

# 42,750,000 Shares Cohen & Steers REIT and Preferred Income Fund, Inc. Common Shares \$25.00 per share

*Investment Objectives.* Cohen & Steers REIT and Preferred Income Fund, Inc. (the “Fund”) is a recently organized, non-diversified, closed-end management investment company.

- Our primary investment objective is high current income; and
- Our secondary objective is capital appreciation.

*(continued on following page)*

**Investing in the Common Shares involves risks that are described in the “Principal Risks of the Fund” section beginning on page 42 of this prospectus.**

	<u>Per Share</u>	<u>Total<sup>(1)</sup></u>
Public offering price .....	\$25.00	\$1,068,750,000
Sales load <sup>(2)</sup> .....	\$1.125	\$48,093,750
Estimated offering expenses <sup>(3)</sup> .....	\$.05	\$2,137,500
Proceeds to the Fund .....	\$23.825	\$1,018,518,750

- <sup>(1)</sup> The Fund has granted the underwriters an option to purchase up to 6,412,500 additional Common Shares at the public offering price less the sales load within 45 days of the date of this prospectus, solely to cover overallotments, if any. If such option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds to the Fund will be \$1,229,062,500, \$55,307,813, \$2,458,125 and \$1,171,296,563, respectively. See “Underwriting.”
- <sup>(2)</sup> The Fund has agreed to pay the underwriters \$.0083 per Common Share as a partial reimbursement of expenses incurred in connection with the offering. See “Underwriting.”
- <sup>(3)</sup> The Investment Manager has agreed to pay all organizational expenses and offering costs of the Fund (other than the sales load, but including the \$.0083 per Common Share partial reimbursement of expenses to the underwriters) that exceed \$.05 per Common Share. The estimated offering expenses to be incurred by the Fund are \$2,137,500.

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.

The Common Shares will be ready for delivery on or about June 27, 2003.

	<b>Merrill Lynch &amp; Co.</b>	
<b>A.G. Edwards &amp; Sons, Inc.</b>	<b>Deutsche Bank Securities</b>	<b>Legg Mason Wood Walker</b>
<b>Raymond James</b>	<b>RBC Capital Markets</b>	<small>Incorporated</small>
<b>Wachovia Securities</b>	<b>Wells Fargo Securities, LLC</b>	<b>U.S. Bancorp Piper Jaffray</b>
<b>BB&amp;T Capital Markets</b>	<b>Robert W. Baird &amp; Co.</b>	<b>Advest, Inc.</b>
<b>Fahnestock &amp; Co. Inc.</b>	<b>J.J.B. Hilliard, W.L. Lyons, Inc.</b>	<b>H&amp;R Block Financial Advisors, Inc.</b>
<b>McDonald Investments Inc.</b>	<b>Quick &amp; Reilly, Inc.</b>	<b>Janney Montgomery Scott LLC</b>
	<b>TD Waterhouse</b>	<b>Stifel, Nicolaus &amp; Company</b>
		<small>Incorporated</small>

(continued from previous page)

*Portfolio Contents.* Under normal market conditions, the Fund will invest:

- at least 40%, but no more than 60%, of its total assets in common stocks issued by real estate companies, such as real estate investment trusts or “REITs”;
- at least 40%, but no more than 60%, of its total assets in preferred securities of which up to 5% may be preferred securities of REITs;
- up to 20% of its total assets in debt securities other than preferred securities;
- up to 10% of its total assets in preferred or other debt securities that at the time of the investment are rated below investment grade or that are unrated but judged to be of comparable quality by the Fund’s Investment Manager;
- a significant portion, but less than 25%, of its total assets in the securities of companies principally engaged in the financial services industry; this policy of investing in the financial services industry and the Fund’s concentration of its investments in the real estate industry make the Fund more susceptible to adverse economic or regulatory occurrences affecting these sectors; and
- up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded or listed on a U.S. securities exchange or in the U.S. over-the-counter market.

With respect to the preferred securities component of the portfolio, the Fund expects that it will invest primarily in taxable preferred securities.

Initially, the Fund will allocate approximately 50% of the Fund’s total assets to common stocks issued by REITs, approximately 40% to preferred securities and approximately 10% to debt securities other than preferred securities. Thereafter, the portion of the Fund’s total assets invested in common stock issued by real estate companies, including REITs, preferred securities and other debt securities will vary from time to time, consistent with the Fund’s investment objectives and policies. At any time, under normal circumstances at least 80% of the Fund’s total assets will be invested in common stocks issued by REITs and preferred securities. There can be no assurance that the Fund will achieve its investment objectives. See “Investment Objectives and Policies” and “Principal Risks of the Fund.”

*Leverage.* The Fund intends to use leverage by issuing shares of preferred stock representing approximately 35% of the Fund’s capital after their issuance or alternatively through borrowing. Through leveraging, the Fund will seek to obtain a higher return for holders of Common Shares than if the Fund did not use leverage. Leverage is a speculative technique and there are special risks and costs associated with leveraging. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed. See “Use of Leverage—Leverage Risks.”

