portfolio will decline if and when the fund reinvests the proceeds from the disposition of its portfolio securities at market interest rates that are below the portfolio's current earnings rate.

**Risk Associated with U.S. Government Securities and Agency Securities.** Some U.S. government securities may be supported by the full faith and credit of the U.S. Treasury, such as U.S. Treasury bills, notes and bonds and Government National Mortgage Association certificates. U.S. government securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government securities are generally lower than the yields available from corporate fixed income securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the fund's NAV. U.S. government agency securities, including securities issued by U.S. government-sponsored enterprises and instrumentalities, are not direct obligations of the United States and may not be backed by the full faith and credit of the United States. Certain U.S. government-sponsored enterprises are backed by the full faith and credit of the U.S. government. However, other U.S. government-sponsored enterprises' are not backed by the full faith and credit of the U.S. government. Such enterprises are supported only by the discretionary authority of the U.S. government to purchase the enterprises' obligations, and therefore are subject to increased credit risk.

**Government Intervention in Financial Markets.** The recent instability in the financial markets has led the U.S. government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Legislation or regulation may also change the way in which the fund itself is regulated. Such legislation or regulation could limit or preclude the fund's ability to achieve its investment objectives. The Adviser will monitor developments and seek to manage the fund's portfolio in a manner consistent with achieving the fund's investment objectives, but there can be no assurance that it will be successful in doing so.

**Option Strategy Risk.** The fund will employ, through its Option Strategy, a strategy of writing (selling) call options on the fund's portfolio of securities. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful because of market behavior or unexpected events. As the writer of a covered call option, the fund forgoes, during the option's life, the opportunity to profit from increases in the market value of an underlying security to the extent that the increased market value exceeds option premium received and the exercise price of the call, but has retained the risk of loss, minus the option premium received, should the price of the underlying security decline. The use of options may require the fund to sell portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the fund can realize on an investment, or may cause the fund to hold a security that it might otherwise sell. The fund may effect option transactions in "over-the-counter" markets. Participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that would not be reflected concurrently in the options markets. The fund may write (sell) written index call options. The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price of the call option as of the valuation date of the option. Because their exercise is settled in cash, sellers of index call options cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The exercise of index call options may require the fund to sell portfolio securities to generate cash at inopportune times or for unattractive prices. Transactions in exchange-traded options will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which the options are traded. No assurance can be given that a liquid market will exist when the fund seeks to close out an option position.

**Duration Strategy Risk.** The fund will use a duration management strategy. There are no assurances that the fund's Duration Strategy will be successful. The success of the fund's Duration Strategy depends primarily on the Adviser and Sub-Adviser's ability to accurately predict interest rate movements and to adjust the fund's portfolio correctly and in a timely manner. The Duration Strategy is a highly dependent on proprietary quantitatively-based models that have been researched, developed and utilized by the Sub-Adviser, although generally these models have not been independently tested or otherwise reviewed (other than by the Adviser or Sub-Adviser). The Duration Strategy will be implemented through the use of certain derivative instruments, including but not limited to swaps and futures. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Changes in the value of derivative contracts may not be correlated with changes in the value of the underlying reference or valuation instruments. There is a risk that derivative instruments may be erroneously priced or improperly valued, and the fund may need to make increased cash payments to the counterparty. Derivative instruments may cause the fund to realize increased ordinary income or short-term capital gains and may increase taxable distributions to shareholders.

**Mortgage-Backed Securities ("MBS") Risk.** The value of the fund's shares may be adversely affected by fluctuations in interest rates and the prepayment of the mortgage loans, which are most likely to be prepaid in a declining interest rate environment. Prepayments may cause the fund to incur capital loss and reduce income distributions. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS which in turn would lengthen the duration of the fund's portfolio.

*continued on next page*

**Extension Risk.** Certain obligations may be paid off more slowly than anticipated, causing the value of these securities to fall.

**Credit Risk.** Issuers may be unable to pay the interest or principal when due. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect an investment in the issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. Obligations issued or guaranteed by the U.S. Treasury are considered to have minimal credit risk. Obligations issued or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises and instrumentalities, which are generally not supported by the full faith and credit of the United States, may be more exposed to credit risk.

**Call and Redemption Risk.** A bond's issuer may call a bond for redemption before it matures. If this happens the fund may lose income and have to invest the proceeds in lower-yielding bonds.

**Income Risk.** If interest rates decline, interest rates on debt securities held by the fund, and shareholders' income from the fund, would likely decline as well. Income risk is greater for this fund than for a fund that does not write (sell) covered calls. If the market value of the fund's portfolio of securities rises above the exercise price of the written call options, the fund would likely not be able to realize the increase in the value of its existing portfolio and maintain its level of income.

**Inflation/Deflation Risk.** Inflation risk is the risk that the value of assets or income from the fund's investments will be worth less in the future as inflation decreases the value of money.

**U.S. Dollar Risk.** A weakening of the value of the U.S. dollar relative to the currencies of other developed countries may cause foreign demand for U.S. Treasury securities to fall and interest rates to rise regardless of the economic environment.

**Correlation Risk.** There are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objective. To the extent there is a lack of correlation, movement in the securities, indexes or interest rates underlying the options positions may result in losses to the fund, which may more than offset any gains received by the fund from option premiums.

**Tax Risk.** Certain transactions entered into by the fund are subject to special tax rules that may, among other things, (i) affect the character of gains and losses realized, (ii) disallow, suspend or otherwise limit the allowance of certain losses or deductions and (iii) cause the fund to recognize income without a corresponding receipt of cash (with which to make the necessary distributions to satisfy distribution requirements applicable to regulated investment companies), (iv) convert dividends that would otherwise constitute qualified dividend income into higher taxed short-term capital gain or ordinary income, (v) treat dividends that would otherwise be eligible for the corporate dividends received deduction as ineligible for such treatment, and (vi) produce income that may not qualify as good income for purposes of satisfying the fund's qualification as a regulated investment company. Operation of these rules may affect the character, amount and timing of distributions to shareholders.

**Liquidity of Investments.** Illiquid securities or investments may trade at a discount from comparable, more liquid investments.

**Management Risk.** The fund is an actively managed portfolio. The success of the fund depends upon the investment skills and analytical abilities of the Adviser and Sub-Adviser to develop and effectively implement investment strategies that achieve the fund's investment objectives. There is no assurance that the Adviser and Sub-Adviser will be successful in developing and implementing the fund's investment strategy.

**Financial Leverage Risk.** Although the fund has no current intention to do so, the fund is authorized and reserves the flexibility to utilize leverage through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. The costs of an offering of preferred shares and/or a borrowing program would be borne by common shareholders and consequently would result in a reduction of the net asset value of common shares. In addition, the fee paid to the Adviser will be calculated on the basis of the fund's average daily gross assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fee will be higher when leverage is utilized, which may create an incentive for the Adviser to employ financial leverage. In this regard, holders of preferred shares do not bear the investment advisory fee. Rather, common shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of the preferred shares offering.

**Market Disruption.** The war in Iraq, instability in the Middle East and terrorist attacks around the world may adversely affect the performance of U.S. and worldwide financial markets and may cause economic uncertainties in the U.S. and elsewhere. The fund cannot predict the future course of world affairs or the effects of significant future events on the U.S. economy and securities markets. Given these risks, an investment in the common shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the fund.

**Anti-takeover Provisions.** The fund's Agreement and Declaration of Trust includes provisions that could limit the ability of other persons or entities to acquire control of the fund or to change the composition of its Board of Trustees.

**The fund may also be subject to the following categories of risk: Risks of Selling Index Call Options, Exchange-Traded Options Risk, Derivatives Risk, Prepayment Risk, Futures Transaction Risk, Swaps Risk and Short Sales Risk. For a complete listing of all the fund's risks with their full descriptions, please refer to the prospectus.**

Federated

World-Class Investment Manager®

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1-800-341-7400
**FederatedInvestors.com**

**Wells Fargo Securities, LLC, UBS Securities LLC, and Raymond James & Associates, Inc. are acting as the lead underwriters in connection with this offering.**

*G34124-09 (12/09)*

Federated Securities Corp.

Federated

WORLD-CLASS INVESTMENT MANAGER®

# Federated Enhanced Treasury Income Fund

## Common Shares

## $20.00 per Share

*Investment objectives.* Federated Enhanced Treasury Income Fund (the "Fund") is a diversified, closed-end management investment company with no operating history. The Fund's investment objectives are to provide current income, with total return as a secondary objective. No assurance can be given that the Fund's investment objectives will be achieved.

*Portfolio management strategies.* Under normal market conditions, the Fund's investment program will consist primarily of (1) actively managing a portfolio of U.S. Treasury securities and U.S. Government Agency securities that pay interest in an attempt to generate current income (the "Core Portfolio"); (2) selling call options on a continuous basis on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities and/or options on futures on U.S. Treasury securities and U.S. Government Agency securities in an attempt to generate gains from option premiums (the "Option Strategy"); and (3) actively managing the duration of the Fund's portfolio in an attempt to generate additional returns versus the Barclays Capital U.S. Treasury Bond Index (the "Duration Strategy"). In managing the Core Portfolio, the Adviser (defined below) believes the Fund has the potential for further incremental income enhancement and total return through the implementation of yield curve strategies based on changes in the slope of the U.S. Treasury yield curve. The Fund will use each of these strategies in an attempt to achieve overall portfolio returns that exceed the total return performance of the Barclays Capital U.S. Treasury Bond Index (the "Treasury Index").

*(continued on inside front cover)*

**The Fund's common shares have no history of public trading. The shares of closed-end investment companies often trade at a discount from their net asset value, which may increase investors' risk of loss. This risk may be greater for investors expecting to sell their common shares in a relatively short period after completion of the public offering.**

**Investing in the Fund's common shares involves certain risks and should not constitute a complete investment program. Risks are described in the "Risk Factors" section beginning on page 36 of this prospectus.**

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

| | Per Share | Total(3) |
|---|---|---|
| Public offering price | $20.00 | $ |
| Sales load(1) | $ 0.90 | $ |
| Estimated offering expenses | $ 0.04 | $ |
| Proceeds, after expenses, to the Fund(2) | $19.06 | $ |

*(footnotes on inside front cover)*

**Wells Fargo Securities** **UBS Investment Bank** **Raymond James**

**Janney Montgomery Scott LLC** **Ladenburg Thalmann & Co. Inc.** **Morgan Keegan & Company, Inc.**

**J.J.B. Hilliard, W.L. Lyons, LLC** **Maxim Group LLC** **Wedbush Morgan Securities Inc.** **Wunderlich Securities**

**The date of this Prospectus is , 2010.**

*(footnotes from previous page)*

(1) Federated Investment Management Company ("FIMC" or the "Adviser"), the Fund's adviser, (and not the Fund) has agreed to pay from its own assets a structuring fee to each of Wells Fargo Securities, LLC, UBS Securities LLC and Raymond James & Associates, Inc. The Adviser (and not the Fund) also may pay certain qualifying underwriters a sales incentive fee or additional compensation in connection with the offering. See "Underwriting."

(2) Total expenses of the common share offering paid by the Fund (which do not include the sales load) are estimated to be $ , or $ assuming full exercise of the over-allotment option, which represents $ per common share issued. The Fund will pay common share offering costs of up to $0.04 per common share, and the Adviser or an affiliate has agreed to pay all of the Fund's organizational expenses and common share offering costs (other than sales load) that exceed $0.04 per common share.

(3) The Fund has granted the underwriters an option to purchase up to additional common shares at the public offering price, less the sales load, within 45 days from the date of this prospectus to cover overallotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be $ , $ , $ , and $ , respectively.

The underwriters expect to deliver the common shares to purchasers on or about , 2010.

*(continued from previous page)*

Under normal market conditions and after the initial investment period of up to approximately three months following completion of this offering, the Fund will invest at least 80% of its total assets in U.S. Treasury securities. The Fund may invest up to 20% of its total assets in U.S. Government Agency securities. For purposes of the Fund's 80% policy, U.S. Treasury securities are direct obligations of the U.S. Treasury including U.S. Treasury notes, bills and bonds and do not include U.S. Government Agency securities and U.S. Government mortgage-backed securities.

The Fund will seek to generate current earnings by actively managing the Core Portfolio through securities selection and sector allocations within the U.S. Treasury and U.S. Government Agency security asset classes. The Fund will also seek current earnings through the Option Strategy. The Adviser will implement the Option Strategy by employing a strategy of writing (selling) call options and/or options on futures of U.S. Treasury securities and U.S. Government Agency securities and index call options on baskets of U.S. Treasury securities and U.S. Government Agency securities. The Fund expects to sell these options on a continuous basis with an aggregate value of at least 50% of the value of its holdings of U.S. Treasury securities and U.S. Government Agency securities. The Fund intends initially, and under most market circumstances, that approximately 80% of the value of the Fund's holdings of U.S. Treasury securities and U.S. Government Agency securities will be subject to written call options. Under the Option Strategy, the Fund will write call options, index options and options on futures contracts such that the aggregate value of the securities underlying such options does not exceed the value of the Fund's portfolio. While the Fund will receive premiums under the Option Strategy, the Fund gives up any potential increase in the value of the securities above the exercise price specified in the written call option through the expiration date of the call option.

The Fund will also seek to generate total return through the Adviser's active management of the Core Portfolio based on the Adviser's assessment of the U.S. Treasury yield curve, and use of the Duration Strategy in an attempt to outperform the total return performance of the Treasury Index. The Adviser will actively manage the Core Portfolio based on the Adviser's views of changes in the slope of the U.S. Treasury yield curve and adjusting the Core Portfolio based on these assumptions. Within the constraints of its permitted duration range, the Fund will seek to add additional total return by allocating securities in the Core Portfolio across the yield curve in anticipation of changes in the yield curve. The yield curve allocation decision is predicated on a number of factors that the Adviser will assess, including expectations of Federal Reserve activity, forecasts of inflation rates and term premiums, and various technical factors. Additionally, the Fund's Duration Strategy will involve actively managing the duration of the Fund's portfolio by extending or shortening overall portfolio duration based on the Sub-Adviser's (defined below) assessment of the interest rate environment. The Fund will adjust overall portfolio duration by approximately five years above or below the current duration level of the Treasury Index through the use of derivative instruments (such as interest rate swaps and futures on U.S. Treasury securities) or through the direct investment in U.S Treasury or U.S. Government Agency securities in accordance with the Sub-Adviser's assessment. As of November 30, 2009, the duration of the Treasury Index was approximately five years. A change in the prevailing interest rate may negatively impact the value of a portfolio of fixed-income securities. For example, a 1% increase in the prevailing interest rate may cause a 5% drop in the value of a portfolio of fixed-income securities with an average duration of five years. The Duration Strategy attempts to reduce this interest rate risk for the Fund. The goal of the Duration Strategy is to generate returns in excess of the Treasury Index through the reduction or extension of interest rate risk based on the opinion of the Sub-Adviser. There are no assurances that the Adviser or Sub-Adviser will correctly anticipate changes in the yield curve or interest rates in implementing the yield curve strategies and Duration Strategy, which may have a negative effect on Fund returns.

*Adviser and Sub-Adviser.* The Fund's investment adviser is Federated Investment Management Company ("FIMC" or the "Adviser"). As of September 30, 2009, FIMC and its affiliates managed approximately $392.3 billion. FIMC has engaged Dix Hills Partners, LLC ("Dix Hills" or the "Sub-Adviser") as a sub-adviser to the Fund. As of October 31, 2009, Dix Hills managed over $800 million in overall assets. Federated Global Investment Management Corp., an affiliate of FIMC, holds a minority non-voting interest in Dix Hills. FIMC will be responsible for the Fund's overall investment program, structuring and actively managing the Fund's Core Portfolio, developing and monitoring the Option Strategy, implementing the Fund's Duration Strategy in accordance with the advice of the Sub-Adviser, providing consultation to the Sub-Adviser and supervising the performance of the Sub-Adviser. Dix Hills will be responsible for providing advice with respect to the Fund's Duration Strategy.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. Copies of the Fund's semi-annual and annual reports may be obtained without charge by writing to the Fund at its address at 4000 Ericsson Drive, Warrendale, PA 15086-7561 or by calling the Fund at 1-800-341-7400. Copies of the Fund's semi-annual and annual reports may also be obtained without charge at www.federatedinvestors.com. In addition, the Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains the annual and semi-annual reports and other information regarding registrants that file electronically with the Securities and Exchange Commission.

*Exchange listing.* The Fund has been approved for listing of the Common Shares on the New York Stock Exchange ("NYSE"), subject to notice of issuance, under the symbol "FTT".

The Adviser believes that the Fund may be an appropriate investment vehicle for investors seeking the potential for current income and capital appreciation.

A Statement of Additional Information dated , 2010 has been filed with the Securities and Exchange Commission and can be obtained without charge by calling 1-800-341-7400 or by writing to the Fund. Copies of the SAI may also be obtained free of charge at www.federatedinvestors.com. A table of contents to the Statement of Additional Information is located on page 62 of this prospectus. This prospectus incorporates by reference the entire Statement of Additional Information. The Statement of Additional Information is available along with shareholder reports and other Fund-related materials at the Securities and Exchange Commission's public reference room in Washington, DC (call 1-202-551-8090 for information on the operation of the reference room); from the EDGAR database on the Securities and Exchange Commission's internet site (http://www.sec.gov); upon payment of copying fees by writing to the Securities and Exchange Commission's public reference section, Washington, DC 20549-0102; or by electronic mail at publicinfo@sec.gov. The Fund's address is 4000 Ericsson Drive, Warrendale, PA 15086-7561.

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 other government agency.

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

## PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the Federated Enhanced Treasury Income Fund's common shares. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information, especially the information set forth under the heading "Investment Objectives and Policies" and "Risk Factors."

**The Fund** . . . . . . . . . . . . . . . . . . . . . . . . . Federated Enhanced Treasury Income Fund (the "Fund") is a diversified, closed-end management investment company with no operating history. The Fund's investment objectives are to provide current income, with total return as a secondary objective. No assurance can be given that the Fund's investment objectives will be achieved.

**The Offering** . . . . . . . . . . . . . . . . . . . . . . The Fund is offering common shares of beneficial interest, par value $0.01 per share at an initial offering price of $20.00 per share through a group of underwriters led by Wells Fargo Securities LLC, UBS Securities LLC and Raymond James & Associates, Inc. The common shares of beneficial interest are called "Common Shares." You must purchase at least 100 shares of Common Shares ($2,000) in order to participate in the offering. The Fund has given the underwriters an option to purchase up to an additional shares of Common Shares within 45 days from the date of this prospectus to cover overallotments, if any. The Fund will pay all of its offering costs up to and including $0.04 per Common Share. Federated Investment Management Company (the "Adviser") or an affiliate has agreed to pay the amount by which the aggregate of all the Fund's offering costs (other than the sales load) exceeds $0.04 per Common Share. See "Underwriting."

**Investment Objectives and Strategies** . . . The Fund's investment objectives are to provide current income, with total return as a secondary objective. No assurance can be given that the Fund's investment objectives will be achieved.

Under normal market conditions, the Fund's investment program will consist primarily of (1) actively managing a portfolio of U.S. Treasury securities and U.S. Government Agency securities that pay interest in an attempt to generate current income (the "Core Portfolio"); (2) selling call options on a continuous basis on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities and/or options on futures on U.S. Treasury securities and U.S. Government Agency securities in an attempt to generate gains from option premiums (the "Option Strategy"); and (3) actively managing the duration of the Fund's portfolio in an attempt to generate additional returns versus the Barclays Capital U.S. Treasury Bond Index (the "Duration Strategy"). In managing the Core Portfolio, the Adviser believes the Fund has the potential for further incremental income enhancement and total return through the implementation of yield curve strategies based on changes in the slope of the U.S. Treasury yield curve. The Fund will use each of these strategies in an attempt to achieve overall portfolio returns that exceed the total return performance of the Barclays Capital U.S. Treasury Bond Index (the "Treasury Index").

Under normal market conditions and after the initial investment period of up to approximately three months following completion of this offering, the Fund will invest at least 80% of its total assets in U.S. Treasury securities. The Fund may invest up to 20% of its total assets in U.S. Government Agency securities, including U.S. Government mortgage-backed securities. For purposes of the Fund's 80% policy, U.S. Treasury securities are direct obligations of the U.S. Treasury including U.S. Treasury notes, bills and bonds and do not include U.S. Government Agency securities. U.S. Government Agency securities, as used in this prospectus, include debt securities issued and/or guaranteed as to principal and interest by U.S. Government agencies, U.S. Government sponsored enterprises and U.S. Government instrumentalities that are not direct obligations of the United States. These securities may not be backed by the full faith and credit of the United States. U.S. Government-sponsored enterprises and instrumentalities are not agencies of the U.S. Government. See "Investment Objectives and Policies—Primary Investment Types—U.S. Treasury Securities and U.S. Government Agency Securities."

The Fund will seek to generate current earnings by actively managing the Core Portfolio through securities selection and sector allocations within the U.S. Treasury and U.S. Government Agency security asset classes. The Fund will also seek current earnings through the Option Strategy. The Adviser will implement the Option Strategy by employing a strategy of writing (selling) call options and/or options on futures of U.S. Treasury securities and U.S. Government Agency securities and index call options on indices comprising of U.S. Treasury securities and U.S. Government Agency securities. The Fund expects to sell these options on a continuous basis with an aggregate value of at least 50% of the value of its holdings of U.S. Treasury securities and U.S. Government Agency securities. The Fund intends initially, and under most market circumstances, that approximately 80% of the value of the Fund's holdings of U.S. Treasury securities and U.S. Government Agency securities will be subject to written call options. Under the Option Strategy, the Fund will write call options, index options and options on futures contracts such that the aggregate value of the securities underlying such options does not exceed the value of the Fund's portfolio. While the Fund will receive premiums under the Option Strategy, the Fund gives up any potential increase in the value of the securities above the exercise price specified in the written call option through the expiration date of the call option.

The Fund will also seek to generate total return through the Adviser's active management of the Core Portfolio based on the Adviser's assessment of the U.S. Treasury yield curve, and use of the Duration Strategy in an attempt to outperform the total return performance of the Treasury Index. The Adviser will actively manage the Core Portfolio based on the Adviser's views of changes in the slope of the

U.S. Treasury yield curve and adjusting the Core Portfolio based on these assumptions. Within the constraints of its permitted duration range, the Fund will seek to add additional total return by allocating securities in the Core Portfolio across the yield curve in anticipation of changes in the yield curve. The yield curve allocation decision is predicated on a number of factors that the Adviser will assess, including expectations of Federal Reserve activity, forecasts of inflation rates and term premiums, and various technical factors. Additionally, the Fund's Duration Strategy will involve actively managing the duration of the Fund's portfolio by extending or shortening overall portfolio duration based on the Sub-Adviser's assessment of the interest rate environment. The Fund will adjust overall portfolio duration by approximately five years above or below the current duration level of the Treasury Index through the use of derivative instruments (such as interest rate swaps and futures on U.S. Treasury securities) or through the direct investment in U.S. Treasury or U.S Government Agency securities in accordance with the Sub-Adviser's assessment. As of November 30, 2009, the duration of the Treasury Index was approximately five years. A change in the prevailing interest rate may negatively impact the value of a portfolio of fixed-income securities. For example, a 1% increase in the prevailing interest rate may cause a 5% drop in the value of a portfolio of fixed-income securities with an average duration of five years. The Duration Strategy attempts to reduce this interest rate risk for the Fund. The goal of the Duration Strategy is to generate returns in excess of the Treasury Index through the reduction or extension of interest rate risk based on the opinion of the Sub-Adviser. There are no assurances that the Adviser or Sub-Adviser will correctly anticipate changes in the yield curve or interest rates in implementing the yield curve strategies and Duration Strategy, which may have a negative effect on Fund returns.

**Investment Selection Strategies** . . . . . .

*The Core Portfolio.* The Adviser will actively manage the Core Portfolio through securities selection and sector allocations within the U.S. Treasury and U.S. Government Agency security asset classes. The yield curve strategies will involve actively managing the Core Portfolio based on the Adviser's views of changes in the slope of the U.S. Treasury yield curve and adjusting the Core Portfolio based on these assumptions.

U.S. Government securities, including U.S. Government mortgage-backed securities, in which the Fund may invest include (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuances such as: U.S. Treasury bills (maturities of one year or less), U.S. Treasury notes (issued with maturities of one year to ten years) and U.S. Treasury bonds (generally maturities of greater than ten years) and (2) obligations issued or guaranteed by U.S. Government agencies and instrumentalities which are supported by any of the following: (a) the full faith and credit of the U.S. Treasury, (b) the right of the issuer to borrow an amount limited to a specific line of credit from the U.S. Treasury, (c) discretionary authority of the U.S. Government to purchase certain obligations of the U.S. Government agency or instrumentality or (d) the credit of the agency or instrumentality. The Fund may also invest in other securities or agreements collateralized or otherwise secured by U.S. Government securities. Agencies and instrumentalities of the U.S. Government include, but are not limited to, Federal Land Banks, Federal Financing Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), United States Postal Service, Small Business Administration, Tennessee Valley Authority and any other enterprise established or sponsored by the U.S. Government. Because the U.S. Government generally is not obligated to provide support to its instrumentalities (*i.e.,* such obligations are not backed by the full faith and credit of the U.S. Government), the Fund will invest in obligations issued by these instrumentalities only if the Adviser has determined that the anticipated returns from such investments are attractive in relation to the credit and other risks assumed in investing therein.

*The Option Strategy.* The Adviser will be responsible for implementing the Option Strategy. The options written by the Fund may be either exchange-traded or traded over-the-counter. As the seller of call options, the Fund will receive cash (the premium) from option purchasers. The purchaser of a call option has the right to purchase the security at the price set in the contract (the exercise or strike price) as of a specified date in the future (the option valuation date). The Fund earns money from the premium received for the contract. The Fund intends to primarily write (sell) call options that are "at-the-money" or only slightly "out-of-the-money" at the time of sale. A call option is out-of-the-money if the strike price is greater than the spot price of the underlying security; whereas an option is at-the-money when the spot price of the underlying security equals, or nearly equals, the strike price. In addition to providing possible gains through premiums, out-of-the-money call options allow the Fund to potentially benefit from appreciation in the U.S. Treasury securities or U.S. Government Agency securities held by the Fund with respect to which the option was written, up to the exercise price. The Fund also reserves the right to sell call options that are "in-the-money" (*i.e.,* those with an exercise price below the spot price of the security at the time of sale). When the price of the security upon which a call option is written rises, call options that were out-of-the-money when written may become in-the-money (*i.e.,* the principal value of the security rises above the exercise price of the option), thereby increasing the likelihood that the options will be exercised and the Fund will be forced to sell the security at the exercise price upon the purchaser's exercise of the option.

Initially, the Fund expects that it will primarily write call options whose terms to expiration range from one to three months. The Fund reserves the right to sell call options of both longer and shorter terms.

The Adviser will attempt to maintain for the Fund written call option positions on securities, futures and indices which in the aggregate, are expected by the Adviser to change in value in response to interest rate changes and other factors that correlate closely with changes in value in the U.S. Treasury securities and U.S. Government Agency securities held in the Fund's portfolio. In doing so, the Adviser will consider data relating to the Fund's holdings, including interest rates, maturity and coupon rate. The Fund cannot guarantee that the Option Strategy will be effective. See "Risk Factors—Option Strategy Risk—Risks Associated with Writing Call Options on Securities."

Unless otherwise noted, the Fund's investment policies, including the policy that under normal market conditions the Fund will invest at least 80% of its assets in a portfolio of U.S. Treasury securities, are non-fundamental policies and may be changed by the Fund's Board of Trustees (the "Board") without common shareholder approval following the provision of 60 days prior written notice to the holders of Common Shares ("Common Shareholders").

The Adviser believes that a strategy of actively managing a portfolio of U.S. Treasury securities or U.S. Government Agency securities and selling covered call options or options on futures on U.S. Treasury securities or U.S. Government Agency securities can provide current earnings. The Adviser also believes it can generate capital appreciation and therefore a higher total return through yield curve strategies based on its views of changes in the slope of the yield curve. The Fund's Option Strategy is designed to produce current cash flow from option premiums. The Option Strategy is not designed to be speculative of price movements of securities and indices subject to written call options.

The Fund expects to sell call options and/or options on futures of U.S. Treasury securities and U.S. Government Agency securities and index call options on indices comprising of U.S. Treasury securities and U.S. Government Agency securities. The Fund expects to sell these options on a continuous basis with an aggregate value of at least 50% of the value of its holdings of U.S. Treasury securities and U.S. Government Agency securities. The Fund intends initially, and under most market circumstances, that approximately 80% of the value of the Fund's holdings of U.S. Treasury Securities and U.S. Government Agency securities will be subject to written call options. The Adviser does not intend to sell call options on securities with an aggregate value greater than the value of the Fund's portfolio holdings.

The Option Strategy is not intended to be used for leverage. To the extent the Fund writes options on securities it does not hold in its portfolio, *i.e.* naked calls, and such options are cash-settled, the Fund intends to segregate liquid assets with the Fund's custodian in accordance with applicable regulations. The Fund may, in limited circumstances, write naked calls, the potential loss of which could theoretically be unlimited. To the extent it does, it will segregate liquid assets accordingly. The Fund intends to settle all derivative transactions in cash.

The Fund's transactions in options are subject to special and complex federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert long-term capital gain into short-term capital gain or ordinary income, (iii) convert an ordinary loss or deduction into a capital loss (the deductibility of which is more limited) and (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash.

The taxation of options such as the Fund expects to write and purchase is governed by Section 1234 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 1234 of the Code, the premium received by the Fund for selling a call option is not included in income at the time of receipt. If the option expires, the premium is short-term capital gain to the Fund. If the Fund enters into a closing transaction, the difference between the amount paid to close out its position and the premium received is short-term capital gain or loss. If a call option written by the Fund is exercised, thereby requiring the Fund to sell the underlying security, the premium will increase the amount realized upon the sale of the security and any resulting gain or loss will be long-term or short-term, depending upon the holding period of the security. With respect to a put on a security that is purchased by the Fund, if the option is sold, any resulting gain or loss will be a capital gain or loss, and will be short-term or long-term, depending upon the holding period for the option. If the option expires, the resulting loss is a capital loss and is short-term or long-term, depending upon the holding period for the option. If the option is exercised, the amount paid to acquire the position reduces the amount realized on the underlying security in determining gain or loss. Because the Fund does not have control over the exercise of the call options it writes, such exercise or other required sales of the underlying securities may cause the Fund to realize capital gains or losses at inopportune times.

As discussed above the Fund may sell over-the-counter ("OTC") options. In the case of any Fund transactions involving listed non-equity options or options on futures contracts, Section 1256 of the Code generally will require any gain or loss arising from the lapse, closing out or exercise of such positions to be treated as 60% long-term and 40% short-term capital gain or loss. In addition, the Fund generally will be required to "mark to market" (*i.e.,* treat as sold for fair market value) each such position which it holds at the close of each taxable year. If a "section 1256 contract," as defined in the Code, held by the Fund at the end of a taxable year is sold in the following year, the amount of any gain or loss realized on such sale will be adjusted to reflect the gain or loss previously taken into account under the "mark to market" rules. Section 1256 contracts include certain options contracts, certain regulated futures contracts, and certain other financial contracts.

Notwithstanding any of the foregoing, the Fund may recognize gain (but not loss) from a constructive sale of certain "appreciated financial positions" if the Fund enters into a short sale, offsetting notional principal contract, or forward contract transaction with respect to the appreciated position or substantially identical property. Appreciated financial positions subject to this constructive sale treatment are interests (including options and forward contracts and short sales) in securities. Constructive sale treatment does not apply to certain transactions closed in the 90-day period ending with the 30th day after the close of the taxable year, if certain conditions are met. Please see "Federal Income Tax Matters."

*The Duration Strategy*. The Fund's sub-adviser (Dix Hills Partners, LLC, "Dix Hills" or the "Sub-Adviser") will provide advice to the Adviser on actively managing the duration of the Fund's portfolio. The Fund's portfolio will typically be adjusted monthly in accordance with recommendations from the Sub-Adviser. The Adviser will adjust the Fund's portfolio duration through the use of certain derivative instruments, including but not limited to swaps and futures, that will provide exposure to the desired duration level. Portfolio duration may also be adjusted through the direct investment in U.S. Treasury or U.S Government Agency securities with maturities that correspond to the desired portfolio duration level (e.g., purchasing U.S. Treasury securities with a shorter maturity to reduce overall portfolio duration). Adjustments to the Fund's portfolio duration will be based on the current duration level of the Treasury Index. The Sub-Adviser may recommend extending or shortening the Fund's portfolio duration by as much as five years above or below the current duration level of the Treasury Index based on its forecast of the current interest rate environment. For example, if the Treasury Index has a duration of five years, the Sub-Adviser could recommend adjusting the Fund's overall portfolio duration from between 0 to 10 years (five years above or below the five-year level of the Treasury Index). Typically, the Sub-Adviser will recommend reducing the duration of the Fund's portfolio when it forecasts a rise in the 10-year U.S. Treasury yield and recommend extending the duration of the Fund's portfolio when it forecasts a decline in the 10-year U.S. Treasury yield. The Sub-Adviser believes that duration (or interest rate sensitivity) management is a fundamental tool in providing the Fund with the opportunity to generate excess returns versus the Treasury Index. Since the Duration Strategy is designed to be symmetric around a zero (0) duration benchmark, the Sub-Adviser believes the Duration

Strategy may provide the Fund opportunities to generate excess return in both rising and falling interest rate environments.

The Fund's Duration Strategy will employ a disciplined fundamental analytical approach that seeks to anticipate directional moves in interest rates on a short-term basis. The Sub-Adviser will analyze the information available to it using proprietary research and attempt to optimize the Fund's total returns over an interest rate cycle. The Sub-Adviser seeks to use readily measurable data and a consistent and disciplined approach by employing statistical methods to identify indicators of the medium-term direction of interest rates. The indicators utilized by the Sub-Adviser can be subdivided into three broad categories: the macroeconomic indicators, the valuation measures, and the technical factors.

**Listing** . . . . . . . . . . . . . . . . . . . . . . . . . . . . . The Fund has been approved for listing of the Common Shares on the New York Stock Exchange ("NYSE"), subject to notice of issuance, under the symbol "FTT".

**The Adviser and Sub-Adviser** . . . . . . . . The Fund's investment adviser is Federated Investment Management Company ("FIMC" or the "Adviser"). As of September 30, 2009, FIMC and its affiliates managed approximately $392.3 billion. FIMC has engaged Dix Hills Partners, LLC ("Dix Hills" or the "Sub-Adviser") as a sub-adviser to the Fund. As of October 31, 2009, Dix Hills managed over $800 million in overall assets. FIMC will be responsible for the Fund's overall investment program, structuring and actively managing the Fund's Core Portfolio, developing and monitoring the Option Strategy, implementing the Fund's Duration Strategy, providing consultation to the Sub-Adviser and supervising the performance of the Sub-Adviser. Dix Hills will be responsible for providing advice on the Fund's Duration Strategy.

Pursuant to an investment advisory agreement between the Adviser and the Fund, the Adviser will receive an annual fee in a maximum amount equal to 0.85% of the average daily value of the Fund's total Managed Assets (the "Management Fee"). For these purposes, "Managed Assets" means the total assets of the Fund (including recorded assets attributable to any preferred shares and/or borrowings from a credit facility that may be outstanding), minus the sum of accrued liabilities (other than debt representing preferred shares and/or borrowings from a credit facility). The Adviser has contractually agreed to waive or reimburse to the Fund the amount, not to exceed the amount of the advisory fee, by which the Fund's aggregate annual operating expenses (including the advisory fee) exceed 1.05%. The Sub-Adviser will be compensated by the Adviser from the Management Fee it receives in an amount equal to: (1) 0.425% of average daily managed assets of the Fund if total assets raised in the initial public offering are between $0 to $200,000,000; or (2) 0.3825% of average daily managed assets of the Fund if total assets raised in the initial public offering are $200,000,001 or greater.

**Distributions** . . . . . . . . . . . . . . . . . . . . . . . Commencing with the Fund's first distribution, the Fund intends to make regular monthly cash distributions to Common Shareholders. To permit the Fund to maintain more stable distributions, distribution rates will be based on projected annual income available for distribution. As a result, the distributions paid by the Fund for any particular month may be more or less than the amount of income available for distribution from that month. In certain circumstances, the Fund may be required to sell a portion of its investment portfolio to fund distributions. Distributions will reduce the Common Shares' net asset value. The amount of each monthly distribution will vary. As portfolio and market conditions change, the rate of distributions on the Common Shares and the Fund's distribution policy will change. In its distributions, the Fund intends to include amounts attributable to the receipt of option premiums. In certain circumstances, the Fund's distribution policy may result in a portion of distributions to Common Shareholders being characterized as return of capital for federal income tax purposes as discussed below. The Board may modify its distribution policy at any time without obtaining the approval of Common Shareholders. The initial distribution is expected to be declared approximately 45 days and paid approximately 60 to 90 days after the completion of this offering, depending on market conditions. See "Distributions" and "Federal Income Tax Matters."

The net investment income of the Fund will consist of all dividend and interest income accrued on portfolio investments, short-term capital gain (including short-term gains on terminated option positions and gains on the sale of portfolio investments held for one year or less) in excess of long-term capital loss and income from certain hedging transactions, less all expenses of the Fund. Expenses of the Fund will be accrued each day. Substantially all of the Fund's net investment income will be distributed each year. In addition, at least annually, the Fund intends to distribute any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). To the extent that the Fund's net investment income and net capital gain for any year exceed the total monthly distributions paid during the year, the Fund will make a special distribution at or near year-end of such excess amount as may be required. The Fund intends to apply for exemptive relief under Section 19(b) of the Investment Company Act of 1940, as amended (the "1940 Act") in order to permit the Fund to distribute long-term capital gains with respect to Common Shares up to twelve (12) times per year. There is no guarantee the Fund will receive such exemptive relief; however, the Fund is able to maintain its operations and meet its investment objectives in the event such exemptive relief is not granted.

The Fund's distributions generally will not qualify either for the dividends received deduction generally available to corporate taxpayers or as qualified dividend income subject to favorable tax rates for individual taxpayers.

The tax treatment and characterization of the Fund's distributions may vary substantially from time to time because of the varied nature of the Fund's investments. If the Fund's total monthly distributions in any year exceed the amount of its net investment income for the year, any such excess would be characterized as a return of capital for federal income tax purposes to the extent not designated as a capital gain dividend. Distributions in any year may include a substantial return of capital component. Under the 1940 Act, for any distribution that includes amounts from sources other than net income, the Fund is required to provide Common Shareholders a written statement regarding the components of such distribution. A return of capital is a distribution to Common Shareholders that is not attributable to the Fund's earnings or profits, but represents a return of part of the Common Shareholder's investment. When you receive a distribution, unless otherwise specified, you should not assume that such distribution is sourced solely from the net profits of the Fund. Such distribution may contain a substantial return of capital component. The written notice that accompanies a distribution will be calculated and based on financial accounting methods as well as being based on estimates made at the time of the distribution. Therefore, the characterization of such distributions will likely differ from the final year-end tax characterization of the distributions. Upon the sale of Common Shares, a shareholder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and the shareholder's adjusted tax basis in the Common Shares sold. For example, in year one, a Common Shareholder purchased 100 shares of the Fund at $10 per Share. In year two, the Common Shareholder received a $1-per-share return of capital distribution, which reduced the basis in each share by $1, to give the Common Shareholder an adjusted basis of $9 per share. In year three, the Common Shareholder sells the 100 shares for $15 per Share. Assuming no other transactions during this period, a Common Shareholder would have a capital gain in year three of $6 per share ($15 minus $9) for a total capital gain of $600.

Common Shareholders may automatically reinvest some or all of their distributions in additional Common Shares under the Fund's dividend reinvestment plan. See "Distributions" and "Dividend Reinvestment Plan."

**Dividend Reinvestment Plan** . . . . . . . . . The Fund has established a dividend reinvestment plan (the "Plan"). Under the Plan, unless the registered owner of Common Shares elects to receive cash distributions (by contacting the plan administrator), all distributions will be automatically reinvested in additional Common Shares either purchased in the open market or newly issued by the Fund if the Common Shares are trading at or above their net asset value. Common Shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to them by Computershare Limited, as dividend paying agent. Common Shareholders who intend to hold their Common Shares through a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan. See "Dividend Reinvestment Plan."

**Closed-end Structure** . . . . . . . . . . . . . . . .

Closed-end funds differ from traditional, open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities that are redeemable at net asset value at the option of the shareholder and typically engage in a continuous offering of their shares.

Shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of this possibility and that any such discount may not be in the interest of Common Shareholders, the Board, in consultation with the Adviser, from time to time may review possible actions to reduce any such discount. The Board might consider open market repurchases or tender offers for Common Shares at net asset value. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to net asset value per Common Share. The Board might also consider the conversion of the Fund to an open-end mutual fund. The Board believes, however, that the closed-end structure is desirable, given the Fund's investment objectives and policies. Investors should assume, therefore, that it is highly unlikely that the Board would vote to convert the Fund to an open-end investment company.

**Special Risk Considerations** . . . . . . . . .

The following describes various principal risks of investing in the Fund. A more detailed description of these and other risks of investing in the Fund are described under "Risk Factors" in this prospectus and under "Additional Investment Information and Restrictions" in the Fund's Statement of Additional Information.

*No Operating History.* The Fund is a diversified closed-end management investment company with no history of operations and is designed for long-term investors and not as a trading vehicle.

*Market Price of Shares.* The shares of closed-end management investment companies often trade at a discount from their net asset value, and the Common Shares may likewise trade at a discount from net asset value. The trading price of the Common Shares may be less than the public offering price. The risk will be greater for investors who sell their Common Shares in a relatively short period after the completion of the public offering. Net asset value will be reduced following the offering by the underwriting discount and the amount of offering expenses paid by the Fund.

*Investment and Market Risk.* An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities like other market investments may fluctuate. Because the Fund intends to sell call options on a continuous basis on substantially the full value of its portfolio holdings, the Fund's appreciation potential from its investments in U.S. Treasury securities and U.S. Government Agency securities will be limited. The Common Shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of distributions.

*Issuer Risk.* Issuer risk is the risk that the value of securities may decline for a number of reasons directly related to the issuer or borrower.

*Interest Rate Risk*. The value of Fund shares will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate securities held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of fixed-rate securities held by the Fund can be expected to decline. Prices of longer term securities generally change more in response to interest rate changes than prices of shorter term securities. U.S. interest rates have recently been at or near their lowest levels in many years and there may be a greater than normal risk that interest rates will rise and cause the Fund's portfolio to decline in value. A decline in the value of fixed-rate securities held by the Fund will not affect interest income received on such securities, but will be reflected in a decline of the Fund's net asset value. Although the Adviser and Sub-Adviser believe that the Duration Strategy may help to protect the value of the Core Portfolio from increases in interest rates and assist in adding excess return to the Core Portfolio during a decline in interest rates by opportunistically adjusting the portfolio duration up or down (as appropriate) to take advantage of these anticipated interest rate moves, there is no guarantee that the Fund's Duration Strategy will work and correctly predict the movement of interest rates or mitigate the impact of the Fund's Option Strategy.