*No Prior History.* Because the Fund is recently organized, its common shares have no history of public trading. The shares of closed-end investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering. The Fund’s Common Shares have been approved for listing on the New York Stock Exchange upon notice of issuance under the symbol “RNP.”

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**You should rely only on the information contained or incorporated by reference in this prospectus. We have 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. We are 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 assume that the information in this prospectus is accurate only as of the date of this prospectus. Our business, financial condition and prospects may have changed since that date.**

This prospectus concisely sets forth information about the Fund you should know before investing. You should read the prospectus before deciding whether to invest and retain it for future reference. A Statement of Additional Information, dated June 24, 2003 (the "SAI"), containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI on page 74 of this prospectus. You may request a free copy of the SAI by calling (800) 437-9912. You may also obtain the SAI and other information regarding the Fund on the Securities and Exchange Commission website (<http://www.sec.gov>).

Through and including July 19, 2003 (25 days after the date of this prospectus), all dealers effecting transactions in these securities, 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.

## PROSPECTUS SUMMARY

*This is only a summary. This summary may not contain all of the information that you should consider before investing in our Common Shares. You should review the more detailed information contained in this prospectus and in the SAI, especially the information set forth under the heading “Principal Risks of the Fund.”*

- The Fund** ..... Cohen & Steers REIT and Preferred Income Fund, Inc. (the “Fund”) is a recently organized, non-diversified, closed-end management investment company.
- The Offering** ..... We are offering 42,750,000 shares of common stock (“Common Shares”) through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”). You must purchase at least 100 Common Shares (\$2,500). The underwriters have been granted an option to purchase up to 6,412,500 additional Common Shares solely to cover overallocments, if any. The initial public offering price is \$25.00 per share. See “Underwriting.” Cohen & Steers Capital Management, Inc. (the “Investment Manager”) will be responsible for all organizational expenses and offering costs (other than the sales load) that, when aggregated with the Fund’s organizational expenses, exceed \$.05 per share of the Fund’s Common Shares.
- Investment Objectives and Policies** .... Our primary investment objective is high current income. Capital appreciation is our secondary objective. Our investment objectives and certain investment policies are considered fundamental and may not be changed without shareholder approval. See “Investment Objectives and Policies.”
- Under normal market conditions, the Fund seeks to achieve its objectives through a portfolio of income producing common stock issued by REITs and preferred and other debt securities. Initially, the Fund will allocate approximately 50% of the Fund’s total assets to common stocks issued by REITs, approximately 40% to preferred securities and approximately 10% to debt securities other than preferred securities. Thereafter, the portion of the Fund’s total assets invested in common stock issued by real estate companies, including REITs, preferred securities and other debt securities will vary from time to time, consistent with the Fund’s investment objectives, although the Fund will normally invest at least 40% of its total assets in common stock issued by real estate companies, including REITs and at least 40% of its total

assets in preferred securities. At any time, under normal circumstances at least 80% of the Fund's total assets will be invested in common stocks issued by REITs and preferred securities.

*Investment Strategies.* In making investment decisions with respect to common stocks and other equity securities issued by real estate companies, including REITs, the Investment Manager relies on a fundamental analysis of each company. The Investment Manager reviews each company's potential for success in light of the company's current financial condition, its industry and sector position, and economic and market conditions. The Investment Manager evaluates a number of factors, including growth potential, earnings estimates and the quality of management.

In making investment decisions with respect to preferred securities and debt securities, the Investment Manager seeks to select what it believes are superior securities (*i.e.*, securities the Investment Manager views as undervalued on the basis of risk and return profiles). In making these determinations, the Investment Manager evaluates the fundamental characteristics of an issuer, including an issuer's creditworthiness, and also takes into account prevailing market factors. In analyzing credit quality, the Investment Manager considers not only fundamental analysis, but also an issuer's corporate and capital structure and the placement of the preferred or debt securities within that structure. The Investment Manager also takes into account other factors, such as call and other structural features, momentum and other exogenous signals (*i.e.*, the likely directions of ratings) and relative value versus other income security classes.

*Common Stocks Issued by REITs.* Under normal market conditions, at least 40%, but no more than 60%, of the Fund's total assets will be invested in common stocks issued by real estate companies, consisting primarily of REITs. Substantially all of the common stocks issued by REITs in which the Fund intends to invest are traded on a national securities exchange or in the over-the-counter market. A real estate company derives at least 50% of its revenue from real estate or has at least 50% of its assets in real estate. A REIT is a company dedicated to owning, and usually operating, income producing real estate, or to financing real estate. REITs are generally

not taxed on income distributed to shareholders provided they distribute to their shareholders substantially all of their taxable income (other than net capital gains) and otherwise comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, REITs generally pay relatively higher dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its objective of high current income. It is the Fund's current intention to invest approximately 50% of its total assets in common stocks of real estate companies, consisting primarily of REITs, although the actual percentage in its portfolio may change.

*Preferred Securities.* Under normal market conditions, at least 40%, but no more than 60%, of the Fund's total assets will be invested in preferred securities. Preferred securities pay fixed or floating dividends to investors and have "preference" over common stock in the payment of dividends and the liquidation of a company's assets. This means that a company must pay dividends on preferred stock before paying dividends on its common stock. Preferred stockholders usually have no right to vote for corporate directors or on other matters. The Fund expects that, under current market conditions, it will invest primarily in taxable preferred securities. The taxable preferred securities in which the Fund intends to invest do not qualify for the dividends received deduction (the "DRD") under Section 243 of the Code and are not expected to provide significant benefits under the rules relating to "qualified dividend income." The DRD generally allows corporations to deduct from their income 70% of dividends received. Pursuant to recently enacted legislation, individuals will generally be taxed at long-term capital gain rates on qualified dividend income. Accordingly, any corporate shareholder who otherwise would qualify for the DRD, and any individual shareholder who otherwise would qualify to be taxed at long-term capital gain rates on qualified dividend income, should assume that none of the distributions the shareholder receives from the Fund will qualify for the DRD or provide significant benefits under the rules relating to qualified dividend income. The Fund may also invest up to 5% of its total assets in preferred securities issued by REITs. Under current market conditions, the Fund's investments in preferred securities

are expected to consist primarily of fixed rate preferred securities. When used in this prospectus, taxable preferred securities refer generally to hybrid-preferred securities as well as certain types of traditional preferred securities that are not eligible for the DRD (and are not expected to provide significant benefits under the rules relating to qualified dividend income), such as REIT preferred securities.

The Fund also may invest up to 10% of its total assets in preferred or other debt securities that at the time of investment are rated below investment grade (Ba/BB or B) by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P") or Fitch Ratings ("Fitch") or that are unrated but judged to be of comparable quality by the Fund's Investment Manager. A security will not be considered to be below investment grade quality if it is rated within the four highest grades (Baa or BBB or better) by Moody's, S&P or Fitch, or is unrated but judged to be of comparable quality by the Fund's Investment Manager. These below investment grade quality securities are commonly referred to as "junk bonds" and are regarded as having predominantly speculative characteristics with respect to the payment of interest and repayment of principal.

While the Fund does not currently intend to invest in illiquid securities (*i.e.*, securities that are not readily marketable), it may invest up to 10% of its total assets in illiquid securities.

The Fund may invest up to 20% of its total assets in debt securities, including convertible debt securities and convertible preferred securities. Common stock acquired pursuant to a conversion feature will be subject to this 20% limitation.

The Fund will invest a significant portion, but less than 25%, of its total assets in the securities of companies principally engaged in the financial services industry (which are prominent issuers of preferred securities). In addition, under normal market conditions the Fund will invest at least 40% of its total assets in common stock issued by real estate companies, consisting primarily of REITs. This policy of investing in the financial services industry and the Fund's concentration of its investments in the real estate industry make the Fund more

susceptible to adverse economic or regulatory occurrences affecting these sectors.

The Fund also may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded or listed on a U.S. securities exchange or the U.S. over-the-counter market.

The Fund will generally not invest more than 10% of its total assets in the securities of one issuer. The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund's investment objectives.

There are no limits on portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of the Investment Manager, investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income.

Although not intended to be a significant element in the Fund's investment strategy, from time to time the Fund may use various other investment management techniques that also involve certain risks and special considerations including: engaging in interest rate and credit derivatives transactions and using options and financial futures.

There can be no assurance that our investment objectives will be achieved. See "Investment Objectives and Policies."

**Use of Leverage .....**

Subject to market conditions and the Fund's receipt of a AAA/Aaa credit rating on the Fund's preferred stock, approximately one to three months after completion of this offering, the Fund intends to offer shares of preferred stock ("Fund Preferred Shares") representing approximately 35% of the Fund's capital after their issuance. The issuance of Fund Preferred Shares will leverage your investment in Common Shares. As an alternative to the issuance of Fund Preferred Shares, the Fund may leverage through borrowing. The Fund Preferred Shares and any borrowings will have seniority over the Common Shares.

The use of leverage creates an opportunity for increased Common Share net income, but also creates special risks for holders of Common Shares (“Common Shareholders”). The Fund Preferred Shares will pay dividends based on short-term rates, which will be reset frequently. Alternatively, borrowings may be at a fixed or floating rate. The Fund may seek to protect itself from the risk of increasing dividends or interest expenses resulting from an increase in short-term interest rates by entering into a swap or cap transaction as to all or a portion of the Fund Preferred Shares or any borrowings. See “Interest Rate Transactions.” As long as the rate of return, net of applicable Fund expenses, on the Fund’s portfolio investments exceeds Fund Preferred Share dividend rates, as reset periodically, interest on any borrowings (as modified by any cap or the payment rate set by any interest rate swap), the investment of the proceeds of the Fund Preferred Shares or any borrowings will generate more income than will be needed to pay such dividends, interest rate or swap payment. If so, the excess will be available to pay higher dividends to Common Shareholders. If, however, the dividends or interest rate on any borrowings (as modified by any cap or payment rate set by any interest rate swap) exceeds the rate of return on the Fund’s investment portfolio, the return to Common Shareholders will be less than if the Fund had not leveraged.