*Reinvestment Risk*. Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund reinvests the proceeds from the disposition of its portfolio securities (whether pursuant to the Option Strategy, as a result of return of principal upon maturity, call or redemption by the issuer, or sale by the Fund) at market interest rates that are below the portfolio's current earnings rate. A decline in income could negatively affect the market price of the Common Shares.

*Risk Associated with U.S. Government Securities and Agency Securities*. Some U.S. Government securities may be supported by the full faith and credit of the U.S. Treasury, such as U.S. Treasury bills, notes and bonds and GNMA certificates. U.S. government securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S.

government securities are generally lower than the yields available from corporate fixed-income securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's net asset value ("NAV"). U.S. Government Agency securities, including securities issued by U.S. Government-sponsored enterprises and instrumentalities are not direct obligations of the United States and may not be backed by the full faith and credit of the United States. Certain U.S. Government-sponsored enterprises are backed by the full faith and credit of the U.S. Government. However, other U.S. Government-sponsored enterprises are not backed by the full faith and credit of the U.S. Government. Such enterprises are supported only by the discretionary authority of the U.S. Government to purchase the enterprises' obligations, and therefore are subject to increased credit risk.

*Government Intervention in Financial Markets.* The recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable. Issuers of corporate fixed income securities might seek protection under the bankruptcy laws. Legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objectives. The Adviser will monitor developments and seek to manage the Fund's portfolio in a manner consistent with achieving the Fund's investment objectives, but there can be no assurance that it will be successful in doing so.

*Option Strategy Risk*. The Fund will, through its Option Strategy, write (sell) call options on the Fund's portfolio of U.S. Treasury securities and U.S. Government Agency securities and/or options futures on U.S. Treasury securities and U.S. Government Agency securities.

- *Risks Associated with Writing Call Options on Securities.* There are numerous risks associated with transactions in options on securities. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful because of market behavior or unexpected events. As the writer of a covered call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the exercise price of the call, but has retained the risk of loss should the price of the underlying security decline below the exercise price of the call (net of the premium per share received on the call). Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. Thus, the use of options may require the Fund to sell portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. If the Fund is required to sell such portfolio securities and reinvest the proceeds in securities paying interest rates that are below the Fund's current earnings, income from the Fund's portfolio may decline.

The Fund's ability to terminate over-the-counter options will be more limited than with exchange-traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations. If the Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise.

The Fund may effect option transactions in OTC markets. Participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. By engaging in option transactions in these markets, the Fund may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions, which generally are characterized by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject the Fund to the risk that a counterparty will not settle a transaction in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Although the Fund will use bilateral collateral exchange agreements with all OTC counterparties, this does not eliminate the risks that a counterparty will default. Such "counterparty risk" is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of the Fund to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to the Fund.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that would not be reflected concurrently in the options markets.

- *Risks of Selling Index Call Options*. The Fund may write (sell) index call options. Index call options are call options on a financial index such as the Treasury Index. The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price of the call option as of the valuation date of the option. Because their exercise is settled in cash and does not involve the purchase or sale of securities, sellers of index call options such as the Fund cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The value of index call options may not correlate exactly with a change in the market value of the underlying securities which may impact the Fund's NAV. The Fund may, in limited circumstances, write naked calls, the potential loss of which could theoretically be unlimited.

  A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived and well-executed options program may be adversely affected by market behavior or unexpected events. As the writer of index call options, the Fund will forgo, during the option's life, the opportunity to profit from increases in the value of the applicable index above the exercise price of the call option, but retains the risk of loss should the value of the applicable index decline below the exercise price of the call (net of the premium per unit received on the call). When an index call option is exercised, the Fund will be required to deliver an amount of cash determined by the excess of the value of applicable index as of the valuation date over the exercise price of the option. Thus, the exercise of index call options sold by the Fund may require the Fund to sell portfolio securities to generate cash at inopportune times or for unattractive prices.

- *Exchange-Traded Options Risk*. Index options are marked to market daily and their value will be affected by changes in the value of the securities represented in an index, an increase in interest rates, changes in the actual or perceived volatility of the overall market and the underlying securities represented in an index, and the remaining term to the option's expiration. The value of options also may be adversely affected if the market for options is reduced or becomes illiquid.

  The Fund's transactions in exchange-traded options will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which the options are traded. These limitations govern the maximum number of options in each class which may be written by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges, boards of trade or other trading facilities or are written in one or more accounts or through one or more brokers. Thus, the number of options which the Fund may write may be affected by options written by other investment advisory clients of the Adviser, the Sub-Adviser or their respective affiliates. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose other sanctions.

In addition, no assurance can be given that a liquid market will exist when the Fund seeks to close out an option position. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation ("OCC") may not at all times be adequate to handle the then-current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

*Duration Strategy Risk*. The Fund will use the Duration Strategy in order to generate capital appreciation through the selective adjustment of the duration of the Core Portfolio based on the Sub-Adviser's research outlook. There are no assurances that the Fund's Duration Strategy will be successful. The success of the Fund's Duration Strategy depends significantly on the Sub-Adviser's ability to accurately predict interest rate movements and to adjust the Fund's portfolio correctly and in a timely manner.

- *Quantitative Model Risk*. The Duration Strategy is highly dependent on proprietary quantitatively-based models that have been researched, developed and utilized by the Sub-Adviser to evaluate the interest rate environment, although generally these models have not been independently tested or otherwise reviewed (other than by the Adviser or Sub-Adviser). The Sub-Adviser's models employ assumptions that abstract a limited number of variables from complex financial markets which they attempt to replicate. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. Also, if material factors are not incorporated into the Sub-Adviser's models, or are incorporated inaccurately, losses could result. The outputs of the Sub-Adviser's models may differ substantially from the reality of the markets.

- *Derivatives Risk*. The Adviser will implement the Duration Strategy in consultation with the Sub-Adviser through the use of certain derivative instruments, including but not limited to swaps and futures. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. First, changes in the value of the derivative contracts and hybrid instruments in which the Fund invests may not be correlated with changes in the value of the underlying reference or valuation instruments or, if they are correlated, may move in the opposite direction than originally anticipated. Second, while some strategies involving derivatives may reduce the risk of loss, they may also reduce potential gains or, in some cases, result in losses by offsetting favorable price movements in portfolio holdings. Third, there is a risk that derivative instruments may be erroneously priced or improperly valued and, as a result, the Fund may need to make increased cash payments to the counterparty. Fourth, derivative instruments may cause the Fund to realize increased ordinary income or short-term capital gains (which are treated as ordinary income for federal income tax purposes) and, as a result, may increase taxable distributions to shareholders. Fifth, certain common provisions in OTC derivative instruments give the counterparty the right to terminate any such contract between it and the Fund, upon the occurrence of certain events with respect to the Fund, including, for example, the decline of the Fund's NAV below a specified level over a given time period or the departure of certain key persons at the Fund. Factors that may contribute to such a NAV decline (which usually must be substantial) include a marked decrease in the market value of the Fund's investments. Any such termination of the Fund's OTC derivative contracts may adversely affect the Fund (for example, by increasing losses and/or costs, and/or preventing the Fund from fully implementing its investment strategies). For information regarding the specific types of derivatives that may be used in implementing this strategy, see "Investment Objectives and Policies—Primary Investment Policies."

*Mortgage-Backed Securities ("MBS") Risk*. The value of Fund shares may be adversely affected by fluctuations in interest rates and the prepayment of the mortgage loans underlying the MBS held by the Fund. Mortgage loans are most likely to be prepaid in a declining interest rate environment and when MBS are trading at a substantial premium. Prepayments may cause the Fund to incur capital loss and may reduce the Fund's income distributions because the proceeds of a prepayment may be invested in lower-yielding securities. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS which in turn would lengthen the duration of the Fund's portfolio. This possibility is often referred to as extension risk. Extending the average life of an MBS increases the risk of depreciation due to future increases in market interest rates. The value of Common Shares can also be adversely affected by erosion in premiums on MBS held. Certain government agencies or instrumentalities, such as GNMA, FNMA and FHLMC, provide a guarantee as to timely payment of principal and interest for MBS each entity issues, backs or otherwise guarantees. Such guarantees may or may not be backed by the full faith and credit of the U.S. Government.

*Prepayment Risk*. The risk that certain obligations will be paid off by the obligor more quickly than anticipated. In this event, the Fund may be required to invest the proceeds in securities with lower yields.

*Extension Risk*. Extension risk is the risk that certain obligations will be paid off more slowly by the obligor than anticipated causing the value of these securities to fall.

*Credit Risk*. Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect the value of the Fund's investment in the issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation.

Obligations issued or guaranteed by the U.S. Treasury are considered to have minimal credit risk. Obligations issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored enterprises and instrumentalities, which are generally not supported by the full faith and credit of the United States, may be more exposed to credit risk.

*Call and Redemption Risk*. A bond's issuer may call a bond for redemption before it matures. If this happens to a bond the Fund holds, the Fund may lose income and may have to invest the proceeds in bonds with lower yields.

*Income Risk*. The income shareholders receive from the Fund is based primarily on the interest it earns from its investments as well as the gains the Fund receives from writing options and selling portfolio securities, each of which can vary widely over the short and long term. If prevailing market interest rates decline, interest rates on debt securities held by the Fund, and Common Shareholders' income from the Fund, would likely decline as well. Income risk is greater for this Fund than for a fund that does not write (sell) covered calls. If prevailing market interest rates decline causing the market value of the Fund's existing portfolio of securities to rise above the exercise price of the calls written by the

Fund, the Fund would likely not be able to realize the increase in the value of its existing portfolio of securities to buy additional securities and maintain its level of income. In addition, the income received from selling call options is a function of (among other factors) the level of interest rate volatility. In general, all else equal, higher levels of interest rate volatility will result in higher premiums received for selling calls and thus increased income for Fund Common Shareholders. Conversely, lower levels of volatility will result in lower premiums and therefore less income.

*Inflation/Deflation Risk*. Inflation risk is the risk that the value of assets or income from the Fund's investment will be worth less in the future as inflation decreases the value of money. Recent significant increases in the price of oil, natural gas and other petroleum products may have an inflationary effect on the economy and increase inflation risk. As inflation increases, the real, or inflation adjusted, value of the Fund's Common Shares and distributions can decline. Deflation risk is the risk that prices throughout the economy decline over time—the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio.

*Futures Transactions Risk*. Futures are types of derivatives. The Fund may engage in futures transactions to reduce its exposure to interest rate movements or to enhance its return. If the Fund incorrectly forecasts market values, interest rates or other factors, the Fund's performance could suffer. The Fund also may suffer a loss if the other party to the transaction fails to meet its obligations. The Fund is not required to enter into futures transactions for hedging purposes or to increase its return and may choose not to do so.

*Swaps Risk*. Swap agreements are types of derivatives. In order to seek to hedge the value of the Fund's portfolio, to hedge against increases in the Fund's costs associated with the interest payments on its outstanding borrowings or the dividend payments on its outstanding preferred stock, if any, or to seek to increase the Fund's return, the Fund may enter into interest rate or total return swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite to the direction anticipated by the Fund, which would cause the Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. Total return swap transactions involve the risks that the counterparty will default on its payment obligation to the Fund in the transaction and that the Fund will not be able to meet its obligation to the counterparty in the transaction. The Fund is not required to enter into interest rate or total return swap transactions for hedging purposes or to increase its return and may choose not to do so. The Fund may also purchase or sell options on swap transactions.

*Short Sales Risk*. The Fund may make short sales of securities. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short and deliver collateral to the broker dealer through which it made the short sale to cover its obligation to deliver the borrowed security upon conclusion of the sale. The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the broker dealer, usually cash, U.S. government securities or other liquid securities similar to those borrowed. The Fund will also be required to segregate similar collateral with its custodian. If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss. The Fund also may make a short sale ("against the box") by selling a security that the Fund owns or has the right to acquire without the payment of further consideration. The Fund's potential for loss is greater if it does not own the security that it is short selling.

*U.S. Dollar Risk.* A weakening of the value of the U.S. dollar relative to the currencies of other developed countries may cause foreign demand for U.S. Treasury securities to fall. Reduced foreign demand for U.S. Treasury securities may result in a rise in U.S. interest rates. When interest rates rise, the value of the Fund's fixed income securities can be expected to decline and will be reflected in a decline in the Fund's net asset value.

*Correlation Risk.* There are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objective. To the extent there is a lack of correlation, movement in the securities, indices or interests rates underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from option premiums. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. The Fund's Option Strategy involves the risk that the changes in value of the securities or indices underlying the written call option positions will not correlate closely with changes in the market value of the securities held by the Fund. The Fund's Duration Strategy presents the opportunity for differences in correlation between the Fund and the underlying markets based on interest rate movements, however, the losses from the Duration Strategy may be greater than gains generated by the Fund and the options premiums received.

*Tax Risk.* Reference is made to "Federal Income Tax Matters" for an explanation of the federal income tax consequences and attendant risks of investing in the Fund. Certain transactions entered into by the Fund are subject to special tax rules that may, among other things, (i) affect the character of gains and losses realized, (ii) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (iii) cause the Fund to recognize income without a corresponding receipt of cash (with which to make the necessary distributions to satisfy distribution requirements applicable to regulated investment companies), (iv) convert dividends that would otherwise constitute qualified dividend income into higher taxed short-term capital gain or ordinary income, (v) treat dividends that would otherwise be eligible for the corporate dividends received deduction as ineligible for such treatment, and (vi) produce income that may not qualify as good income for purposes of satisfying the Fund's qualification as a RIC. Operation of these rules may affect the character, amount and timing of distributions to shareholders. Special tax rules may also require the Fund to mark to market certain types of positions in its portfolio, including some of its call options (*i.e.,* treat them as sold on the last day of the taxable year), and may result in the recognition of income without a corresponding receipt of cash.

*Liquidity of Investments Risk.* Liquidity of a security or instrument relates to the ability to easily dispose of the security or instrument and the price to be obtained and does not generally relate to the credit risk or likelihood of receipt of cash at maturity. Illiquid securities or investments may trade at a discount from comparable, more liquid investments.

*Management Risk.* The Fund is subject to management risk because it is an actively managed portfolio. The Adviser and the individual portfolio managers invest the assets of the Fund as they deem appropriate in implementing the Fund's investment strategy. Accordingly, the success of the Fund depends upon the investment skills and analytical abilities of the Adviser and the individual portfolio managers to develop and effectively implement investment strategies that achieve the Fund's investment objectives. The success of the Fund also depends, in part, upon the advice given by the Sub-Adviser with respect to the Fund's Duration Strategy. There is no assurance that the Adviser, the Sub-Adviser and the individual portfolio managers will be successful in developing and implementing the Fund's investment strategy. Subjective decisions made by the Adviser, the Sub-Adviser and the individual portfolio managers may cause the Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

*Financial Leverage Risk.* Although the Fund has no current intention to do so, the Fund is authorized and reserves the flexibility to utilize leverage through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. In the event that the Fund determines in the future to utilize investment leverage, there can be no assurance that such a leveraging strategy will be successful during any period in which it is employed. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of the Common Shares and the risk that fluctuations in distribution rates on any preferred shares or fluctuations in borrowing costs may affect the return to Common Shareholders. To the extent the returns derived from securities purchased with proceeds received from leverage exceeds the cost of leverage, the Fund's distributions may be greater than if leverage had not been used. Conversely, if the returns from the securities purchased with such proceeds are not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, the Adviser, in its best judgment, may nevertheless determine to maintain the Fund's leveraged position if it deems such action to be appropriate. The costs of an offering of preferred shares and/or a borrowing program would be borne by Common Shareholders and consequently would result in a reduction of the net asset value of Common Shares. In addition, the fee paid to the Adviser will be calculated on the basis of the Fund's average daily gross assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fee will be higher when leverage is utilized, which may create an incentive for the Adviser to employ financial leverage. In this regard, holders of preferred shares do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of the preferred shares offering.

*Market Disruption*. The war in Iraq, instability in the Middle East and terrorist attacks around the world may adversely affect the performance of U.S. and worldwide financial markets and may cause economic uncertainties in the U.S. and elsewhere. The Fund cannot predict the future course of world affairs or the effects of significant future events on the U.S. economy and securities markets. Given these risks, an investment in the Common Shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.

*Anti-takeover Provisions.* The Fund's Agreement and Declaration of Trust includes provisions that could limit the ability of other persons or entities to acquire control of the Fund or to change the composition of its Board. See "Description of Capital Structure—Anti-Takeover Provisions in the Declaration of Trust."

## SUMMARY OF FUND EXPENSES

The purpose of the table and the example below is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly.

| **Shareholder Transaction Expenses** | |
|---|---|
| Sales load paid by you (as a percentage of offering price) | 4.50% |
| Offering expenses borne by Common Shareholders | 0.20(1)(2)(3) |
| Dividend reinvestment plan fees | None |

| | **Percentage of net assets attributable to Common Shares** |
|---|---|
| **Annual Expenses** | |
| Management fee | 0.85% |
| Other expenses | 0.36%(4) |
| Total annual expenses | 1.21% |
| Less management fee waiver (years 1-5) | 0.16%(5) |
| Net total annual expenses (after waiver) | 1.05% |

The amount set forth under "Other expenses" shown in the table is based on estimated amounts for the Fund's first year of operations and assumes that the Fund issues approximately 5,000,000 Common Shares. The Fund's actual expenses may vary from the estimated expenses shown in the table and from year to year. If the Fund issues fewer Common Shares, these expenses generally would increase as a percentage of net assets attributable to Common Shares. See "Management of the Fund" and "Dividend Reinvestment Plan."

### EXAMPLE

The following example illustrates the expenses that you would pay on a $1,000 investment in Common Shares (including the sales load of $45 and estimated offering expenses of this offering of $ 2), assuming (i) total annual expenses of 1.05% of net assets attributable to Common Shares and (ii) a 5% annual return*:

| 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|
| $57 | $79 | $102 | $169 |

**The example should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown.**

* The example assumes that the estimated "Other expenses" set forth in the Annual Expenses table are accurate, and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

(1) The Adviser or an affiliate has agreed to pay all of the Fund's organizational expenses and Common Share offering costs (other than sales loads) that exceed $0.04 per Common Share (0.20% of the offering price).

(2) The Adviser (not the Fund) has agreed to pay from its own assets a structuring fee to each of Wells Fargo Securities LLC, UBS Securities LLC and Raymond James & Associates, Inc. The Adviser may pay certain qualifying underwriters a sales incentive fee or additional compensation in connection with the offering. See "Underwriting."

(3) You will pay a pro-rata share of brokerage charges incurred in connection with open-market purchases. You will pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.

(4) Estimated expenses based on the current fiscal year.

(5) The Adviser has contractually agreed to waive its management fees and/or reimburse expenses so that total annual fund operating expenses paid by the Fund's Common Shares (after the waivers and/or reimbursements) will not exceed 1.05% (excluding acquired fund fees and expenses, if any). This contractual fee waiver will be in place for the first 5 years of the Fund's operations and may only be terminated or revised by the Fund's Board of Trustees.

## THE FUND

The Fund is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund was organized as a Delaware statutory trust on July 11, 2007, pursuant to a Certificate of Trust, which is governed by the laws of the State of Delaware. The Fund has no operating history. The Fund's principal office is located at 4000 Ericsson Drive, Warrendale, PA 15086-7561, and its telephone number is 1-800-341-7400.

This prospectus relates to the initial public offering of the Fund's common shares of beneficial interest, $0.01 par value (the "Common Shares"). See "Underwriting."

## USE OF PROCEEDS

The net proceeds of this offering of Common Shares will be approximately $ (or $ assuming exercise of the underwriters' overallotment option in full), which, after payment of the estimated offering expenses, will be invested in accordance with the Fund's investment objectives and policies as soon as practicable but in no event, assuming normal market conditions, later than three months after the receipt thereof. Pending such investment, the proceeds may be invested in high-quality, short-term debt securities, cash and/or cash equivalents. The Adviser or an affiliate has agreed to (i) reimburse all organizational costs of the Fund and (ii) pay all offering costs of the Fund (other than sales load) that exceed $0.04 per Common Share.

## INVESTMENT OBJECTIVES AND POLICIES

### Investment Objectives

The Fund's investment objectives are to provide current income, with total return as a secondary objective. No assurance can be given that the Fund's investment objectives will be achieved. Under normal market conditions, the Fund's investment program will consist primarily of (1) actively managing a portfolio of U.S. Treasury securities and U.S. Government Agency securities that pay interest in an attempt to generate current income (the "Core Portfolio"); (2) selling call options on a continuous basis on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities and/or options on futures on U.S. Treasury securities and U.S. Government Agency securities in an attempt to generate gains from option premiums (the "Option Strategy"); and (3) actively managing the duration of the Fund's portfolio in an attempt to generate additional returns versus the Barclays Capital U.S. Treasury Bond Index (the "Duration Strategy"). In managing the Core Portfolio, the Adviser believes the Fund has the potential for further incremental income enhancement and total return through the implementation of yield curve strategies based on changes in the slope of the U.S. Treasury yield curve. The Fund will use each of these strategies in an attempt to achieve overall portfolio returns that exceed the total return performance of the Barclays Capital U.S. Treasury Bond Index (the "Treasury Index").

### Primary Investment Policies

Under normal market conditions and after the initial investment period of up to approximately three months following completion of this offering, the Fund will invest at least 80% of its total assets in U.S. Treasury securities. The Fund may invest up to 20% of its total assets in U.S. Government Agency securities, including U.S. Government mortgage-backed securities. For purposes of the Fund's 80% policy, U.S. Treasury securities are direct obligations of the U.S. Treasury including U.S. Treasury notes, bills and bonds and do not include U.S. Government Agency securities. U.S. Government Agency securities, as used in this prospectus, include debt securities issued and/or guaranteed as to principal and interest by U.S. Government agencies, U.S. Government sponsored enterprises and U.S. Government instrumentalities that are not direct obligations of the United States. These securities may not be backed by the full faith and credit of the United States. U.S.

Government-sponsored enterprises and instrumentalities are not agencies of the U.S. Government. See "Investment Objectives and Policies—Primary Investment Types—U.S. Treasury Securities and U.S. Government Agency Securities." Under normal market conditions and after the initial investment period of up to approximately three months following completion of this offering, the Fund will invest at least 80% of its total assets in U.S. Treasury securities. The Fund may invest up to 20% of its total assets in U.S. Government Agency securities. For purposes of the Fund's 80% policy, U.S. Treasury securities are direct obligations of the U.S. Treasury including U.S. Treasury notes, bills and bonds and do not include U.S. Government Agency securities.

The Fund will seek to generate current earnings by actively managing the Core Portfolio through securities selection and sector allocations within the U.S. Treasury and U.S. Government Agency security asset classes. The Fund will also seek current earnings through the Option Strategy. The Adviser will implement the Option Strategy by employing a strategy of writing (selling) call options and/or options on futures of U.S. Treasury securities and U.S. Government Agency securities and index call options on indices comprising of U.S. Treasury securities and U.S. Government Agency securities. The Fund expects to sell these options on a continuous basis with an aggregate value of at least 50% of the value of its holdings of U.S. Treasury securities and U.S. Government Agency securities. The Fund intends initially, and under most market circumstances, that approximately 80% of the value of the Fund's holdings of U.S. Treasury Securities and U.S. Government Agency securities will be subject to written call options. Under the Option Strategy, the Fund will write call options, index options and options on futures contracts such that the aggregate value of the securities underlying such options does not exceed the value of the Fund's portfolio. While the Fund will receive premiums under the Option Strategy, the Fund gives up any potential increase in the value of the securities above the exercise price specified in the written call option through the expiration date of the call option.

The Fund will also seek to generate total return through the Adviser's active management of the Core Portfolio based on the Adviser's assessment of the U.S. Treasury yield curve, and use of the Duration Strategy in an attempt to outperform the total return performance of the Treasury Index. The Adviser will actively manage the Core Portfolio based on the Adviser's views of changes in the slope of the U.S. Treasury yield curve and adjusting the Core Portfolio based on these assumptions. Within the constraints of its permitted duration range, the Fund will seek to add additional total return by allocating securities in the Core Portfolio across the yield curve in anticipation of changes in the yield curve. The yield curve allocation decision is predicated on a number of factors that the Adviser will assess, including expectations of Federal Reserve activity, forecasts of inflation rates and term premiums, and various technical factors. Additionally, the Fund's Duration Strategy will involve actively managing the duration of the Fund's portfolio by extending or shortening overall portfolio duration based on the Sub-Adviser's assessment of the interest rate environment. The Fund will adjust overall portfolio duration by approximately five years above or below the current duration level of the Treasury Index through the use of derivative instruments (such as interest rate swaps and futures on U.S. Treasury securities) or through the direct investment in U.S. Treasury or U.S Government Agency securities in accordance with the Sub-Adviser's assessment. As of November 30, 2009, the duration of the Treasury Index was approximately five years. A change in the prevailing interest rate may negatively impact the value of a portfolio of fixed-income securities. For example, a 1% increase in the prevailing interest rate may cause a 5% drop in the value of a portfolio of fixed-income securities with an average duration of five years. The Duration Strategy attempts to reduce this interest rate risk for the Fund. The goal of the Duration Strategy is to generate returns in excess of the Treasury Index through the reduction or extension of interest rate risk based on the opinion of the Sub-Adviser. There are no assurances that the Adviser or Sub-Adviser will correctly anticipate changes in the yield curve or interest rates in implementing the yield curve strategies and Duration Strategy, which may have a negative effect on Fund returns.

*The Core Portfolio.* The Adviser will actively manage the Core Portfolio through securities selection and sector allocations within the U.S. Treasury and U.S. Government Agency security asset classes**.** The yield curve strategies will involve actively managing the Core Portfolio based on the Adviser's views of changes in the slope of the U.S. Treasury yield curve and adjusting the Core Portfolio based on these assumptions.

*The Option Strategy*. The Adviser will be responsible for implementing the Option Strategy. The options written by the Fund may be either exchange-traded or traded over-the-counter. As the seller of call options, the Fund will receive cash (the premium) from option purchasers. The purchaser of a call option has the right to purchase the security at the price set in the contract (the exercise or strike price) as of a specified date in the future (the option valuation date). The Fund earns money from the premium received for the contract. The Fund may also sell index call options. Index options are call options on a financial index such as the Treasury Index. Index call options differ from options on individual securities in that index options (i) typically are settled in cash rather than by delivery of securities (meaning the exercise of an index option does not involve the actual purchase or sale of securities) and (ii) reflect price fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single security.

The Fund intends to primarily write (sell) call options that are "at-the-money" or only slightly "out-of-the-money" at the time of sale. A call option is out-of-the-money if the strike price is greater than the spot price of the underlying security; whereas an option is at-the-money when the spot price of the underlying security equals, or nearly equals, the strike price. In addition to providing possible gains through premiums, out-of-the-money call options allow the Fund to potentially benefit from appreciation in the U.S. Treasury securities or U.S. Government Agency securities held by the Fund with respect to which the option was written, up to the exercise price. The Fund also reserves the right to sell call options that are "in-the-money" (*i.e.*, those with an exercise price below the spot price of the security at the time of sale). When the price of the security upon which a call option is written rises, call options that were out-of-the-money when written may become in-the-money (*i.e.*, the principal value of the security rises above the exercise price of the option), thereby increasing the likelihood that the options will be exercised and the Fund will be forced to sell the security at the exercise price upon the purchaser's exercise of the option.

The Option Strategy will work differently under different interest rate environments as bond prices and interest rates have an inverse relationship. If interest rates remain stable or vary only slightly, the Fund may have the opportunity to keep the bond underlying the covered call as the buyer may not exercise the option to buy the bond that is worth less or the same as the strike price. If interest rates fall, causing the underlying bond's market value to exceed the strike price, the buyer of the option may exercise the option to buy the bond. However, the Fund will keep premium received, and will participate in some of the gain up to the strike price if the option was out-of-the-money when it was written. Conversely, if interest rates rise, causing the market price of the underlying bond to fall below the strike price, the Fund may keep the bond as the buyer of the option is unlikely to exercise the option to buy a bond at a higher price than it is worth. This is a broad example of how the Option Strategy may be applied under normal market conditions to certain interest rate environments; it is not intended to predict the actual performance of any specific bond or interest rate situation. See "Risk Factors—Interest Rate Risk" and "—Option Strategy Risk—Risks Associated With Writing Call Options on Securities."

Initially, the Fund expects that it will primarily write call options whose terms to expiration range from one to three months. The Fund reserves the right to sell call options of both longer and shorter terms.

The Adviser will attempt to maintain for the Fund written call option positions on securities, futures and indices which in the aggregate, are expected by the Adviser to change in value in response to interest rate changes and other factors that correlate closely with changes in value in the U.S. Treasury securities and U.S. Government Agency securities held in the Fund's portfolio. In doing so, the Adviser will consider data relating to the Fund's holdings, including interest rates, maturity and coupon rate. The Fund cannot guarantee that the Option Strategy will be effective. See "Risk Factors—Option Strategy Risk—Risks Associated with Writing Call Options on Securities."

Unless otherwise noted, the Fund's investment policies, including the policy that under normal market conditions, the Fund will invest at least 80% of its total assets in a portfolio of U.S. Treasury securities, are non-fundamental policies and may be changed by the Fund's Board of Trustees (the "Board") without

Common Shareholder approval following the provision of 60 days prior written notice to Common Shareholders.

The Adviser believes that a strategy of actively managing a portfolio of U.S. Treasury securities or U.S. Government Agency securities and selling covered call options or options on futures on U.S. Treasury securities or U.S. Government Agency securities can provide current earnings. The Adviser also believes it can generate capital appreciation and therefore a higher total return through yield curve strategies based on its views of changes in the slope of the yield curve. The Fund's Option Strategy is designed to produce current cash flow from option premiums and is not designed to be speculative of price movements of securities and indices subject to written call options.

The Fund expects to sell call options and/or options on futures of U.S. Treasury securities and U.S. Government Agency securities and index call options on indices comprising of U.S. Treasury securities and U.S. Government Agency securities. The Fund expects to sell these options on a continuous basis with an aggregate value of at least 50% of the value of its holdings of U.S. Treasury securities and U.S. Government Agency securities. The Fund intends initially, and under most market circumstances, that approximately 80% of the value of the Fund's holdings of U.S. Treasury Securities and U.S. Government Agency securities will be subject to written call options. The Adviser does not intend to sell call options on securities with an aggregate value greater than the value of the Fund's portfolio holdings.

The Option Strategy is not intended to be used for leverage. To the extent the Fund writes options on securities it does not hold in its portfolio, *i.e.* naked calls, and such options are cash-settled, the Fund intends to segregate liquid assets with the Fund's custodian in accordance with applicable regulations. The Fund may, in limited circumstances, write naked calls, the potential loss of which could theoretically be unlimited. To the extent it does, it will segregate liquid assets accordingly. The Fund intends to settle all derivative transactions in cash.

The Fund's transactions in options are subject to special and complex federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert long-term capital gain into short-term capital gain or ordinary income, (iii) convert an ordinary loss or deduction into a capital loss (the deductibility of which is more limited) and (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash.

The taxation of options such as the Fund expects to write and purchase is governed by Section 1234 of the Code. Pursuant to Section 1234 of the Code, the premium received by the Fund for selling a call option is not included in income at the time of receipt. If the option expires, the premium is short-term capital gain to the Fund. If the Fund enters into a closing transaction, the difference between the amount paid to close out its position and the premium received is short-term capital gain or loss. If a call option written by the Fund is exercised, thereby requiring the Fund to sell the underlying security, the premium will increase the amount realized upon the sale of the security and any resulting gain or loss will be long-term or short-term, depending upon the holding period of the security. With respect to a put on a security that is purchased by the Fund, if the option is sold, any resulting gain or loss will be a capital gain or loss, and will be short-term or long-term, depending upon the holding period for the option. If the option expires, the resulting loss is a capital loss and is short-term or long-term, depending upon the holding period for the option. If the option is exercised, the amount paid to acquire the position reduces the amount realized on the underlying security in determining gain or loss. Because the Fund does not have control over the exercise of the call options it writes, such exercise or other required sales of the underlying securities may cause the Fund to realize capital gains or losses at inopportune times.

As discussed above the Fund may sell over-the-counter ("OTC") options. In the case of any Fund transactions involving listed non-equity options or options on futures contracts, Section 1256 of the Code generally will require any gain or loss arising from the lapse, closing out or exercise of such positions to be treated as 60% long-term and 40% short-term capital gain or loss. In addition, the Fund generally will be required to "mark to market" (*i.e.*, treat as sold for fair market value) each such position which it holds at the close of each taxable year. If a "section 1256 contract," as defined in the Code, held by the Fund at the end of a taxable year is sold in the following year, the amount of any gain or loss realized on such sale will be adjusted to reflect the gain or loss previously taken into account under the "mark to market" rules. Section 1256 contracts include certain options contracts, certain regulated futures contracts, and certain other financial contracts.

Notwithstanding any of the foregoing, the Fund may recognize gain (but not loss) from a constructive sale of certain "appreciated financial positions" if the Fund enters into a short sale, offsetting notional principal contract, or forward contract transaction with respect to the appreciated position or substantially identical property. Appreciated financial positions subject to this constructive sale treatment are interests (including options and forward contracts and short sales) in securities. Constructive sale treatment does not apply to certain transactions closed in the 90-day period ending with the 30th day after the close of the taxable year, if certain conditions are met. Please see "Federal Income Tax Matters."

*The Duration Strategy.* The Fund's Sub-Adviser will provide advice to the Adviser on actively managing the duration of the Fund's portfolio. The Fund's portfolio will typically be adjusted monthly in accordance with recommendations from the Sub-Adviser. The Adviser will adjust the Fund's portfolio duration through the use of certain derivative instruments, including but not limited to swaps and futures, that will provide exposure to the desired duration level. Portfolio duration may also be adjusted through the direct investment in U.S. Treasury or U.S Government Agency securities with maturities that correspond to the desired portfolio duration level (*e.g.*, purchasing U.S. Treasury securities with a shorter maturity to reduce overall portfolio duration). Adjustments to the Fund's portfolio duration will be based on the current duration level of the Treasury Index. The Sub-Adviser may recommend extending or shortening the Fund's portfolio duration by as much as five years above or below the current duration level of the Treasury Index based on its forecast of the current interest rate environment. For example, if the Treasury Index has a duration of five years, the Sub-Adviser could recommend adjusting the Fund's overall portfolio duration from between 0 to 10 years (five years above or below the five-year level of the Treasury Index). Typically, the Sub-Adviser will recommend reducing the duration of the Fund's portfolio when it forecasts a rise in the 10-year U.S. Treasury yield and recommend extending the duration of the Fund's portfolio when it forecasts a decline in the 10-year U.S. Treasury yield. The Sub-Adviser believes that duration (or interest rate sensitivity) management is a fundamental tool in providing the Fund with the opportunity to generate excess returns versus the Treasury Index. Since the Duration Strategy is designed to be symmetric around a zero (0) duration benchmark, the Sub-Adviser believes the Duration Strategy may provide the Fund opportunities to generate excess return in both rising and falling interest rate environments. For more information regarding the specific types of derivatives that may be used in implementing this strategy, see "Investment Objectives and Policies—Primary Investment Types."

The Fund's Duration Strategy will employ a disciplined fundamental analytical approach that seeks to anticipate directional moves in interest rates on a short-term basis. The Sub-Adviser will analyze the information available to it using proprietary research and attempt to optimize the Fund's total returns over an interest rate cycle. The Sub-Adviser seeks to use readily measurable data and a consistent and disciplined approach by employing statistical methods to identify indicators of the medium-term direction of interest rates. The indicators utilized by the Sub-Adviser can be subdivided into three broad categories: the macroeconomic indicators, the valuation measures, and the technical factors.

*Temporary Defensive Investments.* The Fund may vary its investment objectives and policies for temporary defensive purposes during periods in which the Adviser believes that conditions in the securities markets or other economic, financial or political conditions warrant and in order to keep the Fund's cash fully invested, including during the period in which the net proceeds of the offering are being invested. Under such conditions, the Fund may invest up to 100% of its total assets in short-term securities issued or guaranteed by the U.S. Government or its instrumentalities or agencies, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by an established rating service, or other debt securities deemed by the Adviser to be consistent with a defensive posture, or may hold its assets in cash. This variation in the Fund's investment objectives and policies might negatively affect the Fund's ability to achieve its investment objectives of current income.

The Fund is not sponsored, endorsed, sold or promoted by any index sponsor. No index sponsor has passed on the legality or suitability of, or the accuracy or adequacy of, descriptions and disclosures relating to the Fund. No index sponsor has made any representation or warranty, express or implied, to the Common Shareholders of the Fund or any member of the public regarding the advisability of investing in securities generally or in the Fund particularly, or the ability of any index to track general stock market performance. The indices are determined, composed and calculated by the respective index sponsors without regard to the Fund or its use of the indices for option writing. The index sponsors have no obligation to take the needs of the Fund or its Common Shareholders into consideration in determining, composing or calculating the indices. No index sponsor is responsible for or has participated in the determination of the timing of, price of, or number of Common Shares of the Fund to be issued. No index sponsor has any liability in connection with the management, administration, marketing or trading of the Fund.

**THE INDEX SPONSORS DO NOT GUARANTEE THE ACCURACY AND/OR UNINTERRUPTED CALCULATION OF THE INDICES OR ANY DATA INCLUDED THEREIN. THE INDEX SPONSORS MAKE NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE FUND, THE COMMON SHAREHOLDERS OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE INDICES IN THE FUND'S OPTION STRATEGY. IN PUBLISHING THE INDICES, THE INDEX SPONSORS MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDICES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL AN INDEX SPONSOR HAVE ANY LIABILITY FOR ANY LOST PROFITS OR SPECIAL, INCIDENTAL, PUNITIVE, INDIRECT OR CONSEQUENTIAL DAMAGES, EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.**

***Primary Investment Types***

The Fund may invest in, among other things, the type of securities and instruments described below.

***U.S. Treasury Securities and U.S. Government Agency Securities.*** The Fund may invest in all U.S. Treasury securities and U.S. Government Agency securities, including U.S. Government mortgage-backed securities, of any maturity. The Fund will invest at least 80% of its total assets in U.S. Treasury securities. For purposes of the Fund's investments, U.S. Treasury securities are direct obligations of the U.S. Treasury and are supported by the full faith and credit of the United States. These securities include U.S. Treasury bills, notes and bonds and do not include U.S. Government Agency Securities.

U.S. Government Agency securities, as used in this prospectus, include debt securities issued and/or guaranteed as to principal and interest by U.S. Government agencies, U.S. Government-sponsored enterprises and U.S. Government instrumentalities that are not direct obligations of the United States. These securities may not be backed by the full faith and credit of the United States. U.S. Government-sponsored enterprises and instrumentalities are not agencies of the U.S. Government. Government sponsored enterprises are private corporations sponsored by the Federal government. Securities issued by such entities are generally not supported by the full faith and credit of the United States. Agencies and instrumentalities of the U.S. Government include, but are not limited to, Federal Land Banks, Federal Financing Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Farm Credit Banks, Federal Home Loan Banks, FHLMC, FNMA, GNMA, United States Postal Service, Small Business Administration, Tennessee Valley Authority and any other enterprise established or sponsored by the U.S. Government. Because the U.S. Government generally is not obligated to provide support to its instrumentalities (*i.e.,* such obligations are not backed by the full faith and credit of the U.S. Government), the Fund will invest in obligations issued by these instrumentalities only if the Adviser has determined that the anticipated returns from such investments are attractive in relation to the credit and other risks assumed in investing therein.

***Mortgage Backed Securities ("MBS").*** MBS are mortgage-backed securities that are issued, backed or otherwise guaranteed by the U.S. Government or its agencies or instrumentalities or that are issued by private issuers. The Fund expects to invest typically in MBS that are issued, backed or otherwise guaranteed by the U.S. Government or its agencies or instrumentalities, although privately issued MBS may also be held. MBS represent participation interests in pools of fixed-rate, hybrid and adjustable-rate mortgage loans. Unlike conventional debt obligations, MBS provide monthly payments derived from the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. The Fund may invest in mortgage loans that have had a history of refinancing opportunities (so called "seasoned MBS"). Seasoned MBS tend to have a higher collateral to debt ratio than other MBS because a greater percentage of the underlying debt has been repaid and the collateral property may have appreciated in value. The Adviser expects that under current market conditions many of the MBS, including seasoned MBS, held by the Fund will be premium bonds held at prices that exceed their par or principal value.

The mortgage loans underlying MBS are generally subject to a greater rate of principal prepayments in a declining interest rate environment and to a lesser rate of principal prepayments in an increasing interest rate environment. Under certain prepayment scenarios, the Fund will fail to recover the full amount of its investment in MBS purchased at a premium. Because faster than expected prepayments must usually be invested in lower yielding securities, MBS are less effective than conventional bonds in "locking in" a specified interest rate. The value of the Common Shares may be adversely affected by fluctuations in interest rates underlying the MBS held by the Fund. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS, which in turn would lengthen the duration of the Fund's portfolio. This possibility is often referred to as extension risk. Extending the average life of a mortgage-backed security increases the risk of depreciation due to future increases in market interest rates. MBS that are purchased at a premium, generally including seasoned MBS, may generate current income that exceeds market rates for comparable investments but tend to decrease in value as they mature, which may cause a resulting decrease in the Fund's net asset value per Common Share.

The Fund may invest in classes of collateralized mortgage obligations ("CMOs") and various other MBS instruments. In choosing among CMO classes, the Adviser will evaluate the total income potential of each class and other factors.

Certain government agencies or instrumentalities, such as GNMA, FNMA and FHLMC provide a guarantee as to timely payment of principal and interest for MBS each entity issues, backs or otherwise guarantees. Guarantees may or may not be backed by the full faith and credit of the U.S. Government.

***Options—Generally.*** The Fund's options activity may include writing (selling) call options on individual or baskets of portfolio securities held. The Fund may also purchase put options on individual or baskets of U.S. Treasury securities or U.S. Government Agency securities held in its portfolio to help protect against a decline in the value of its portfolio securities. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option at a specified exercise or "strike" price. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security.

The Fund may write "covered" call options. A call option on a security is covered if the Fund owns the security underlying the call or has an absolute and immediate right to acquire that security without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by the Adviser (in accordance with procedures established by the Board) in such amount are segregated by the Fund's custodian) upon conversion or exchange of other securities held by the Fund. A call option is also covered if the Fund holds a call on the same security as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written, or (ii) greater than the exercise price of the call written, provided the difference is maintained by the Fund in segregated assets determined to be liquid by the Adviser as described above. The Fund in limited circumstances may also sell "naked" call options. A "naked" call option is one in which the Fund does not own the underlying security on which the option is written, the potential loss of which could theoretically be unlimited. To the extent the Fund writes "naked" call options the Fund will segregate liquid assets as required under the 1940 Act. The Fund intends to settle all derivative transactions in cash.