The holders of Fund Preferred Shares voting as a separate class will be entitled to elect two members of the Board of Directors of the Fund and, in the event that the Fund fails to pay two full years of accrued dividends on the Fund Preferred Shares, the holders of the Fund Preferred Shares will be entitled to elect a majority of the members of the Board of Directors. See “Use of Leverage” and “Description of Shares—Fund Preferred Shares.”

There is no assurance that the Fund will utilize leverage or that, if utilized, the Fund’s leveraging strategy will be successful. See “Use of Leverage—Leverage Risks.”

*Leverage Risks.* Leverage creates two major types of risks for Common Shareholders:

- the likelihood of greater volatility of net asset value and market price of Common Shares because changes in the value of the Fund’s portfolio (including changes

in the value of any interest rate swap, if applicable) are borne entirely by the Common Shareholders; and

- the possibility either that Common Share income will fall if the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings rises, or that Common Share income will fluctuate because the dividend rate on the Fund Preferred Shares or the interest rate on any borrowings varies.

When the Fund is utilizing leverage, the fees paid to the Investment Manager for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets (which equals the net asset value of the Common Shares plus the liquidation preference on any Fund Preferred Shares plus the principal amount of any borrowings).

**Interest Rate Transactions .....**

In order to reduce the interest rate risk inherent in our underlying investments and capital structure, we may enter into interest rate swap or cap transactions. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the Fund Preferred Shares or any variable rate borrowing. The payment obligations would be based on the notional amount of the swap. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Depending on the state of interest rates in general, our use of interest rate swaps or caps could enhance or harm the overall performance of the Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if the counterparty to an interest rate swap or cap defaults, the Fund would be obligated to make the payments that

it had intended to avoid. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such default could negatively impact the performance of the Fund's Common Shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of the Common Shares. If the Fund fails to maintain the required 200% asset coverage of the liquidation value of the outstanding Fund Preferred Shares or if the Fund loses its expected AAA/Aaa rating on the Fund Preferred Shares or fails to maintain other covenants, the Fund may be required to redeem some or all of the Fund Preferred Shares. Similarly, the Fund could be required to prepay the principal amount of any borrowings. Such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of the swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. The Fund intends to maintain, in a segregated account with its custodian, cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily. We would not enter into interest rate swap or cap transactions having an aggregate notional amount that exceeded the outstanding amount of the Fund's leverage. See "Use of Leverage" and "Interest Rate Transactions" for additional information.

**Principal Risks of the Fund.....**

We are a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that we will achieve our investment objectives.

*No Operating History.* As a recently organized entity, we have no operating history. See "The Fund."

*Investment Risk.* An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest.

*Stock Market Risk.* Your investment in Common Shares represents an indirect investment in the common stock, preferred securities and other securities owned by the Fund, substantially all of which are traded on a national securities exchange or in the over-the-counter markets. The value of these securities, like other stock market investments, may move up or down, sometimes rapidly and unpredictably. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. The Fund may utilize leverage, which magnifies the stock market risk. See “Use of Leverage—Leverage Risks.”

*Interest Rate Risk.* Interest rate risk is the risk that fixed-income securities such as preferred and debt securities, and to a lesser extent dividend-paying common stocks such as REIT common shares, will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. The Fund’s investment in such securities means that the net asset value and market price of the common shares may tend to decline if market interest rates rise.

During periods of declining interest rates, an issuer may be able to exercise an option to prepay principal earlier than scheduled, which is generally known as call or prepayment risk. If this occurs, the Fund may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred and debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security’s duration and reduce the value of the security. This is known as extension risk.

Market interest rates for investment grade fixed-income securities in which the Fund will invest have recently declined significantly below the recent historical average rates for such securities. This decline may have increased the risk that these rates will rise in the future (which would cause the value of the Fund's net assets to decline) and the degree to which asset values may decline in such events; however, historical interest rate levels are not necessarily predictive of future interest rate levels. See "Principal Risks of the Fund—Interest Rate Risk."

*Credit Risk and Lower-Rated Securities Risk.* Credit risk is the risk that a security in the Fund's portfolio will decline in price or the issuer will fail to make dividend, interest or principal payments when due because the issuer of the security experiences a decline in its financial status. Preferred securities normally are subordinated to bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income and claim to corporate assets, and therefore will be subject to greater credit risk than debt instruments. The Fund may invest up to 10% (measured at the time of investment) of its total assets in preferred securities and other debt securities that are rated below investment grade. Preferred stock or debt securities will be considered to be investment grade if, at the time of the investment, such security has a rating of "BBB" or higher by S&P, "Baa" or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency or, if unrated, such security is determined by the Investment Manager to be of comparable quality. Lower-rated preferred stock or other debt securities, or equivalent unrated securities, which are commonly known as "junk bonds," generally involve greater volatility of price and risk of loss of income and principal, and may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of those securities and adversely affect the ability of the issuers of those securities to repay principal and interest on those securities.