If an option written by the Fund expires unexercised, the Fund realizes on the expiration date a capital gain equal to the premium received by the Fund at the time the option was written. If an option purchased by the Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, underlying security, exercise price, and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires. The Fund may sell put or call options it has previously purchased, which could result in a net gain or loss depending on whether the amount realized on the sale is more or less than the premium and other transaction costs paid on the put or call option when purchased. The Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if it is more, the Fund will realize a capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund will realize a capital gain or, if it is less, the Fund will realize a capital loss. In most cases, net gains from the Fund's option strategy will be short-term capital gains which, for federal income tax purposes, will constitute net investment income. See "Federal Income Tax Matters."

The principal factors affecting the market value of an option include supply and demand, interest rates, the current market price of the underlying security in relation to the exercise price of the option, the actual or perceived volatility of the underlying security, and the time remaining until the expiration date.

The premium paid for an option purchased by the Fund is an asset of the Fund. The premium received for an option written by the Fund is recorded as an asset and equivalent liability. The Fund then adjusts over time the liability to the market value of the option. The value of an option purchased or written is marked to market daily and is valued at the closing price on the exchange on which it is traded or, if not traded on an exchange or no closing price is available, at the mean between the last bid and asked prices or otherwise at fair value as determined by the Board.

The transaction costs of buying and selling options consist primarily of commissions (which are imposed in opening, closing, exercise and assignment transactions), but may also include margin and interest costs in particular transactions. The impact of transaction costs on the profitability of a transaction may often be greater for options transactions than for transactions in the underlying securities because these costs are often greater in relation to options premiums than in relation to the prices of underlying securities. Transaction costs may be especially significant in option strategies calling for multiple purchases and sales of options, such as spreads or straddles.

***Index Options.*** The Fund may write (sell) written index call options. Index options are call options on a financial index such as the Barclays Capital U.S. Treasury Bond Index. The Fund will sell index call options that are exchange-listed or traded over-the-counter. Index options differ from options on individual securities in that index options (i) typically are settled in cash rather than by delivery of securities (meaning the exercise of an index option does not involve the purchase or sale of securities) and (ii) reflect price fluctuations in a group of securities or segments of the securities market rather than price fluctuations in a single security.

***Call Options and Covered Call Writing.*** The Fund may employ an options strategy known as "covered call option writing," which is a strategy designed to generate earnings and offset a portion of a market decline in the underlying security. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security or securities at the exercise price at any time during the option period, or at a specific date, depending on the style of the option. A covered call option written by the Fund is a call option with respect to which the Fund owns the underlying security or otherwise covers the transaction such as by segregating permissible liquid assets. The principal reason for writing covered call is to realize, through the receipt of premiums, a greater return than would be realized on the underlying securities alone. The Fund receives a premium from writing covered call options which it retains whether or not the option is exercised.

***Futures and Options on Futures.*** The Fund may purchase and sell various kinds of financial futures contracts and options thereon to obtain investment exposure and/or to seek to hedge against changes in interest rates or for other risk management purposes. Futures contracts may be based on various securities and indices. Such transactions involve a risk of loss or depreciation due to adverse changes in prices of the reference securities or indices, and such losses may exceed the Fund's initial investment in these contracts. The Fund will only purchase or sell futures contracts or related options in compliance with the rules of the Commodity Futures Trading Commission. Transactions in financial futures and options on futures involve certain costs. There can be no assurance that the Fund's use of futures contracts will be advantageous. Financial covenants related to future Fund borrowings may limit use of these transactions. With respect to forwards and futures contracts that are not contractually required to "cash-settle," a Fund must cover its open positions by setting aside liquid assets equal to the contract's full, notional value. With respect to forwards and futures that are contractually required to "cash-settle," however, the Fund is permitted to set aside liquid assets in an amount equal to the Fund's daily marked-to-market (net) obligations, if any (*i.e.*, the Fund's daily net liability, if any), rather than the notional value. By setting aside assets equal to only its net obligations under cash-settled forward and futures contracts, the Fund will have the ability to employ leverage to a greater extent than if the Fund were required to segregate assets equal to the full notional value of such contracts. The Fund may modify its asset segregation policies in the future to comply with any changes in the asset coverage requirements articulated by the SEC and its staff. The Fund intends to settle all derivative transactions in cash.

***OTC Options.*** The Fund may sell put and call options and/or options on futures on the over-the-counter ("OTC") markets. In an over-the-counter trading environment, there are no daily price fluctuation limits. There may be no liquid secondary market to close out options purchased or written, or forward contracts entered into, until their exercise, expiration or maturity. There is also the risk of default by, or the bankruptcy of, the financial institution serving as counterparty.

***Selling Options on Futures.*** In addition to writing call options on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities, the Fund may write call options on futures contracts based upon U.S. Treasury securities and U.S. Government Agency securities. In the case of any Fund transactions involving listed non-equity options or options on futures contracts, Code Section 1256 generally will require any gain or loss arising from the lapse, closing out or exercise of such positions to be treated as 60% long-term and 40% short-term capital gain or loss. The Fund's use of such options on futures would be substantially similar to its use of options directly on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities and involves substantially similar risks. Such options generally operate in the same manner as options written directly on the underlying securities. A futures contract is a contract to buy or sell a security at a specified price on a future date at a price agreed upon when the contract is made. A call option on a futures contract, in return for the premium paid to the seller, gives the buyer the right to assume a position in a futures contract at the specified exercise price at any time during the life of the contract. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds the exercise price of the call option on the future. If an option is exercised on the last trading day prior to its expiration date, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the index on which the future is based on the expiration date. As in the case of written call options on individual or baskets of U.S. Treasury securities and U.S. Government Agency securities, the Fund may enter into closing purchase transactions to close out options written on index futures at any time prior to expiration.

***Swaps—Generally.*** Swap contracts may be purchased or sold to obtain investment exposure and/or to hedge against fluctuations in securities prices, interest rates or market conditions, to change the duration of the overall portfolio or to mitigate risk. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) on different currencies, securities, baskets of currencies or securities, indices or other instruments, which returns are calculated with respect to a "notional value," *i.e.,* the designated reference amount of exposure to the underlying instruments. The Fund intends to enter into swaps primarily on a net basis, *i.e.,* the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund may use swaps for risk management purposes and as a speculative investment.

The net amount of the excess, if any, of the Fund's swap obligations over its entitlements will be maintained in a segregated account by the Fund's custodian. If the other party to a swap contract defaults, the Fund's risk of loss will consist of the net amount of payments that the Fund is contractually entitled to receive. Under such circumstances, the Fund will have contractual remedies pursuant to the agreements related to the transaction. Swap instruments are not exchange-listed securities and may be traded only in the over-the-counter market.

***Interest rate swaps.*** Interest rate swaps involve the exchange by the Fund with another party of respective commitments to pay or receive interest (*e.g.*, an exchange of fixed rate payments for floating rate payments). The Fund may use interest rate swaps for risk management purposes and as a speculative investment.

***Total return swaps.*** Total return swaps are contracts in which one party agrees to make payments of the total return from the designated underlying asset(s), which may include securities, baskets of securities, or securities indices, during the specified period, in return for receiving periodic payments equal to a fixed or floating rate of interest or the total return from the other designated underlying asset(s). The Fund may use total return swaps for risk management purposes and as a speculative investment.

The use of interest rate, total return, and other swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecasts of market values, interest rates and other applicable factors, the investment performance of the Fund would be unfavorably affected.

***Other Interest Rate Transactions.*** In addition to the Fund's Option Strategy as described herein, the Fund will invest in certain other derivative instruments (which are instruments that derive their value from another instrument, security or index) for purposes of gaining exposure to the desired portfolio duration as recommended by the Fund's Sub-Adviser in connection with the Duration Strategy. This may be accomplished through the use of derivative contracts in the United States or abroad. In the course of pursuing these investment strategies, the Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, enter into various interest rate transactions such as swaps, caps, floors or collars. The Fund also may purchase derivative instruments that combine features of these instruments and purchase securities for delayed settlement. In addition, derivatives may also include new techniques, instruments or strategies that are not currently available. Derivative instruments may be used by the Fund to enhance returns or as a substitute for the purchase or sale of securities. The loss on derivative instruments (other than purchased options) may substantially exceed an investment in these instruments. Collectively, all of the above are referred to as

“Interest Rate Transactions.” The Fund generally seeks to use Interest Rate Transactions as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Fund’s portfolio, protect the value of the Fund’s portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Fund, protect against changes in currency exchange rates, manage the effective maturity or duration of the Fund’s portfolio, or establish positions in the derivatives markets as a substitute for purchasing or selling particular securities. The Fund may use Interest Rate Transactions to enhance potential gain, although the Fund will not enter into an Interest Rate Transaction to the extent such Interest Rate Transaction would cause the Fund to become subject to regulation by the Commodity Futures Trading Commission as a commodity pool.

Interest Rate Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction in an over-the-counter transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Interest Rate Transactions depends on the Adviser and Sub-Adviser’s ability to predict pertinent market movements, which cannot be assured. Thus, the use of Interest Rate Transactions may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. The use of currency transactions can result in the Fund incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Fund to deliver or receive a specified currency. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to Interest Rate Transactions are not otherwise available to the Fund for investment purposes. The use of Financial Leverage by the Fund, if any, may limit the Fund’s ability to use Interest Rate Transactions.

### *Additional Investment Techniques*

The Fund may also invest in the securities and instruments as set forth below:

***CMOs.*** Collateralized mortgage obligations (“CMOs”) are a type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The CMO classes in which the Fund may invest include, but are not limited to, sequential and parallel pay CMOs, including planned amortization class and target amortization class securities. CMOs are debt securities issued by either the U.S. Government (or one of its agencies or instrumentalities) or private issuers. The key feature of the CMO structure is the prioritization of the cash flows from a pool of mortgages among the several classes of CMO holders, thereby creating a series of obligations with varying rates and maturities appealing to a wide range of investors. CMOs generally are secured by an assignment to a trustee under an indenture pursuant to which the bonds are issued on collateral consisting of a pool of mortgages. Payments with respect to the underlying mortgages generally are made to the trustee under the indenture. CMOs are issued in two or more classes or series with varying maturities and stated rates of interest determined by the issuer. Senior CMO classes will typically have priority over residual CMO classes as to the receipt of principal and/or interest payments on the underlying mortgages. CMOs of varying maturities may be secured by the same pool of mortgages, the payments on which are used to pay interest to each class and to retire successive maturities in sequence. CMOs are designed to be retired as the underlying mortgages are repaid. In the event of sufficient early prepayments on such mortgages, the class or series of CMO first to mature generally will be retired prior to maturity. Although in most cases the issuer of CMOs will not supply additional collateral in the event of such prepayments, there will normally be sufficient collateral to secure CMOs that remain outstanding. The Fund has no current intention of investing in “principal only” CMO classes or tranches.

***Mortgage Rolls.*** The Fund may enter into mortgage “dollar rolls” in which the Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period, the

Fund forgoes principal and interest paid on the mortgage-backed securities. The Fund is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sales. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. The Fund will only enter into covered rolls. Covered rolls are not treated as a borrowing or other senior security and will be excluded from the calculation of the Fund's borrowings and other senior securities.

***When-Issued Securities and Forward Commitments.*** Securities may be purchased on a "forward commitment" or "when-issued" basis (meaning securities are purchased or sold with payment and delivery taking place in the future) in order to secure what is considered to be an advantageous price and yield at the time of entering into the transaction. However, the yield on a comparable security when the transaction is consummated may vary from the yield on the security at the time that the forward commitment or when-issued transaction was made. From the time of entering into the transaction until delivery and payment is made at a later date, the securities that are the subject of the transaction are subject to market fluctuations. In forward commitment or when-issued transactions, if the seller or buyer, as the case may be, fails to consummate the transaction the counterparty may miss the opportunity of obtaining a price or yield considered to be advantageous. Forward commitment or when-issued transactions may be entered into a month or more before delivery is due. However, no payment or delivery until delivery is made or payment is received from the other party to the transaction.

***Borrowings.*** The Fund may borrow money to the extent permitted under the 1940 Act as interpreted, modified or otherwise permitted by the regulatory authority having jurisdiction.

***Portfolio Turnover.*** The Fund cannot accurately predict its portfolio turnover rate, but estimates an annual turnover rate of the Core Portfolio between 25% and 75%. The Fund expects to maintain high turnover in call options and index call options, based on the Adviser's intent to sell call options and index call options on a continuous basis on a substantial portion of the Fund's holdings. A high turnover rate (100% or more) necessarily involves greater expenses to the Fund and may result in a realization of net short-term capital gains. The Fund may engage in active short-term trading to benefit from yield disparities among different issues of securities, to seek short-term profits during periods of fluctuating interest rates, or for other reasons. Such trading will increase the Fund's rate of turnover and may increase the incidence of net short-term capital gains which, upon distribution by the Fund, are taxable to Common Shareholders as ordinary income.

***Securities Lending.*** The Fund may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the securities loaned if the borrower of the securities fails financially. Loans will be made only to organizations whose credit quality or claims paying ability is considered by the Adviser to be at least investment grade and when the expected returns, net of administrative expenses and any finders' fees, justifies the attendant risk. Securities loans currently are required to be secured continuously by collateral in cash, cash equivalents (such as money market instruments) or other liquid securities held by the custodian and maintained in an amount at least equal to the market value of the securities loaned. The financial condition of the borrower will be monitored by the Adviser on an ongoing basis. The Fund will not lend portfolio securities subject to a written covered call contract or otherwise segregated to cover its exposures to certain derivative instruments.

***Repurchase Agreements.*** Repurchase agreements may be seen as loans by the Fund collateralized by underlying debt securities. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than one week) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed price and time. This arrangement results in a fixed rate of return to the Fund that is not subject to market fluctuations during the holding period. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations, and the Fund is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. The Adviser reviews the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level.

## RISK FACTORS

***No Operating History.*** The Fund is a diversified closed-end management investment company with no history of operations and is designed for long-term investors and not as a trading vehicle.

***Market Price of Shares.*** The shares of closed-end management investment companies often trade at a discount from their net asset value, and the Common Shares may likewise trade at a discount from net asset value. The trading price of the Common Shares may be less than the public offering price. The risk will be greater for investors who sell their Common Shares in a relatively short period after the completion of the public offering. Net asset value will be reduced following the offering by the underwriting discount and the amount of offering expenses paid by the Fund.

***Investment and Market Risk.*** An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund. The value of these securities like other market investments may fluctuate. Because the Fund intends to sell call options on a continuous basis on substantially the full value of its portfolio holdings, the Fund's appreciation potential from its investments in U.S. Treasury securities and U.S. Government Agency securities will be limited. The Common Shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of distributions.

***Issuer Risk.*** Issuer risk is the risk that the value of securities may decline for a number of reasons directly related to the issuer or borrower.

***Interest Rate Risk.*** The value of Fund shares will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate securities held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of fixed-rate securities held by the Fund can be expected to decline. Prices of longer term securities generally change more in response to interest rate changes than prices of shorter term securities. U.S. interest rates have recently been at or near their lowest levels in many years and there may be a greater than normal risk that interest rates will rise and cause the Fund's portfolio to decline in value. A decline in the value of fixed-rate securities held by the Fund will not affect interest income received on such securities, but will be reflected in a decline of the Fund's net asset value. Although the Adviser and the Sub-Adviser believe that the Duration Strategy may help to protect the value of the Core Portfolio from increases in interest rates and assist in adding excess return to the Core Portfolio during a decline in interest rates by opportunistically adjusting the portfolio duration up or down (as appropriate) to take advantage of these anticipated interest rate moves, there is no guarantee that the Fund's Duration Strategy will work and correctly predict the movement of interest rates or will mitigate the impact of the Fund's Option Strategy.

***Reinvestment Risk.*** Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund reinvests the proceeds from the disposition of its portfolio securities (whether pursuant to the Option Strategy, as a result of return of principal upon maturity, call or redemption by the issuer, or sale by the Fund) at market interest rates that are below the portfolio's current earnings rate. A decline in income could negatively affect the market price of the Common Shares.

***Risk Associated with U.S. Government Securities and Agency Securities.*** Some U.S. Government securities may be supported by the full faith and credit of the U.S. Treasury, such as U.S. Treasury bills, notes and bonds and GNMA certificates. U.S. government securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. government securities are generally lower than the yields available from corporate fixed-income securities. Like other debt securities, however, the values of U.S. government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's NAV. U.S. Government Agency securities, including securities issued by U.S. Government-sponsored enterprises and instrumentalities are not direct obligations of the United States and may not be backed by the full faith and credit of the United States. Certain U.S. Government-sponsored enterprises are backed by the full faith and credit of the U.S. Government. However, other U.S. Government-sponsored enterprises are not backed by the full faith and credit of the U.S. Government. Such enterprises are supported only by the discretionary authority of the U.S. Government to purchase the enterprises' obligations, and therefore are subject to increased credit risk.

Government Intervention in Financial Markets. The recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable. Issuers of corporate fixed income securities might seek protection under the bankruptcy laws. Legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objectives. The Adviser will monitor developments and manage the Fund's portfolio in a manner consistent with achieving the Fund's investment objectives, but there can be no assurance that it will be successful in doing so.

***Option Strategy Risk.*** The Fund will, through its Option Strategy, write (sell) call options on the Fund's portfolio of U.S. Treasury securities and U.S. Government Agency securities and/or options futures on U.S. Treasury securities and U.S. Government Agency securities.

- *Risks Associated with Writing Call Options on Securities.* There are numerous risks associated with transactions in options on securities. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful because of market behavior or unexpected events. As the writer of a covered call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the exercise price of the call, but has retained the risk of loss should the price of the underlying security decline below the exercise price of the call (net of the premium per share received on the call). Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. Thus, the use of options may require the Fund to sell portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. If the Fund is required to sell such portfolio securities and reinvest the proceeds in securities paying interest rates that are below the Fund's current earnings, income from the Fund's portfolio may decline.

  The Fund's ability to terminate over-the-counter options will be more limited than with exchange-traded options and may involve the risk that broker-dealers participating in such transactions will not fulfill their obligations. If the Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security unless the option expired without exercise.

The Fund may effect option transactions in over-the-counter markets. Participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of exchange-based markets. By engaging in option transactions in these markets, the Fund may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions, which generally are characterized by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject the Fund to the risk that a counterparty will not settle a transaction in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Although the Fund will use bilateral collateral exchange agreements with all OTC counterparties, this does not eliminate the risks that a counterparty will default. Such "counterparty risk" is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of the Fund to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to the Fund.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that would not be reflected concurrently in the options markets.

- *Risks of Selling Index Call Options.* The Fund may write (sell) written index call options. Index call options are call options on a financial index such as the Treasury Index. The purchaser of an index call option has the right to any appreciation in the value of the index over the exercise price of the call option as of the valuation date of the option. Because their exercise is settled in cash and does not involve the purchase or sale of securities, sellers of index call options such as the Fund cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The value of index call options may not correlate exactly with a change in the market value of the underlying securities which may impact the Fund's NAV. The Fund may, in limited circumstances, write naked calls, the potential loss of which could theoretically be unlimited.

  A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived and well-executed options program may be adversely affected by market behavior or unexpected events. As the writer of index call options, the Fund will forgo, during the option's life, the opportunity to profit from increases in the value of the applicable index above the exercise price of the call option, but retains the risk of loss should the value of the applicable index decline below the exercise price of the call (net of the premium per unit received on the call). When an index call option is exercised, the Fund will be required to deliver an amount of cash determined by the excess of the value of applicable index as of the valuation date over the exercise price of the option. Thus, the exercise of index call options sold by the Fund may require the Fund to sell portfolio securities to generate cash at inopportune times or for unattractive prices.

- *Exchange-Traded Options Risk.* Index options are marked to market daily and their value will be affected by changes in the value of the securities represented in an index, an increase in interest rates, changes in the actual or perceived volatility of the overall market and the underlying securities represented in an index, and the remaining term to the option's expiration. The value of options also may be adversely affected if the market for options is reduced or becomes illiquid.

  The Fund's transactions in exchange-traded options will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which the options are traded. These limitations govern the maximum number of options in each class which may be written by a single investor or group of investors acting in concert, regardless of whether the options are written on the same or different exchanges, boards of trade or other trading facilities or are written in one or more accounts or through one or more brokers. Thus, the number of options which the Fund may write may be affected by options written by other investment advisory clients of the Adviser, the Sub-Adviser or their respective affiliates. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose other sanctions.

In addition, no assurance can be given that a liquid market will exist when the Fund seeks to close out an option position. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the OCC may not at all times be adequate to handle the then-current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by the OCC as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

***Duration Strategy Risk.*** The Fund will use the Duration Strategy in order to generate capital appreciation through the selective adjustment of the duration of the Core Portfolio based on the Sub-Adviser's research outlook. There are no assurances that the Fund's Duration Strategy will be successful. The success of the Fund's Duration Strategy depends significantly on the Sub-Adviser's ability to accurately predict interest rate movements and to adjust the Fund's portfolio correctly and in a timely manner.