*Counterparty Risk.* The Fund will be subject to credit risk with respect to the counterparties to any derivative

contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

*Special Risks Related to Real Estate.* Since at least 40% of the Fund's total assets normally will be concentrated in common stock of real estate companies, consisting primarily of REITs, your investment in the Fund will be significantly impacted by the performance of the real estate markets. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments. REIT prices also may drop because of the failure of borrowers to pay their loans and poor management. Many REITs utilize leverage which increases investment risk and could adversely affect a REIT's operations and market value in periods of rising interest rates as well as risks normally associated with debt financing. Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., Americans with Disabilities Act and tax laws), interest rate levels and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the REIT to make payments of any interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by the portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain

properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of REITs to vary their portfolios promptly in response to changes in economic or other conditions is limited. A REIT may also have joint venture investments in certain of its properties and, consequently, its ability to control decisions relating to such properties may be limited.

In addition, there are risks associated with particular sectors of real estate investments.

- Retail Properties.* Retail properties are affected by the overall health of the applicable economy and may be adversely affected by the growth of alternative forms of retailing, bankruptcy, departure or cessation of operations of a tenant, a shift in consumer demand due to demographic changes, spending patterns and lease terminations.
- Office Properties.* Office properties are affected by the overall health of the economy and other factors such as a downturn in the businesses operated by their tenants, obsolescence and non-competitiveness.
- Hotel Properties.* The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures, competition, increases in operating costs which may not be offset by increases in revenues, dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel and adverse effects of general and local economic conditions. Hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.
- Healthcare Properties.* Healthcare properties and healthcare providers are affected by several significant factors including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare); and competition on a local and regional basis. The failure of any healthcare operator to comply with governmental laws and

regulations may affect its ability to operate its facility or receive government reimbursements.

- Multifamily Properties.* The value and successful operation of a multifamily property may be affected by a number of factors such as the location of the property, the ability of the management team, the level of mortgage rates, presence of competing properties, adverse economic conditions in the locale, oversupply, and rent control laws or other laws affecting such properties.
- Insurance.* Certain of the portfolio companies may carry comprehensive liability, fire, flood, earthquake extended coverage and rental loss insurance with various policy specifications, limits and deductibles. Should any type of uninsured loss occur, the portfolio company could lose its investment in, and anticipated profits and cash flows from, a number of properties, which would as a result impact the Fund's investment performance.
- Credit Risk.* REITs may be highly leveraged and financial covenants may affect the ability of REITs to operate effectively.
- Environmental Issues.* In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a portfolio company may be considered an owner, operator or responsible party of such properties and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such portfolio company and, as a result, the amount available to make distributions on shares of the Fund could be reduced.
- Smaller Companies.* Even the larger REITs in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. REIT shares, therefore, can be more

volatile than, and perform differently from, larger company stocks. There may be less trading in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Further, smaller companies may have fewer business lines; changes in any one line of business, therefore, may have a greater impact on a smaller company's stock price than is the case for a larger company.

—*Tax Issues.* REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that the Fund may invest in a real estate company which purports to be a REIT and that the company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their exemptions from registration under the Investment Company Act of 1940, as amended (the "1940 Act"). The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

As of May 31, 2003, the market capitalization of REITs ranged in size from approximately \$1.1 million to approximately \$11.1 billion. See "Principal Risks of the Fund—Special Risks of Securities Linked to the Real Estate Market."

*Special Risks Related to Preferred Securities.* There are special risks associated with investing in preferred securities, including:

—*Deferral and Omission.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring or omitting its distributions, the Fund may be required to report income for tax

purposes although it has not yet received such income.

- Subordination.* Preferred securities are generally subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.
- Liquidity.* Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities.
- Limited Voting Rights.* Generally, traditional preferred securities offer no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In the case of hybrid-preferred securities, as described under "Investment Objectives and Policies," holders generally have no voting rights.
- Special Redemption Rights.* In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by certain changes in Federal income tax or securities laws. As with call provisions, a special redemption by the issuer may negatively impact the return of the security held by the Fund. See "Principal Risks of the Fund—Special Risks Related to Preferred Securities."
- Supply of Hybrid-Preferred Securities.* The Financial Accounting Standards Board currently is reviewing accounting guidelines relating to hybrid-preferred securities. To the extent that a change in the guidelines could adversely affect the market for, and availability of, these securities, the Fund may be adversely affected. The adoption of the Bush Administration's proposal to eliminate the Federal income tax on dividends may also adversely impact the market and supply of hybrid-

preferred securities if the issuance of such securities becomes less attractive to issuers.

—*New Types of Securities.* From time to time, preferred securities, including hybrid-preferred securities, have been, and may in the future be, offered having features other than those described herein. The Fund reserves the right to invest in these securities if the Investment Manager believes that doing so would be consistent with the Fund's investment objectives and policies. Since the market for these instruments would be new, the Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility.

*General Financial Services Risks.* The Fund intends to invest a significant portion, but less than 25%, of its total assets in the securities of companies principally engaged in financial services, which are prominent issuers of preferred securities. Because the Fund may invest such amounts in this sector, the Fund may be susceptible to adverse economic or regulatory occurrences affecting that sector. A company is “principally engaged” in financial services if it owns financial services-related assets that are responsible for at least 50% of its revenues.

Companies in the financial services sector include commercial banks, industrial banks, savings institutions, finance companies, diversified financial services companies, investment banking firms, securities brokerage houses, investment advisory companies, leasing companies, insurance companies and companies providing similar services. These are risks associated with investing in the financial services sector, including:

- financial services companies may suffer a setback if regulators change the rules under which they operate;
- unstable interest rates can have a disproportionate effect on the financial services sector;
- financial services companies whose securities the Fund may purchase may themselves have concentrated portfolios, such as a high level of loans to real estate developers, which makes them vulnerable to economic conditions that affect that sector; and
- financial services companies have been affected by increased competition, which could adversely affect the profitability or viability of such companies. See

“Principal Risks of the Fund—General Risks of Securities Limited to the Financial Services Industry.”

*Foreign Securities Risks.* Under normal market conditions, the Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded or listed on a U.S. securities exchange or in the U.S. over-the-counter market. Such investments involve certain risks not involved in domestic investments. Certain foreign countries may impose restrictions on the ability of issuers of foreign securities to make payments of principal and interest to investors located outside the country, due to blockage of foreign currency exchanges or otherwise. Generally, there is less publicly available information about foreign companies due to less rigorous disclosure or accounting standards and regulatory practices. In addition, the Fund will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Fund to lose money on its investments in foreign securities. Typically, the Fund will not hold any foreign securities of issuers in so-called “emerging markets” (or lesser developed countries), but to the extent it does, the Fund will not invest more than 10% of its total assets in such securities. Investments in such securities are particularly speculative.

*Other Investment Management Techniques Risk.* The Fund may use various other investment management techniques that also involve certain risks and special considerations, including engaging in hedging and risk management transactions, such as interest rate transactions, options, futures, swaps and other derivatives transactions. These strategic transactions will be entered into to seek to manage the risks of the Fund’s portfolio of securities, but may have the effect of limiting the gains from favorable market movements.

*Convertible Securities Risk.* Although to a lesser extent than with nonconvertible fixed income securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. A unique feature of convertible securities is that as the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis, and

so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the convertible securities tend to rise as a reflection of the value of the underlying common stock. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer.

*Common Stock Risk.* While common stock has historically generated higher average returns than fixed income securities, common stock has also experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of common stock held by the Fund. Also, the price of common stock is sensitive to general movements in the stock market. A drop in the stock market may depress the price of common stock held by the Fund.

*Tax Risk.* The Fund may invest in preferred securities or other securities the Federal income tax treatment of which may not be clear or may be subject to recharacterization by the Internal Revenue Service. It could be more difficult for the Fund to comply with the tax requirements applicable to regulated investment companies if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the Internal Revenue Service. See "Taxation."

In addition, investors should note that the Fund is not expected to generate significant income that qualifies for the DRD or the reduced rates of tax that apply to qualified dividend income. See "Taxation."

*Restricted and Illiquid Securities Risk.* The Fund may invest, on an ongoing basis, in restricted securities and other investments that may be illiquid. Illiquid securities are securities that are not readily marketable and may include some restricted securities, which are securities that may not be resold to the public without an effective registration statement under the Securities Act of 1933, as amended (the "Securities Act") or, if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. Illiquid investments involve the risk that the securities will not be able to be sold at the time desired

by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

*Leverage Risk.* The Fund intends to use leverage by issuing Fund Preferred Shares, representing approximately 35% of the Fund's total capital after their issuance or alternatively, through borrowing. Leverage is a speculative technique and there are special risks and costs associated with leveraging. For a more detailed description of the risks associated with leverage, see "Use of Leverage—Leverage Risks."

*Interest Rate Transactions Risk.* The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap or cap which may result in a decline in the net asset value of the Fund. A sudden and dramatic decline in interest rates may result in a significant decline in the net asset value of the Fund. See "Interest Rate Transactions Risk."

*Risk of Market Price Discount From Net Asset Value.* Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value could decrease as a result of investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. We cannot predict whether the shares will trade at, above or below net asset value. Net asset value will be reduced immediately following the offering by the sales load and the amount of organizational and offering expenses paid by the Fund. See "Principal Risks of the Fund—Risk of Market Price Discount From Net Asset Value."

**Additional Risk Considerations . . . . .**

*Portfolio Turnover Risk.* We may engage in portfolio trading when considered appropriate. There are no limits on the rate of portfolio turnover. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses which are borne by the Fund. See "Additional Risk Considerations—Portfolio Turnover Risk."

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investments will be worth less than in the future as inflation decreases the value of money. As inflation increases, the real value of the

Common Shares and distributions can decline and the dividend payments on the Fund Preferred Shares, if any, or interest payments on any borrowings may increase. See “Additional Risk Considerations—Inflation Risk.”