- *Quantitative Model Risk.* The Duration Strategy is highly dependent on proprietary quantitatively-based models that have been researched, developed and utilized by the Sub-Adviser to evaluate the interest rate environment, although generally these models have not been independently tested or otherwise reviewed (other than by the Adviser or Sub-Adviser). The Sub-Adviser's models employ assumptions that abstract a limited number of variables from complex financial markets which they attempt to replicate. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. Also, if material factors are not incorporated into the Sub-Adviser's models, or are incorporated inaccurately, losses could result. The outputs of the Sub-Adviser's models may differ substantially from the reality of the markets.
- *Derivatives Risk.* The Adviser will implement the Duration Strategy in consultation with the Sub-Adviser through the use of certain derivative instruments, including but not limited to swaps and futures. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. First, changes in the value of the derivative contracts and hybrid instruments in which the Fund invests may not be correlated with changes in the value of the underlying reference or valuation instruments or, if they are correlated, may move in the opposite direction than originally anticipated. Second, while some strategies involving derivatives may reduce the risk of loss, they may also reduce potential gains or, in some cases, result in losses by offsetting favorable price movements in portfolio holdings. Third, there is a risk that derivative instruments may be erroneously priced or improperly valued and, as a result, the Fund may need to make increased cash payments to the counterparty. Fourth, derivative instruments may cause the Fund to realize increased ordinary income or short-term capital gains (which are treated as ordinary income for federal income tax purposes) and, as a result, may increase taxable distributions to shareholders. Fifth, certain common provisions in OTC derivative instruments give the counterparty the right to terminate any such contract between it and the Fund, upon the occurrence of certain events with

respect to the Fund, including, for example, the decline of the Fund's NAV below a specified level over a given time period or the departure of certain key persons at the Fund. Factors that may contribute to such a NAV decline (which usually must be substantial) include a marked decrease in the market value of the Fund's investments. Any such termination of the Fund's OTC derivative contracts may adversely affect the Fund (for example, by increasing losses and/or costs, and/or preventing the Fund from fully implementing its investment strategies).

***Mortgage-Backed Securities ("MBS") Risk.*** The value of Fund shares may be adversely affected by fluctuations in interest rates and the prepayment of the mortgage loans underlying the MBS held by the Fund. Mortgage loans are most likely to be prepaid in a declining interest rate environment and when MBS are trading at a substantial premium. Prepayments may cause the Fund to incur capital loss and may reduce the Fund's income distributions because the proceeds of a prepayment may be invested in lower-yielding securities. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS which in turn would lengthen the duration of the Fund's portfolio. This possibility is often referred to as extension risk. Extending the average life of an MBS increases the risk of depreciation due to future increases in market interest rates. The value of Common Shares can also be adversely affected by erosion in premiums on MBS held. Certain government agencies or instrumentalities, such as GNMA, FNMA and FHLMC, provide a guarantee as to timely payment of principal and interest for MBS each entity issues, backs or otherwise guarantees. Such guarantees may or may not be backed by the full faith and credit of the U.S. Government.

***Prepayment Risk.*** The risk that certain obligations will be paid off by the obligor more quickly than anticipated. In this event, the Fund may be required to invest the proceeds in securities with lower yields.

***Extension Risk.*** Extension risk is the risk that certain obligations will be paid off more slowly by the obligor than anticipated causing the value of these securities to fall.

***Credit Risk.*** Credit risk is the risk that the issuer will be unable to pay the interest or principal when due. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect the value of the Fund's investment in the issuer. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation.

Obligations issued or guaranteed by the U.S. Treasury are considered to have minimal credit risk. Obligations issued or guaranteed by U.S. Government agencies or U.S. Government-sponsored enterprises and instrumentalities, which are generally not supported by the full faith and credit of the United States, may be more exposed to credit risk.

***Call and Redemption Risk.*** A bond's issuer may call a bond for redemption before it matures. If this happens to a bond the Fund holds, the Fund may lose income and may have to invest the proceeds in bonds with lower yields.

***Income Risk.*** The income shareholders receive from the Fund is based primarily on the interest it earns from its investments as well as the gains the Fund receives from writing options and selling portfolio securities, each of which can vary widely over the short and long term. If prevailing market interest rates decline, interest rates on debt securities held by the Fund, and Common Shareholders' income from the Fund, would likely decline as well. Income risk is greater for this Fund than for a fund that does not write (sell) covered calls. If prevailing market interest rates decline causing the market value of the Fund's existing portfolio of securities to rise above the exercise price of the calls written by the Fund, the Fund would likely not be able to realize the increase in the value of its existing portfolio of securities to buy additional securities and maintain its level of income. In addition, the income received from selling call options is a function of (among other factors) the level of interest rate volatility. In general, all else equal, higher levels of interest rate volatility will result in higher premiums received for selling calls and thus increased income for Fund Common Shareholders. Conversely, lower levels of volatility will result in lower premiums and therefore less income.

***Inflation/Deflation Risk.*** Inflation risk is the risk that the value of assets or income from the Fund's investment will be worth less in the future as inflation decreases the value of money. Recent significant increases in the price of oil, natural gas and other petroleum products may have an inflationary effect on the economy and increase inflation risk. As inflation increases, the real, or inflation adjusted, value of the Fund's Common Shares and distributions can decline. Deflation risk is the risk that prices throughout the economy decline over time—the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio.

***U.S. Dollar Risk.*** A weakening of the value of the U.S. dollar relative to the currencies of other developed countries may cause foreign demand for U.S. Treasury securities to fall. Reduced foreign demand for U.S. Treasury securities may result in a rise in U.S. interest rates. When interest rates rise, the value of the Fund's fixed income securities can be expected to decline and will be reflected in a decline in the Fund's net asset value.

***Futures Transactions Risk.*** Futures are types of derivatives. The Fund may engage in futures transactions to reduce its exposure to interest rate movements or to enhance its return. If the Fund incorrectly forecasts market values, interest rates or other factors, the Fund's performance could suffer. The Fund also may suffer a loss if the other party to the transaction fails to meet its obligations. The Fund is not required to enter into futures transactions for hedging purposes or to increase its return and may choose not to do so.

***Swaps Risk.*** Swap agreements are types of derivatives. In order to seek to hedge the value of the Fund's portfolio, to hedge against increases in the Fund's costs associated with the interest payments on its outstanding borrowings or the dividend payments on its outstanding preferred stock, if any, or to seek to increase the Fund's return, the Fund may enter into interest rate or total return swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite to the direction anticipated by the Fund, which would cause the Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. Total return swap transactions involve the risks that the counterparty will default on its payment obligation to the Fund in the transaction and that the Fund will not be able to meet its obligation to the counterparty in the transaction. The Fund is not required to enter into interest rate or total return swap transactions for hedging purposes or to increase its return and may choose not to do so. The Fund may also purchase or sell options on swap transactions.

***Short Sales Risk.*** The Fund may make short sales of securities. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund makes a short sale, it must borrow the security sold short and deliver collateral to the broker dealer through which it made the short sale to cover its obligation to deliver the borrowed security upon conclusion of the sale. The Fund's obligation to replace the borrowed security will be secured by collateral deposited with the broker dealer, usually cash, U.S. government securities or other liquid securities similar to those borrowed. The Fund will also be required to segregate similar collateral with its custodian. If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss. The Fund also may make a short sale ("against the box") by selling a security that the Fund owns or has the right to acquire without the payment of further consideration. The Fund's potential for loss is greater if it does not own the security that it is short selling.

***Correlation Risk.*** There are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objective. To the extent there is a lack of correlation, movement in the securities, indices or interests rates underlying the options positions may result in losses to the Fund, which may more than offset any gains received by the Fund from option premiums. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. The Fund's Option Strategy involves the risk that the changes in value if the securities or indices underlying the written call option positions will not correlate closely with changes in the market value of the securities held by the Fund The Fund's Duration Strategy presents the opportunity for differences in correlation between the Fund and the underlying markets based on interest rate movements and the losses from the Duration Strategy may be greater than gains generated by the Fund and the options premiums received.

***Tax Risk.*** Reference is made to “Federal Income Tax Matters” for an explanation of the federal income tax consequences and attendant risks of investing in the Fund. Certain transactions entered into by the Fund are subject to special tax rules that may, among other things, (i) affect the character of gains and losses realized, (ii) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (iii) cause the Fund to recognize income without a corresponding receipt of cash (with which to make the necessary distributions to satisfy distribution requirements applicable to RICs), (iv) convert dividends that would otherwise constitute qualified dividend income into higher taxed short-term capital gain or ordinary income, (v) treat dividends that would otherwise be eligible for the corporate dividends received deduction as ineligible for such treatment, and (vi) produce income that may not qualify as good income for purposes of satisfying the Fund’s qualification as a RIC. Operation of these rules may affect the character, amount and timing of distributions to shareholders. Special tax rules may also require the Fund to mark to market certain types of positions in its portfolio, including some of its call options (*i.e.,* treat them as sold on the last day of the taxable year), and may result in the recognition of income without a corresponding receipt of cash.

***Liquidity of Investments Risk.*** Liquidity of a security or instrument relates to the ability to easily dispose of the security or instrument and the price to be obtained and does not generally relate to the credit risk or likelihood of receipt of cash at maturity. Illiquid securities or investments may trade at a discount from comparable, more liquid investments.

***Management Risk.*** The Fund is subject to management risk because it is an actively managed portfolio. The Adviser and the individual portfolio managers invest the assets of the Fund as they deem appropriate in implementing the Fund’s investment strategy. Accordingly, the success of the Fund depends upon the investment skills and analytical abilities of the Adviser and the individual portfolio managers to develop and effectively implement investment strategies that achieve the Fund’s investment objectives. The success of the Fund also depends, in part, upon the advice given by the Sub-Adviser with respect to the Fund’s Duration Strategy. There is no assurance that the Adviser, the Sub-Adviser and the individual portfolio managers will be successful in developing and implementing the Fund’s investment strategy. Subjective decisions made by the Adviser, the Sub-Adviser and the individual portfolio managers may cause the Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

***Financial Leverage Risk.*** Although the Fund has no current intention to do so, the Fund is authorized and reserves the flexibility to utilize leverage through the issuance of preferred shares and/or borrowings, including the issuance of debt securities. In the event that the Fund determines in the future to utilize investment leverage, there can be no assurance that such a leveraging strategy will be successful during any period in which it is employed. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of the Common Shares and the risk that fluctuations in distribution rates on any preferred shares or fluctuations in borrowing costs may affect the return to Common Shareholders. To the extent the returns derived from securities purchased with proceeds received from leverage exceeds the cost of leverage, the Fund’s distributions may be greater than if leverage had not been used. Conversely, if the returns from the securities purchased with such proceeds are not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, the Adviser, in its best judgment, may nevertheless determine to maintain the Fund’s leveraged position if it deems such action to be appropriate. The costs of an offering of preferred shares and/or a borrowing program would be borne by Common Shareholders and consequently would result in a reduction of the net asset value of Common Shares. In addition, the fee paid to the Adviser will be calculated on the basis of the Fund’s average daily gross assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fee will be higher when leverage is utilized, which may create an incentive for the Adviser to employ financial leverage. In this regard, holders of preferred shares do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of the preferred shares offering.

***Market Disruption.*** The war in Iraq, instability in the Middle East and terrorist attacks around the world may adversely affect the performance of U.S. and worldwide financial markets and may cause economic uncertainties in the U.S. and elsewhere. The Fund cannot predict the future course of world affairs or the effects of significant future events on the U.S. economy and securities markets. Given these risks, an investment in the Common Shares may not be appropriate for all investors. You should carefully consider your ability to assume these risks before making an investment in the Fund.

***Anti-takeover Provisions.*** The Fund's Agreement and Declaration of Trust includes provisions that could limit the ability of other persons or entities to acquire control of the Fund or to change the composition of its Board. See "Description of Capital Structure—Anti-Takeover Provisions in the Declaration of Trust."

## MANAGEMENT OF THE FUND

### Board of Trustees

The management of the Fund, including general supervision of the duties performed by the Adviser and the Sub-Adviser under the Advisory Agreement and Sub-Advisory Agreement respectively (as defined below), is the responsibility of the Fund's Board of Trustees. There are twelve (12) Trustees of the Fund. Two (2) of the Trustees are "interested persons" (as defined in the 1940 Act). The name and business addresses of the Trustees and officers of the Fund and their principal occupations and other affiliations are set forth under "Management of the Fund" in the Statement of Additional Information.

### The Adviser

Federated Investment Management Company ("FIMC" or the "Adviser"), a wholly-owned subsidiary of Federated Investors, Inc. ("Federated") and an SEC registered investment adviser, acts as the Fund's investment adviser. The Adviser's address is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. Federated is one of the largest investment managers in the United States, managing $392.3 billion in assets as of September 30, 2009. With 150 mutual funds and separately managed accounts in a wide range of investment strategies, Federated provides comprehensive investment management to nearly 5,300 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers. Federated is the control person of the Adviser.

The Fund's portfolio manager is Donald T. Ellenberger who is responsible for the overall management of the Fund's investments. Mr. Ellenberger joined Federated in 1996 as a Portfolio Manager. He is also currently Co-Head of the government/mortgage-backed fixed income groups of Federated. He served as a Vice President of the Fund's Adviser from 1997 through 2004. From 1986 to 1996, he served as a Trader/Portfolio Manager for Mellon Bank, N.A. Mr. Ellenberger received his B.A. from Pennsylvania State University and an M.B.A. in Finance from Stanford University.

### The Sub-Adviser

Dix Hills Partners, LLC ("Dix Hills" or the "Sub-Adviser") has been engaged by FIMC to act as the Fund's Sub-Adviser and to provide investment advisory services to the Adviser with respect to the Duration Strategy. The Sub-Adviser's address is 50 Jericho Quadrangle, Suite 117, Jericho, NY 11753. Dix Hills is an SEC registered investment adviser and Commodity Trading Adviser (CTA), managing over $800 million in overall assets as of October 31, 2009. With four hedge funds and separately managed accounts in a focused set of investment strategies revolving around Dix Hills' proprietary interest rate forecasting research, Dix Hills provides institutional and high net worth investors with investment management services. Federated Global Investment Management Corp., an affiliate of FIMC, holds a minority non-voting interest in Dix Hills as of December 1, 2009.

Joseph A. Baggett, CFA, provides investment advice to the Fund with respect to the Duration Strategy. Mr. Baggett is a founder, Managing Member and Senior Portfolio Manager for Dix Hills. Mr. Baggett is responsible for developing the quantitative approach Dix Hills uses in generating their interest rate direction forecast and the subsequent implementation of the duration position. For the Fund, Mr. Baggett will work closely with the Adviser in implementing the Duration Strategy.

Prior to starting Dix Hills in early 2003, Mr. Baggett served as Executive Director, Quantitative Investments Group, UBS Global Asset Management in New York. At UBS, Mr. Baggett was senior portfolio manager/research analyst for the quantitatively driven investment strategy group that managed over $6 billion in assets. Additionally, Mr. Baggett was also a member of the Portfolio Management Team for UBS Tactical Allocation Fund, a $3 billion, fully flexible mutual fund that allocated between stocks (S&P 500), bonds (intermediate-term Treasury notes) and cash on the basis of a quantitatively-driven market valuation model. He has extensive experience in other traditional quantitative disciplines as well, including portfolio optimization, indexation, stock selection models, performance attribution/analysis, risk management and securities and derivatives trading. Prior to UBS Asset Management, Mr. Baggett worked as an Economist at PaineWebber, Inc., as part of a three-person unit that produced the firm's U.S. economic growth, inflation and interest rate outlooks. Prior to PaineWebber, Mr. Baggett worked at the Federal Reserve Bank of New York as an Assistant Economist, Domestic Financial Markets Division. Mr. Baggett holds a B.A. in Economics from Columbia University (1989 Summa Cum Laude, Phi Beta Kappa).

The Dix Hills interest rate forecasting approach is based on a dynamic investment methodology developed to exploit the near-term predictability of interest rate movements. Its foundation is a quantitative research discipline that uses precise, widely available, macroeconomic valuation and technical variables to forecast the movement of interest rates. Over 40 years of data were researched in developing this proprietary methodology, which will be used to adjust the Fund's duration on a monthly basis.

**Additional Information Regarding Portfolio Managers**

The Statement of Additional Information provides additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and the portfolio managers' ownership of securities in the Fund.

**Investment Advisory Agreement**

Pursuant to an investment advisory agreement between the Adviser and the Fund, the Adviser will receive an annual fee in a maximum amount equal to 0.85% of the average daily value of the Fund's total Managed Assets (the "Management Fee"). For these purposes, "Managed Assets" means the total assets of the Fund (including recorded assets attributable to any preferred shares and/or borrowings from a credit facility that may be outstanding), minus the sum of accrued liabilities (other than debt representing preferred shares and/or borrowings from a credit facility). The Adviser has contractually agreed to waive or reimburse to the Fund the amount, not to exceed the amount of the advisory fee, by which the Fund's aggregate annual operating expenses (including the advisory fee but, excluding acquired fund fees and expenses, if any) exceed 1.05%.

In addition to the Management Fee of the Adviser, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with the Adviser), custodian, transfer and dividend disbursing agent expenses, legal fees, leverage expenses, rating agency fees, listing fees and expenses, expenses of independent auditors, expenses of repurchasing shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies and taxes, if any.

**Investment Sub-Advisory Agreement**

Pursuant to the terms of the subadvisory agreement between the Adviser and the Sub-Adviser, the Adviser (and not the Fund) will pay the Sub-Adviser a fee for providing investment advisory services to the Fund (the "Sub-Advisory Fee").

The Sub-Adviser will be compensated by the Adviser from the Management Fee it receives in an amount equal to: (1) 0.425% of average daily managed assets of the Fund if total assets raised in the initial public offering are between $0 to $200,000,000; or (2) 0.3825% of average daily managed assets of the Fund if total assets raised in the initial public offering are $200,000,001 or greater.

For a discussion of the Board's approval of the Investment Advisory Agreement and the Sub-Advisory Agreement, please refer to the Fund's semi-annual shareholder report to be dated May 31, 2010.

**Administrative Agreement**

Federated Services Company ("the Administrator"), a subsidiary of Federated, provides administrative personnel and services (including certain legal and financial reporting services) necessary to operate the Fund. The Administrator's address is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA 15222-3779. The Administrator currently receives no compensation for providing administrative services to the Fund.

## LEGAL PROCEEDINGS

Since October 2003, Federated and related entities (collectively, within this section, "Federated") and various Federated funds ("Funds") have been named as defendants in several class action lawsuits now pending in the United States District Court for the District of Maryland. The lawsuits were purportedly filed on behalf of people who purchased, owned and/or redeemed shares of Federated-sponsored mutual funds during specified periods beginning November 1, 1998. The suits are generally similar in alleging that Federated engaged in illegal and improper trading practices including market timing and late trading in concert with certain institutional traders, which allegedly caused financial injury to the mutual fund shareholders. These lawsuits began to be filed shortly after Federated's first public announcement that it had received requests for information on shareholder trading activities in the Funds from the SEC, the Office of the New York State Attorney General ("NYAG") and other authorities. In that regard, on November 28, 2005, Federated announced that it had reached final settlements with the SEC and the NYAG with respect to those matters. Specifically, the SEC and NYAG settled proceedings against three Federated subsidiaries involving undisclosed market timing arrangements and late trading. The SEC made findings: that FIMC, an SEC-registered investment adviser to various Funds, and Federated Securities Corp., an SEC-registered broker-dealer and distributor for the Funds, violated provisions of the Investment Advisers Act and Investment Company Act by approving, but not disclosing, three market timing arrangements, or the associated conflict of interest between FIMC and the funds involved in the arrangements, either to other fund shareholders or to the funds' board; and that Federated Shareholder Services Company, formerly an SEC-registered transfer agent, failed to prevent a customer and a Federated employee from late trading in violation of provisions of the Investment Company Act. The NYAG found that such conduct violated provisions of New York State law. Federated entered into the settlements without admitting or denying the regulators' findings. As Federated previously reported in 2004, it has already paid approximately $8.0 million to certain funds as determined by an independent consultant. As part of these settlements, Federated agreed to pay disgorgement and a civil money penalty in the aggregate amount of an additional $72 million and, among other things, agreed that it would not serve as investment adviser to any registered investment company unless: (i) at least 75% of the fund's directors are independent of Federated; (ii) the chairman of each such fund is independent of

Federated; (iii) no action may be taken by the fund's board or any committee thereof unless approved by a majority of the independent trustees of the fund or committee, respectively; and (iv) the fund appoints a "senior officer" who reports to the independent trustees and is responsible for monitoring compliance by the fund with applicable laws and fiduciary duties and for managing the process by which management fees charged to a fund are approved. The settlements are described in Federated's announcement which, along with previous press releases and related communications on those matters, is available in the "About Us" section of Federated's Web site at FederatedInvestors.com.

Federated entities have also been named as defendants in several additional lawsuits that are now pending in the United States District Court for the Western District of Pennsylvania, alleging, among other things, excessive advisory and Rule 12b-1 fees.

The Board of the Funds retained the law firm of Dickstein Shapiro LLP to represent the Funds in each of the lawsuits described in the preceding two paragraphs. Federated and the Funds, and their respective counsel, have been defending this litigation, and none of the Funds remains a defendant in any of the lawsuits (though some could potentially receive any recoveries as nominal defendants). Additional lawsuits based upon similar allegations may be filed in the future. The potential impact of these lawsuits, all of which seek unquantified damages, attorneys' fees, and expenses, and future potential similar suits is uncertain. Although we do not believe that these lawsuits will have a material adverse effect on the Funds, including the Fund, there can be no assurance that these suits, ongoing adverse publicity and/or other developments resulting from the regulatory investigations will not result in increased fund redemptions, reduced sales of fund shares or other adverse consequences for the Funds.