*Non-Diversified Status.* Because we, as a non-diversified investment company, may invest in a smaller number of individual issuers than a diversified investment company, an investment in the Fund presents greater risk to you than an investment in a diversified company. We intend to comply with the diversification requirements of the Code applicable to regulated investment companies. See “Additional Risk Considerations—Non-Diversified Status.” See also “Taxation” in the SAI.

*Anti-Takeover Provisions.* Certain provisions of our Articles of Incorporation and By-Laws could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to modify our structure. The provisions may have the effect of depriving you of an opportunity to sell your shares at a premium over prevailing market prices and may have the effect of inhibiting conversion of the Fund to an open-end investment company. See “Certain Provisions of the Articles of Incorporation and By-Laws” and “Additional Risk Considerations—Anti-Takeover Provisions.”

*Market Disruption Risk.* The terrorist attacks in the U.S. on September 11, 2001 had a disruptive effect on the securities markets. The war in Iraq and instability in the Middle East also has resulted in recent market volatility and may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the U.S. and worldwide. The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the war or similar events in the future on the U.S. economy and securities markets.

Given the risks described above, an investment in the 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.

**Investment Manager** .....

Cohen & Steers Capital Management, Inc. is the investment manager of the Fund pursuant to an Investment Management Agreement. The Investment Manager, which was formed in 1986, is a leading firm specializing in the management of real estate securities portfolios and as of May 31, 2003 had approximately

\$7.5 billion in assets under management, including more than \$630.0 million in preferred securities issued by real estate companies. Its clients include pension plans, endowment funds and mutual funds, including some of the largest open-end and closed-end real estate funds. The Investment Manager also will have responsibility for providing administrative services and assisting the Fund with operational needs pursuant to an Administration Agreement. In accordance with the terms of the Administration Agreement, the Fund has entered into an agreement with State Street Bank and Trust Company (“State Street Bank”) to perform certain administrative functions subject to the supervision of the Investment Manager (the “Sub-Administration Agreement”). See “Management of the Fund—Administration and Sub-Administration Agreement.”

**Fees and Expenses.....**

The Fund will pay the Investment Manager a monthly fee computed at the annual rate of .65% of average daily managed assets (*i.e.*, the net asset value of Common Shares plus the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage). See “Management of the Fund—Investment Manager.” When the Fund is utilizing leverage, the fees paid to the Investment Manager for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund’s managed assets, which include the liquidation preference of preferred stock, and the principal amount of any outstanding borrowings used for leverage. The Fund’s investment management fees and other expenses are paid only by the Common Shareholders, and not by holders of the Fund Preferred Shares. See “Use of Leverage.”

**Listing and Symbol .....**

The Fund’s Common Shares have been approved for listing on the New York Stock Exchange upon notice of issuance under the symbol “RNP.”

**Dividends and Distributions.....**

Commencing with the Fund’s first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a level rate based on the projected performance of the Fund, which rate may be adjusted from time to time. The Fund’s ability to maintain a level dividend rate will depend on a number of factors, including the stability of income received from its investments and dividends payable on the Fund Preferred Shares or interest payments on borrowings. As portfolio and market conditions change, the rate of

dividends on the Common Shares and the Fund's dividend policy will likely change. Over time, the Fund will distribute all of its net investment income (after it pays accrued dividends on, or redeems or liquidates, any outstanding Fund Preferred Shares and pays interest and required principal payments on any borrowings). In addition, at least annually, the Fund intends to distribute net capital gain and taxable ordinary income, if any, to shareholders so long as the net capital gain and taxable ordinary income are not necessary to pay accrued dividends on, or redeem or liquidate any Fund Preferred Shares, or pay interest or required principal payments on any borrowings. Your initial distribution is expected to be declared approximately 45 days, and paid approximately 60 to 75 days, from the completion of this offering, depending on market conditions. Following the commencement of this offering, the Fund intends to rely on an exemptive order issued by the Securities and Exchange Commission under the 1940 Act facilitating the implementation of a dividend policy calling for monthly distributions of a fixed percentage of its net asset value ("Managed Dividend Policy"). See "Dividends and Distributions."

**Dividend Reinvestment Plan . . . . .**

Shareholders will receive their dividends in additional Common Shares purchased in the open market or issued by the Fund through the Fund's Dividend Reinvestment Plan, unless they elect to have their dividends and other distributions from the Fund paid in cash. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to confirm that the dividend reinvestment service is available. See "Dividends and Distributions" and "Taxation."

**Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar . . . . .**

State Street Bank and Trust Company will act as custodian, and EquiServe Trust Company, NA will act as transfer agent, dividend disbursing agent and registrar for the Fund. See "Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar."