## DISTRIBUTIONS

Commencing with the Fund's first distribution, the Fund intends to make regular monthly cash distributions to Common Shareholders. The distributions paid by the Fund for any particular month may be more or less than the amount of income available for distribution from that month. In certain circumstances, the Fund may be required to sell a portion of its investment portfolio to fund distributions. Distributions will reduce the Common Shares' net asset value. The amount of each monthly distribution will vary. As portfolio and market conditions change, the rate of distributions on the Common Shares and the Fund's distribution policy will change. In its distributions, the Fund intends to include amounts attributable to the receipt of option premiums. In certain circumstances, the Fund's distribution policy may result in a portion of distributions to Common Shareholders being characterized as return of capital for federal income tax purposes as discussed below. The Board may modify its distribution policy at any time without obtaining the approval of Common Shareholders. The initial distribution is expected to be declared approximately 45 days and paid approximately 60 to 90 days after the completion of this offering, depending on market conditions. See "Federal Income Tax Matters."

The net investment income of the Fund will consist of all dividend and interest income accrued on portfolio investments, short-term capital gain (including short-term gains on terminated option positions and gains on the sale of portfolio investments held for one year or less) in excess of long-term capital loss and income from certain hedging transactions, less all expenses of the Fund. Expenses of the Fund will be accrued each day. Substantially all of the Fund's net investment income will be distributed each year. In addition, at least annually, the Fund intends to distribute any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). To the extent that the Fund's net investment income and net capital gain for any year exceed the total monthly distributions paid during the year, the Fund will make a special distribution at or near year-end of such excess amount as may be required. The Fund intends to apply for exemptive relief under Section 19(b) of the Investment Company Act of 1940, as amended (the "1940 Act") in order to permit the Fund to distribute long-term capital gains with respect to Common Shares up to twelve (12) times per year. There is no guarantee the Fund will receive such exemptive relief; however, the Fund is able to maintain its operations and meet its investment objectives in the event such exemptive relief is not granted.

The Fund's distributions generally will not qualify either for the dividends received deduction generally available to corporate taxpayers or as qualified dividend income subject to favorable tax rates for individual taxpayers.

The tax treatment and characterization of the Fund's distributions may vary substantially from time to time because of the varied nature of the Fund's investments. If the Fund's total monthly distributions in any year exceed the amount of its net investment income for the year, any such excess would be characterized as a return of capital for federal income tax purposes to the extent not designated as a capital gain dividend. Distributions in any year may include a substantial return of capital component. Under the 1940 Act, for any distribution that includes amounts from sources other than net income, the Fund is required to provide Common Shareholders a written statement regarding the components of such distribution. A return of capital is a distribution to Common Shareholders that is not attributable to the Fund's earnings or profits, but represents a return of part of the Common Shareholder's investment. When you receive a distribution, unless otherwise specified, you should not assume that such distribution is sourced solely from the net profits of the Fund. Such distribution may contain a substantial return of capital component. The written notice that accompanies a distribution will be calculated and based on financial accounting methods as well as being based on estimates made at the time of the distribution. Therefore, the characterization of such distributions will likely differ from the final year-end tax characterization of the distributions. Upon the sale of Common Shares, a shareholder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and the shareholder's adjusted tax basis in the Common Shares sold. For example, in year one, a Common Shareholder purchased 100 shares of the Fund at $10 per Share. In year two, the Common Shareholder received a $1-per-share return of capital distribution, which reduced the basis in each share by $1, to give the Common Shareholder an adjusted basis of $9 per share. In year three, the Common Shareholder sells the 100 shares for $15 per Share. Assuming no other transactions during this period, a Common Shareholder would have a capital gain in year three of $6 per share ($15 minus $9) for a total capital gain of $600.

See "Dividend Reinvestment Plan" for information concerning the manner in which dividends and distributions to Common Shareholders may be automatically reinvested in shares of Common Shares. Dividends and distributions may be taxable to shareholders whether they are reinvested in shares of the Fund or received in cash.

## FEDERAL INCOME TAX MATTERS

The following discussion of federal income tax matters is based on the advice of K&L Gates LLP, counsel to the Fund. The Fund intends to elect to be treated and to qualify each year as a regulated investment company ("RIC") under the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Fund intends to satisfy certain requirements relating to sources of its income and diversification of its assets and to distribute substantially all of its net income and net short-term and long-term capital gains (after reduction by any available capital loss carryforwards) in accordance with the timing requirements imposed by the Code, so as to maintain its RIC status and to avoid paying any federal income or excise tax. The Fund may elect to retain net capital gains and pay federal income tax at regular corporate rates with respect to such gain.

The Fund will distribute each year all or substantially all of its net investment income, which consists of all dividends and interest income (including tax-exempt interest) accrued on portfolio investments, short-term capital gain (including short-term gains on terminated options positions, 40% of gains on 1256 contracts and gains on the sale of portfolio investments held one year or less) in excess of long-term capital loss and less all expenses of the Fund. Distributions of net investment income generally are taxable to Common Shareholders as ordinary income. The Fund may also distribute all or a portion of its net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). Distributions of the Fund's net capital gain ("capital gain dividends"), if any, are taxable to Common Shareholders as long-term capital gain, regardless of the length of time Common Shares have been held by Common Shareholders. Distributions, if any, in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's Common Shares and, after the adjusted tax basis has been reduced to zero, will constitute capital gains to the Shareholder. See below for a summary of the maximum tax rates applicable to capital gains (including capital gain dividends). The Fund's distributions generally will not qualify either for the dividends received deduction generally available to corporate taxpayers or as qualified dividend income subject to favorable tax rates for individual taxpayers.

The Fund may elect to retain its net capital gain or a portion thereof for investment and be taxed at corporate rates on the amount retained. In such case, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who will be treated as if each received a distribution of his pro rata share of such gain, with the result that each shareholder will (i) be required to report his pro rata share of such gain on his tax return as long-term capital gain, (ii) receive a refundable tax credit for his pro rata share of tax paid by the Fund on the gain and (iii) increase the tax basis for his shares by an amount equal to the deemed distribution less the tax credit.

Certain transactions entered into by the Fund (including the Fund's transactions in options) are subject to special and complex tax rules of the Code that may, among other things, (a) affect the character of gains and losses realized, (b) disallow, suspend or otherwise limit the allowance of certain losses or deductions and (c) accelerate the recognition of income without a corresponding receipt of cash (with which to make the necessary distributions to satisfy distribution requirements applicable to RICs), (d) convert dividends that would otherwise constitute qualified dividend income into higher taxed short-term capital gain or ordinary income, (e) treat dividends that would otherwise be eligible for the corporate dividends received deduction as ineligible for such treatment, (f) convert long-term capital gain into short-term capital gain or ordinary income, (g) convert an ordinary loss or deduction into a capital loss (the deductibility of which is more limited) and (h) produce income that may not qualify as good income for purposes of satisfying the Fund's qualification as a RIC.

Operation of these rules may affect the character, amount and timing of distributions to shareholders. Special tax rules may also require the Fund to mark-to-market (*i.e.,* treat them as sold on the last day of the taxable year) certain types of positions in its portfolio (*i.e.,* some of the call options written by the Fund) and may result in the recognition of income without a corresponding receipt of cash. The Fund intends to monitor transactions, make appropriate tax elections and make appropriate entries in its books and records to avoid any possible disqualification for the special treatment afforded RICs under the Code.

The taxation of options such as the Fund expects to write and purchase is governed by Section 1234 of the Code. Pursuant to Code Section 1234, the premium received by the Fund for selling a call option is not included in income at the time of receipt. If the option expires, the premium is short-term capital gain to the Fund. If the Fund enters into a closing transaction, the difference between the amount paid to close out its position and the premium received is short-term capital gain or loss. If a call option written by the Fund is exercised, thereby requiring the Fund to sell the underlying security, the premium will increase the amount realized upon the sale of the security and any resulting gain or loss will be long-term or short-term, depending upon the holding period of the security. With respect to a put on a security that is purchased by the Fund, if the option is sold, any resulting gain or loss will be a capital gain or loss, and will be short-term or long-term, depending upon the holding period for the option. If the option expires, the resulting loss is a capital loss and is short-term or long-term, depending upon the holding period for the option. If the option is exercised, the amount paid to acquire the position reduces the amount realized on the underlying security in determining gain or loss. Because the Fund does not have control over the exercise of the call options it writes, such exercise or other required sales of the underlying securities may cause the Fund to realize capital gains or losses at inopportune times.

As discussed above, the Fund may sell OTC options. In the case of any Fund transactions involving listed non-equity options or options on futures contracts, Code Section 1256 generally will require any gain or loss arising from the lapse, closing out or exercise of such positions to be treated as 60% long-term and 40% short-term capital gain or loss. In addition, the Fund generally will be required to "mark to market" (*i.e.,* treat as sold for fair market value) each such position which it holds at the close of each taxable year. If a Section 1256 Contract held by the Fund at the end of a taxable year is sold in the following year, the amount of any gain or loss realized on such sale will be adjusted to reflect the gain or loss previously taken into account under the "mark to market" rules. Section 1256 Contracts include certain options contracts, certain regulated futures contracts, and certain other financial contracts.

Notwithstanding any of the foregoing, the Fund may recognize gain (but not loss) from a constructive sale of certain "appreciated financial positions" if the Fund enters into a short sale, offsetting notional principal contract, or forward contract transaction with respect to the appreciated position or substantially identical property. Appreciated financial positions subject to this constructive sale treatment are interests (including options and forward contracts and short sales) in securities. Constructive sale treatment does not apply to certain transactions closed in the 90-day period ending with the 30th day after the close of the taxable year, if certain conditions are met.

The Code contains special rules that apply to "straddles," defined generally as the holding of "offsetting positions with respect to personal property." For example, the straddle rules normally apply when a taxpayer holds a security and an offsetting option with respect to such security or substantially identical securities. In general, investment positions will be offsetting if there is a substantial diminution in the risk of loss from holding one position by reason of holding one or more other positions. The Fund may enter into certain investments that may constitute positions in a straddle. If two or more positions constitute a straddle, recognition of a realized loss from one position must be deferred to the extent of unrecognized gain in an offsetting position. In addition, long-term capital gain may be recharacterized as short-term capital gain, or short-term capital loss as long-term capital loss. Interest and other carrying charges allocable to personal property that is part of a straddle are not currently deductible but must instead be capitalized. Similarly, "wash sale" rules apply to prevent the recognition of loss by the Fund from the disposition of securities at a loss in a case in which identical or substantially identical securities (or an option to acquire such property) is or has been acquired within a prescribed period.

The Code allows a taxpayer to elect to offset gains and losses from positions that are part of a "mixed straddle." A "mixed straddle" is any straddle in which one or more but not all positions are Section 1256 Contracts. The Fund may be eligible to elect to establish one or more mixed straddle accounts for certain of its mixed straddle trading positions. The mixed straddle account rules require a daily "marking to market" of all open positions in the account and a daily netting of gains and losses from positions in the account. At the end of a taxable year, the annual net gains or losses from the mixed straddle account are recognized for tax purposes. The application of the mixed straddle account rules is not entirely clear. Therefore, there is no assurance that a mixed straddle account election by the Fund will be accepted by the IRS.

Gain or loss from a short sale of property is generally considered as capital gain or loss to the extent the property used to close the short sale constitutes a capital asset in the Fund's hands. Except with respect to certain situations where the property used to close a short sale has a long-term holding period on the date the short sale is entered into, gains on short sales generally are short-term capital gains. A loss on a short sale will be treated as a long-term capital loss if, on the date of the short sale, "substantially identical property" has been held by the Fund for more than one year. In addition, these rules may also terminate the running of the holding period of "substantially identical property" held by the Fund.

Gain or loss on a short sale will generally not be realized until such time as the short sale is closed. However, as described above in the discussion of constructive sales, if the Fund holds a short sale position with respect to securities that have appreciated in value, and it then acquires property that is the same as or substantially identical to the property sold short, the Fund generally will recognize gain on the date it acquires such property as if the short sale were closed on such date with such property. Similarly, if the Fund holds an appreciated financial position with respect to securities and then enters into a short sale with respect to the same or substantially identical property, the Fund generally will recognize gain as if the appreciated financial position were sold at its fair market value on the date it enters into the short sale. The subsequent holding period for any appreciated financial position that is subject to these constructive sale rules will be determined as if such position were acquired on the date of the constructive sale.

The Fund will inform Common Shareholders of the source and tax status of all distributions promptly after the close of each calendar year.

Selling Common Shareholders will generally recognize gain or loss in an amount equal to the difference between the Common Shareholder's adjusted tax basis in the Common Shares sold and the amount received. If the Common Shares are held as a capital asset, the gain or loss will be a capital gain or loss. The maximum tax rate applicable to net capital gains recognized by individuals and other non-corporate taxpayers is (i) the same as the maximum ordinary income tax rate for gains recognized on the sale of capital assets held for one year or less, or (ii) 15% through 2010 for gains recognized on the sale of capital assets held for more than one year (as well as certain capital gain distributions) (0% for individuals in the 10% or 15% tax brackets). Any loss on a disposition of Common Shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain distributions received with respect to those Common Shares. For purposes of determining whether Common Shares have been held for six months or less, the holding period is suspended for any periods during which the Common Shareholder's risk of loss is diminished as a result of holding one or more other positions in substantially similar or related property, or through certain options or short sales. Any loss realized on a sale or exchange of Common Shares will be disallowed to the extent those Common Shares are replaced by other Common Shares within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the original Common Shares (whether through the reinvestment of distributions, which could occur, for example, if the Common Shareholder is a participant in the Plan (as defined below) or otherwise). In that event, the basis of the replacement Common Shares will be adjusted to reflect the disallowed loss.

An investor should be aware that, if Common Shares are purchased shortly before the record date for any taxable distribution (including a capital gain distribution), the purchase price likely will reflect the value of the distribution and the investor then would receive a taxable distribution likely to reduce the trading value of such Common Shares, in effect resulting in a taxable return of some of the purchase price. Taxable distributions to individuals and certain other non-corporate Common Shareholders, including those who have not provided their correct taxpayer identification number and other required certifications, may be subject to "backup" federal income tax withholding at the fourth lowest rate of tax applicable to a single individual (28% through 2010).

The foregoing briefly summarizes some of the material federal income tax consequences to Common Shareholders of investing in Common Shares, reflects the federal tax law as of the date of this prospectus, and does not address special tax rules applicable to certain types of investors, such as corporate and foreign investors. This summary does not represent a detailed description of the federal income tax consequences applicable to Common Shareholders if they are subject to special treatment under the federal income tax laws (including, without limitation, financial institutions, insurance companies, investors in pass-through entities, U.S. shareholders whose "functional currency" is not the U.S. dollar, tax-exempt organizations, dealers in securities or currencies, traders in securities or commodities that elect mark to market treatment, or persons that will hold Common Shares as a position in a "straddle," "hedge" or as part of a "constructive sale" for federal income tax purposes). In addition, this discussion does not address the application of the U.S. federal alternative minimum tax. Unless otherwise noted, this discussion assumes that an investor is a U.S. person and holds the Common Shares as a capital asset. This discussion is based upon present provisions of the Code, the regulations promulgated thereunder, and judicial and administrative ruling authorities, all of which are subject to change or differing interpretations by the courts or the IRS retroactively or prospectively. Investors should consult their tax advisors regarding other federal, state or local tax considerations that may be applicable in their particular circumstances, as well as any pending or proposed tax law changes.

## DIVIDEND REINVESTMENT PLAN

Unless the registered owner of Common Shares elects to receive cash by contacting the Plan Administrator, all dividends declared on Common Shares of the Fund will be automatically reinvested by Computershare Limited (the "Plan Administrator"), the administrator for shareholders in the Fund's Dividend Reinvestment Plan (the "Plan"), in additional Common Shares of the Fund. Common Shareholders who elect not to participate in the Plan will receive all dividends and other distributions in cash paid by check mailed directly to the shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by the Plan Administrator, as dividend disbursing agent. You may elect not to participate in the Plan and to receive all dividends in cash by contacting the Plan Administrator at the address set forth below if your Common Shares are registered in your name or by contacting your bank, broker or other entity if your Common Shares are held in street or other nominee name. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Some brokers may automatically elect to receive cash on your behalf and may re-invest that cash in additional Common Shares of the Fund for you. If you wish for all dividends declared on your Common Shares to be automatically reinvested pursuant to the Plan, please contact your broker. The Plan Administrator will open an account for each Common Shareholder under the Plan in the same name in which such Common Shareholder's Common Shares are registered. Whenever the Fund declares a dividend or other distribution (each, a "Dividend") payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the cash equivalent in Common Shares. Common Shares will be acquired by the Plan Administrator for the participants' accounts, depending upon the circumstances described below, either (1) through receipt of additional unissued but authorized Common Shares from the Fund ("Newly Issued Common Shares") or (2) by purchase of outstanding Common Shares on the open market ("Open-Market Purchases") on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per Common Share is equal to or less than the NAV per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus estimated brokerage commissions, the Plan Administrator will invest the Dividend amount less brokerage commissions in Common Shares acquired on behalf of the participants in Open-Market Purchases. In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next "ex-dividend" date for the Common Shares or 30 days after the payment date for such Dividend, whichever is sooner (the "Last Purchase Date"), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly Dividends. Therefore, Open-Market Purchases can only be made during the period from the payment date at each dividend until the next ex-dividend date for Common Shares, a period at approximately 10 days. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date.

Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per Common Share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date.

The Plan Administrator maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of record shareholders such as banks, brokers or nominees which hold Common Shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder and held for the account of beneficial owners who participate in the Plan.

There will be no brokerage charges with respect to Common Shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. See "Federal Income Tax Matters." Participants that request a sale of shares through the Plan Administrator are subject to a $15.00 sales fee and a $.12 per share sold brokerage commission.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator, Computershare Limited, P.O. Box 43011, Providence, RI 02940-3011 or by telephone at (800) 730-6001.

## DESCRIPTION OF CAPITAL STRUCTURE

The Fund is an unincorporated statutory trust organized under the laws of the State of Delaware on July 11, 2007 by a Certificate of Trust pursuant to an Agreement and Declaration of Trust effective as of July 11, 2007 (the "Declaration of Trust"). The Declaration of Trust provides that the Board may authorize separate classes of shares of beneficial interest. The Board has authorized an unlimited number of Common Shares. The Fund intends to hold annual meetings of Common Shareholders in compliance with the requirements of the NYSE.

### Common Shares

The Declaration of Trust permits the Fund to issue an unlimited number of full and fractional common shares of beneficial interest, $0.01 par value per share. Each Common Share represents an equal proportionate interest in the assets of the Fund with each other Common Share in the Fund. Common Shareholders will be entitled to the payment of distributions when, as and if declared by the Board. The 1940 Act, the terms of any future borrowings or the issuance of preferred shares may limit the payment of distributions to the Common

Shareholders. Each whole Common Share shall be entitled to one vote as to matters on which it is entitled to vote pursuant to the terms of the Declaration of Trust on file with the Securities Exchange Commission. Upon liquidation of the Fund, after paying or adequately providing for the payment of all liabilities of the Fund and the liquidation preference with respect to any outstanding preferred shares, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the Board may distribute the remaining assets of the Fund among the holders of the Common Shares. The Declaration of Trust provides that Common Shareholders are not liable for any personal liabilities of the Fund, and together with the Fund's By-laws, indemnifies shareholders against any such liability.

The Fund has no current intention to issue preferred shares or to borrow money. However, if at some future time there are any borrowings or preferred shares outstanding, the Fund may not be permitted to declare any cash distribution on its Common Shares, unless at the time of such declaration, (i) all accrued distributions on preferred shares or accrued interest on borrowings have been paid and (ii) the value of the Fund's total assets (determined after deducting the amount of such distribution), less all liabilities and indebtedness of the Fund not represented by senior securities, is at least 300% of the aggregate amount of such securities representing indebtedness and at least 200% of the aggregate amount of securities representing indebtedness plus the aggregate liquidation value of the outstanding preferred shares, as prescribed by the 1940 Act. In addition to the requirements of the 1940 Act, the Fund may be required to comply with other asset coverage requirements as a condition of the Fund obtaining a rating of preferred shares from a nationally recognized statistical rating agency (a "Rating Agency"). These requirements may include an asset coverage test more stringent than under the 1940 Act. This limitation on the Fund's ability to make distributions on its Common Shares could in certain circumstances impair the ability of the Fund to maintain its qualification for taxation as a regulated investment company for federal income tax purposes. If the Fund were in the future to issue preferred shares or borrow money, it would intend, however, to the extent possible to purchase or redeem preferred shares or reduce borrowings from time to time to maintain compliance with such asset coverage requirements and may pay special distributions to the holders of the preferred shares in certain circumstances in connection with any potential impairment of the Fund's status as a regulated investment company. See "Federal Income Tax Matters." Depending on the timing of any such redemption or repayment, the Fund may be required to pay a premium in addition to the liquidation preference of the preferred shares to the holders thereof.

The Fund has no present intention of offering additional Common Shares, except as described herein. Other offerings of its Common Shares, if made, will require approval of the Board. Any additional offering will not be sold at a price per Common Share below the then current net asset value (exclusive of underwriting discounts and commissions) except in connection with an offering to existing Common Shareholders or with the consent of a majority of the Fund's outstanding Common Shares. The Common Shares have no preemptive rights.

The Fund generally will not issue Common Share certificates. However, upon written request to the Fund's transfer agent, a share certificate will be issued for any or all of the full Common Shares credited to an investor's account. Common Share certificates that have been issued to an investor may be returned at any time.

**Preferred Shares**

The Fund has no current intention of issuing any shares other than the Common Shares. However, the Declaration of Trust authorizes the issuance of an unlimited number of shares of beneficial interest with preference rights (the "preferred shares") in one or more series, with rights as determined by the Board, by action of the Board without the approval of the Common Shareholders.

Under the requirements of the 1940 Act, the Fund must, immediately after the issuance of any preferred shares, have an "asset coverage" of at least 200%. Asset coverage means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities (as defined in the

1940 Act), bears to the aggregate amount of senior securities representing indebtedness of the Fund, if any, plus the aggregate liquidation preference of the preferred shares. If the Fund seeks a rating for preferred shares, asset coverage requirements in addition to those set forth in the 1940 Act may be imposed. The liquidation value of any preferred shares would be expected to equal their aggregate original purchase price plus redemption premium, if any, together with any accrued and unpaid distributions thereon (on a cumulative basis), whether or not earned or declared. The terms of any preferred shares, including their distribution rate, voting rights, liquidation preference and redemption provisions, will be determined by the Board (subject to applicable law and the Fund's Declaration of Trust) if and when it authorizes preferred shares. The Fund may issue preferred shares that provide for the periodic redetermination of the distribution rate at relatively short intervals through an auction or remarketing procedure, although the terms of such preferred shares may also enable the Fund to lengthen such intervals. At times, the distribution rate as redetermined on any preferred shares could exceed the Fund's return after expenses on the investment of proceeds from the preferred shares and the Fund's leveraged capital structure would result in a lower rate of return to Common Shareholders than if the Fund were not so structured.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the terms of any preferred shares may entitle the holders of preferred shares to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus redemption premium, if any, together with accrued and unpaid dividends, whether or not earned or declared and on a cumulative basis) before any distribution of assets is made to Common Shareholders. After payment of the full amount of the liquidating distribution to which they are entitled, the preferred shareholders would not be entitled to any further participation in any distribution of assets by the Fund. Holders of preferred shares, voting as a class, would be entitled to elect two of the Fund's Trustees, if any preferred shares are issued. Under the 1940 Act, if at any time dividends on the preferred shares are unpaid in an amount equal to two full years' dividends thereon, the holders of all outstanding preferred shares, voting as a class, will be entitled to elect a majority of the Board until all dividends in default have been paid or declared and set apart for payment. In addition, if required by a Rating Agency rating the preferred shares or if the Board determines it to be in the best interests of the Common Shareholders, issuance of the preferred shares may result in more restrictive provisions than required under the 1940 Act. In this regard, holders of preferred shares may, for example, be entitled to elect a majority of the Fund's Board if only one dividend on the preferred shares is in arrears.

In the event of any future issuance of preferred shares, the Fund likely would seek a credit rating for such preferred shares from a Rating Agency. In such event, as long as preferred shares are outstanding, the composition of its portfolio will reflect guidelines established by such Rating Agency. Based on previous guidelines established by Rating Agencies for the securities of other issuers, the Fund anticipates that the guidelines with respect to any preferred shares would establish a set of tests for portfolio composition and asset coverage that supplement (and in some cases are more restrictive than) the applicable requirements under the 1940 Act. Although no assurance can be given as to the nature or extent of the guidelines that may be imposed in connection with obtaining a rating of any preferred shares, the Fund anticipates that such guidelines would include asset coverage requirements that are more restrictive than those under the 1940 Act, restrictions on certain portfolio investments and investment practices and certain mandatory redemption requirements relating to any preferred shares. No assurance can be given that the guidelines actually imposed with respect to any preferred shares by a Rating Agency would be more or less restrictive than those described in this Prospectus.

**Credit Facility/Commercial Paper Program**

The Fund has no current intention to borrow money for the purpose of obtaining investment leverage. If, in the future, the Fund determines to engage in investment leverage using borrowings, the Fund may enter into definitive agreements with respect to a credit facility/commercial paper program or other borrowing program ("Program"), pursuant to which the Fund would expect to be entitled to borrow up to a specified amount. Any such borrowings would constitute financial leverage. Borrowings under such a Program would not be expected to be convertible into any other securities of the Fund. Outstanding amounts would be expected to be prepayable by the Fund prior to final maturity without significant penalty, and no sinking fund or mandatory retirement provisions would be expected to apply. Outstanding amounts would be payable at maturity or such earlier times as required by the agreement. The Fund may be required to prepay outstanding amounts under the Program or incur a penalty rate of interest in the event of the occurrence of certain events of default. The Fund would be expected to indemnify the lenders under the Program against liabilities they may incur in connection with the Program.

In addition, the Fund expects that any such Program would contain covenants that, among other things, likely would limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and may require asset coverage ratios in addition to those required by the 1940 Act. The Fund may be required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. Under the 1940 Act, the Fund is not permitted to incur indebtedness unless immediately after such borrowings the Fund has an asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness (*i.e.,* such indebtedness may not exceed 33 1⁄3% of the value of the Fund's total assets, including the amount borrowed). The Fund expects that any Program would have customary covenant, negative covenant and default provisions. There can be no assurance that the Fund will enter into an agreement for a Program on terms and conditions representative of the foregoing, or that additional material terms will not apply. In addition, if entered into, any such Program may in the future be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of preferred shares or debt securities.

**Effects of Possible Future Leverage**

As discussed above, the Fund has no current intention to issue preferred shares or to borrow money for the purpose of obtaining investment leverage. In the event that the Fund determines in the future to utilize investment leverage, there can be no assurance that such a leveraging strategy would be successful during any period in which it is employed. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of the Common Shares and the risk that fluctuations in distribution rates on any preferred shares or fluctuations in borrowing costs may affect the return to Common Shareholders. To the extent that amounts available for distribution derived from securities purchased with the proceeds of leverage exceed the cost of such leverage, the Fund's distributions would be greater than if leverage had not been used. Conversely, if the amounts available for distribution derived from securities purchased with leverage proceeds are not sufficient to cover the cost of leverage, distributions to Common Shareholders would be less than if leverage had not been used. In the latter case, the Adviser, in its best judgment, may nevertheless determine to maintain the Fund's leveraged position if it deems such action to be appropriate. The costs of an offering of preferred shares and/or a borrowing program would be borne by Common Shareholders and consequently would result in a reduction of the net asset value of Common Shares.

In addition, the fee paid to the Adviser will be calculated on the basis of the Fund's average daily managed assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fees would be higher if leverage is utilized. In this regard, holders of preferred shares would not bear the investment advisory fee. Rather, Common Shareholders would bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds of the preferred shares offering.

**Repurchase of Common Shares and Other Discount Methods**

Because shares of closed-end management investment companies frequently trade at a discount to their net asset values, the Board has determined that from time to time it may be in the interest of Common Shareholders for the Fund to take corrective actions to reduce trading discounts in the Common Shares. The Board, in consultation with the Adviser, will review at least annually the possibility of open market repurchases and/or tender offers for the Common Shares and will consider such factors as the market price of the Common Shares, the net asset value of the Common Shares, the liquidity of the assets of the Fund, the effect on the Fund's expenses, whether such transactions would impair the Fund's status as a regulated investment company or result in a failure to comply with applicable asset coverage requirements, general economic conditions and such other events or conditions that may have a material effect on the Fund's ability to consummate such transactions. There are no assurances that the Board will, in fact, decide to undertake either of these actions or, if undertaken, that such actions will result in the Common Shares trading at a price equal to or approximating their net asset value. The Board, in consultation with the Adviser, may from time to time review other possible actions to reduce trading discounts in the Common Shares.

**Anti-Takeover Provisions in the Declaration of Trust**

The Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board and could have the effect of depriving Common Shareholders of an opportunity to sell their Common Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions may have the effect of discouraging attempts to acquire control of the Fund, which attempts could have the effect of increasing the expenses of the Fund and interfering with the normal operation of the Fund. The Board is divided into three classes, with the term of one class expiring at each annual meeting of shareholders. At each annual meeting, one class of Trustees is elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the Board. A Trustee may be removed from office for cause only, provided the aggregate number of Trustees after such removal shall not be fewer than three, and only by action taken by a majority of the remaining Trustees followed by the holders of at least seventy-five percent of the Common Shares then entitled to vote in an election of such Trustee.

In addition, the Declaration of Trust requires the favorable vote of the holders of at least 75% of the outstanding shares of each class of the Fund, voting as a class, then entitled to vote to approve, adopt or authorize certain transactions with 5%-or-greater holders of a class of shares and their associates, unless the Board shall by resolution have approved a memorandum of understanding with such holders, in which case normal voting requirements would be in effect. For purposes of these provisions, a 5%-or-greater holder of a class of shares (a "Principal Shareholder") refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of any class of beneficial interest of the Fund. The transactions subject to these special approval requirements are: (i) the merger or consolidation of the Fund or any subsidiary of the Fund with or into any Principal Shareholder; (ii) the issuance of any securities of the Fund to any Principal Shareholder for cash (other than pursuant to any automatic dividend reinvestment plan); (iii) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets having an aggregate fair market value of less than $1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period); or (iv) the sale, lease or exchange to the Fund or any subsidiary thereof, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than $1,000,000, aggregating for the purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period).

The Board has determined that provisions with respect to the Board and the 75% voting requirements described above, which voting requirements are greater than the minimum requirements under Delaware law or the 1940 Act, are in the best interest of Common Shareholders generally. Reference should be made to the Declaration of Trust on file with the Securities Exchange Commission for the full text of these provisions.

**Conversion to Open-End Fund**

To convert the Fund to an open-end investment company, the Fund's Agreement and Declaration of Trust requires the favorable vote of a majority of the Board followed by the favorable vote of the holders of at least 75% of the outstanding shares of each affected class or series of shares of the Fund, voting separately as a class or series, unless such amendment has been approved by at least 80% of the Trustees, in which case "a majority of the outstanding voting securities" will be required, which as defined in the 1940 Act and used herein means the lesser of (a) 67% of the shares of the Fund present or represented by proxy at a meeting if the holders of more than 50% of the outstanding shares are present or represented at the meeting or (b) more than 50% of outstanding shares of the Fund. The foregoing vote would satisfy a separate requirement in the 1940 Act that any conversion of the Fund to an open-end investment company be approved by the shareholders. Conversion of the Fund to an open-end investment company would require the redemption of any outstanding preferred shares, if any, which could eliminate or alter the leveraged capital structure of the Fund with respect to the Common Shares. Following any such conversion, it is also possible that certain of the Fund's investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In the event of conversion, the Common Shares would cease to be listed on the NYSE or other national securities exchanges or market systems. Shareholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the 1940 Act, at their NAV, less such redemption charge, if any, as might be in effect at the time of a redemption. The Fund expects to pay all such redemption requests in cash, but reserves the right to pay redemption requests in a combination of cash or securities. If such partial payment in securities are made, investors may incur brokerage costs in converting such securities to cash. If the Fund were converted to an open-end fund, it is likely that new shares would be sold at NAV plus a sales load. The Board believes, however, that the closed-end structure is desirable in light of the Fund's investment objectives and policies. Therefore, you should assume that it is not likely that the Board would vote to convert the Fund to an open-end fund.

## UNDERWRITING

Wells Fargo Securities, LLC, UBS Securities LLC and Raymond James & Associates, Inc. are acting as the representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of the final Prospectus, each underwriter named below has agreed to purchase, and the Fund has agreed to sell to that underwriter, the number of Common Shares set forth opposite the underwriter's name.

| Underwriter | Number of Common Shares |
| --- | --- |
| Wells Fargo Securities, LLC | |
| UBS Securities LLC | |
| Raymond James & Associates, Inc. | |
| Janney Montgomery Scott LLC | |
| Ladenburg Thalmann & Co. Inc. | |
| Morgan Keegan & Company, Inc. | |
| J.J.B. Hilliard, W.L. Lyons, LLC | |
| Maxim Group LLC | |
| Wedbush Morgan Securities Inc. | |
| Wunderlich Securities, Inc. | |
| Total | |

The underwriting agreement provides that the obligations of the underwriters to purchase the Common Shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares of Common Shares (other than those covered by the over-allotment option described below) shown above if any of the Common Shares are purchased.

The underwriters propose to offer some of the Common Shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the Common Shares to dealers at the public offering price less a concession not to exceed $ per share. The sales load the Fund will pay of $0.90 per share is equal to 4.5% of the initial offering price. If all of the Common Shares are not sold at the initial offering price, the representatives may change the public offering price and other selling terms. Investors must pay for any Common Shares purchased on or before . The representatives have advised the Fund that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

### Additional Compensation

The Adviser (and not the Fund) has agreed to pay to each of Wells Fargo Securities, LLC and Raymond James & Associates, Inc. from its own assets, a structuring fee for advice relating to the structure, design and organization of the Fund as well as services related to the sale and distribution of the Fund's Common Shares in the amount of $ . If the over-allotment option is not exercised, the structuring fee paid to Wells Fargo Securities, LLC will not exceed % and %, respectively, of the gross offering proceeds.

The Adviser (and not the Fund) has agreed to pay to UBS Securities LLC, from its own assets, a structuring fee for certain financial advisory services in assisting the Adviser in structuring and organizing the Fund in the amount of $ . If the over-allotment option is not exercised, the structuring fee paid to UBS Securities LLC will not exceed % of the gross offering proceeds.

The Adviser (and not the Fund) may also pay certain qualifying underwriters a sales incentive fee or additional compensation in connection with the offering.

The total amount of the underwriters' additional compensation payments by the Adviser described above will not exceed 4.5% of the total public offering price of the Common Shares offered hereby. The sum total of all compensation to the underwriters in connection with this public offering of Common Shares, including sales load and all forms of additional compensation or structuring or sales incentive fee payments to the underwriters and other expenses, will be limited to not more than 9% of the total public offering price of the Common Shares sold in this offering.

The Fund has granted to the underwriters an option, exercisable for 45 days from the date of this Prospectus, to purchase up to additional Common Shares at the public offering price less the sales load. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Common Shares approximately proportionate to that underwriter's initial purchase commitment.

The Fund, the Adviser and the Sub-Adviser have agreed that, for a period of 180 days from the date of this Prospectus, the Fund will not, without the prior written consent of Wells Fargo Securities, LLC, on behalf of the underwriters, dispose of or hedge any Common Shares or any securities convertible into or exchangeable for Common Shares, provided that the Fund may issue and sell Common Shares pursuant to the Fund's Dividend Investment Plan.

To meet the NYSE distribution requirements for trading, the underwriters have undertaken to sell Common Shares in a manner such that Common Shares are held by a minimum of 400 beneficial owners in lots of 100 or more, the minimum stock price will be at least $4.00 at the time of listing on the NYSE, at least 1,100,000 Common Shares will be publicly held in the United States and the aggregate market value of publicly held shares in the United States will be at least $60 million. The Fund has been approved for listing of the Common Shares on the NYSE, subject to notice of issuance, under the symbol "FTT."

The following table shows the sales load that the Fund will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of Common Shares.

| | Paid by Fund | |
|---|---|---|
| | No Exercise | Full Exercise |
| Per Common Share | $ | $ |
| Total | $ | $ |

The Fund, the Adviser and the Subadviser have agreed to indemnify the underwriters against certain liabilities, including liabilities under the 1933 Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the Common Shares after trading in the Common Shares has commenced on the NYSE. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriters. No assurance can be given as to the liquidity of, or the trading market for, the Common Shares as a result of any market-making activities undertaken by any underwriter. This Prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus must be delivered, with offers and sales of the Common Shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Wells Fargo Securities, LLC, on behalf of itself and the other underwriters, may purchase and sell the Common Shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of

Common Shares in excess of the number of Common Shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of Common Shares made in an amount up to the number of Common Shares represented by the underwriters' over-allotment option. In determining the source of Common Shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of Common Shares available for purchase in the open market as compared to the price at which they may purchase Common Shares through the over-allotment option.

Transactions to close out the covered syndicate short position involve either purchases of Common Shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of Common Shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of Common Shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of Common Shares in the open market while the offering is in progress.

The underwriters may impose a penalty bid. Penalty bids allow the underwriting syndicate to reclaim selling concessions allowed to an underwriter or a dealer for distributing Common Shares in this offering if the syndicate repurchases Common Shares to cover syndicate short positions or to stabilize the purchase price of the Common Shares.

Any of these activities may have the effect of preventing or retarding a decline in the market price Common Shares. They may also cause the price of Common Shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. Other than this Prospectus in electronic format, the information on any such underwriter's website is not part of this Prospectus. The representatives may agree to allocate a number of Common Shares to underwriters for sale to their online brokerage account holders. The representatives will allocate Common Shares to underwriters that may make internet distributions on the same basis as other allocations. In addition, Common Shares may be sold by the underwriters to securities dealers who resell Common Shares to online brokerage account holders.

The Fund anticipates that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of the Fund's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may, from time to time, engage in transactions with or perform investment banking and advisory services for the Adviser and Subadviser and their affiliates in the ordinary course of business, for which such underwriters have received, and may expect to receive, customary fees and expenses.

Prior to the public offering of Common Shares, the Adviser or an affiliate will purchase Common Shares from the Fund in an amount satisfying the net worth requirements of Section 14(a) of the 1940 Act.

The principal business address of Wells Fargo Securities, LLC is 375 Park Avenue, New York, New York 10152. The principal business address of UBS Securities LLC is 299 Park Avenue, New York, New York 10171. The principal business address of Raymond James & Associates, Inc. is 880 Carillon Parkway, Tower 3, 5$^{th}$ Floor, St. Petersburg, FL 33716.

## CUSTODIAN AND TRANSFER AGENT

The Bank of New York Mellon ("BNY Mellon") is the custodian of the Fund and will maintain custody of the securities and cash of the Fund. BNY Mellon maintains the Fund's general ledger and computes net asset value per share daily.

Computershare Limited, P.O. Box 43011, Providence, RI 02940-3011, is the transfer agent and dividend disbursing agent of the Fund.

## LEGAL OPINIONS

Certain legal matters in connection with the Common Shares will be passed upon for the Fund by K&L Gates LLP, Boston, Massachusetts, and for the Underwriters by Simpson Thacher & Bartlett LLP, New York, New York. K&L Gates LLP and Simpson Thacher & Bartlett LLP may rely as to certain matters of Delaware law on the opinion of , , Delaware.

## REPORTS TO SHAREHOLDERS

The Fund will send to Common Shareholders unaudited semi-annual and audited annual reports, including a list of investments held.

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP, is the independent registered public accounting firm for the Fund and will audit the Fund's financial statements.

## ADDITIONAL INFORMATION

The Prospectus and the Statement of Additional Information do not contain all of the information set forth in the Registration Statement that the Fund has filed with the Securities Exchange Commission. The complete Registration Statement may be obtained from the Securities Exchange Commission upon payment of the fee prescribed by its rules and regulations. The Statement of Additional Information can be obtained without charge by calling 1-800-341-7400.

Statements contained in this prospectus as to the contents of any contract or other documents referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which this prospectus forms a part, each such statement being qualified in all respects by such reference.

## TABLE OF CONTENTS FOR THE STATEMENT OF ADDITIONAL INFORMATION

## THE FUND'S PRIVACY POLICY

Federated recognizes that you expect us to protect both your assets and your financial information. We respect your right to privacy and your expectation that all personal information about you or your account will be maintained in a secure manner. We are committed to maintaining the confidentiality, security and integrity of client and shareholder information. We want you to understand the Federated policy that governs the handling of your information, how Federated obtains information, how that information is used and how it is kept secure.

**Information Federated Receives**

Federated may receive nonpublic personal information about you from the following sources:

- We may receive information from you or from your financial representative on account applications, other forms or electronically. Examples of this information may include your name, address, Social Security Number, assets and income.
- We may receive information from you or from your financial representative through transactions, correspondence, and other communications. Examples of this information include specific investments and your account balances.
- We may obtain other personal information from you in connection with providing you a financial product or service. Examples of this information include depository, debit or credit account numbers.

**Information Sharing Policy**

Except as described below, Federated does not share customer information. We will not rent, sell, trade, or otherwise release or disclose any personal information about you. Any information you provide to us is for Federated's use only. If you decide to close your account(s) or become an inactive customer, we will adhere to these privacy policies and practices.

Federated will not disclose consumer information, account numbers, access numbers, or access codes for credit cards, deposit, or transaction accounts to any nonaffiliated third party for use in telemarketing, direct mail, or other marketing purposes.

Federated limits the sharing of nonpublic personal information about you with financial or non-financial companies or other entities, including companies affiliated with Federated, and other, nonaffiliated third parties, to the following exceptions:

- We may share information when it is necessary and required to process a transaction or to service a customer relationship. For example, information may be shared with a company that provides account record keeping services or a company that provides proxy services to shareholders.
- We may share information when it is required or permitted by law. For example, information may be shared to protect you against fraud or with someone who has a legal or beneficial interest, such as your power of attorney, or in response to a subpoena.
- We may disclose some or all of the information described above with companies that perform marketing or other services on our behalf.

For example, we may share information about you with the financial intermediary (bank, investment adviser, or broker-dealer) through whom you purchased Federated products or services, or with providers of marketing, legal, accounting, or other professional services.

This is only a summary of the Fund's privacy policy, for more information and copy of the complete privacy policy, please call 1-800-341-7400.

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Until , 2010 (25 days after the date of this prospectus), all dealers that buy, sell or trade the common shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Shares

# Federated Enhanced Treasury Income Fund

Common Shares
$20.00 per Share

Federated

WORLD-CLASS INVESTMENT MANAGER®

PROSPECTUS
, 2010

Wells Fargo Securities

UBS Investment Bank

Raymond James

Janney Montgomery Scott LLC

Ladenburg Thalmann & Co. Inc.

Morgan Keegan & Company, Inc.

J.J.B. Hilliard, W.L. Lyons, LLC

Maxim Group LLC

Wedbush Morgan Securities Inc.

Wunderlich Securities