## SUMMARY OF FUND EXPENSES

The purpose of the following table is to help you understand the fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The expenses shown in the table are based on estimated amounts for the Fund's first year of operations, unless otherwise indicated, and assume that the Fund issues approximately 42,750,000 Common Shares. If the Fund issues fewer Common Shares, all other things being equal, these expenses would increase. See "Management of the Fund." The expenses in the table also assume the issuance of Fund Preferred Shares in an amount equal to 35% of the Fund's total capital (after issuance), and the table shows Fund expenses both as a percentage of net assets attributable to Common Shares, and, in footnote 4, as a percentage of net assets attributable to Common Shares assuming no leverage.

### Shareholder Transaction Expenses

Sales Load Paid by You (as a percentage of offering price) .....	4.5%
Expenses Borne by the Fund (as a percentage of offering price) .....	.2% <sup>(1)(2)</sup>
Dividend Reinvestment Plan Fees .....	None

**Percentage of Net  
Assets Attributable  
to Common Shares  
(Assumes Fund Preferred  
Shares are Issued)<sup>(4)</sup>**

### Annual Expenses

Investment Management Fees <sup>(3)</sup> .....	1.00%
Other Expenses <sup>(3)</sup> .....	.31%
Interest Payments on Borrowed Funds <sup>(3)</sup> .....	<u>None</u>
Total Annual Fund Operating Expenses <sup>(3)</sup> .....	<u>1.31%</u>

<sup>(1)</sup> The Investment Manager has also agreed to pay all organizational expenses and offering costs (other than the sales load) that exceed \$.05 per Common Share (.20% of the offering price).

<sup>(2)</sup> If the Fund offers Fund Preferred Shares, costs of that offering, estimated to be slightly more than 1% of the total amount of the Fund Preferred Share offering, will be borne immediately by Common Shareholders and result in the reduction of the net asset value of the Common Shares. Assuming the issuance of Fund Preferred Shares in an amount equal to 35% of the Fund's total capital (after issuance), those offering costs are estimated to be no more than approximately \$6,000,000 or \$.14 per Common Share (.56% of the offering price of the Common Shares).

<sup>(3)</sup> In the event the Fund, as an alternative to issuing Fund Preferred Shares, utilizes leverage by borrowing in an amount equal to approximately 33½% of the Fund's total assets (including the amount obtained from leverage), it is estimated that, as a percentage of net assets attributable to Common Shares, the Investment Management Fee would be .98%, Other Expenses would be .29%, Interest Payments on Borrowed Funds (assuming an interest rate of 2.88%, which interest rate is subject to change based on prevailing market conditions) would be 1.44%, Total Annual Fund Operating Expenses would be 2.71%. Based on the Total Annual Fund Operating Expenses and in accordance with the example below, the expenses for years 1, 3, 5 and 10 would be \$73, \$127, \$184 and \$337, respectively.

*(notes continued on next page)*

(notes continued from previous page)

<sup>(4)</sup> If the Fund does not issue Fund Preferred Shares or otherwise use leverage, the Fund's expenses would be estimated to be as follows:

	<b>Percentage of Net Assets Attributable to Common Shares (Assumes no Borrowings and no Fund Preferred Shares are Outstanding)</b>
<b>Annual Expenses</b>	
Investment Management Fees.....	.65%
Other Expenses .....	.12%
Interest Payments on Borrowed Funds .....	<u>None</u>
Total Annual Fund Operating Expenses .....	<u>.77%</u>

The following example illustrates the expenses (including the sales load of \$45, estimated offering expenses of this offering of \$2 and the estimated Fund Preferred Share offering costs assuming Fund Preferred Shares are issued representing 35% of the Fund's total capital (after issuance) of \$6) that you would pay on a \$1,000 investment in Common Shares, assuming (1) total net annual expenses of 1.31% of net assets attributable to Common Shares and (2) a 5% annual return:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Total Expenses Incurred .....	\$65	\$92	\$121	\$202

**The above examples should not be considered a representation of future expenses. Actual expenses may be higher or lower.** 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.

## THE FUND

Cohen & Steers REIT and Preferred Income Fund, Inc. is a recently organized, non-diversified, closed-end management investment company. We were organized as a Maryland corporation on March 25, 2003 and are registered as an investment company under the 1940 Act. As a recently organized entity, we have no operating history. Our principal office is located at 757 Third Avenue, New York, New York 10017, and our telephone number is (212) 832-3232.

## USE OF PROCEEDS

We estimate the net proceeds of this offering, after deducting organization expenses and offering costs (other than the sales load) that do not exceed \$.05 per Common Share, to be \$1,018,518,750, or \$1,171,296,563 assuming exercise of the overallotment option in full. The net proceeds will be invested in accordance with the policies set forth under “Investment Objectives and Policies.” A portion of the organization and offering expenses of the Fund has been advanced by the Investment Manager and will be repaid by the Fund upon closing of this offering. The Investment Manager will incur and be responsible for all of the Fund’s organization expenses and offering costs (other than the sales load) that exceed \$.05 per Common Share.

We estimate that the net proceeds of this offering will be fully invested in accordance with our investment objectives and policies within three to six months of the initial public offering. Pending such investment, those proceeds may be invested in U.S. Government securities or high-quality, short-term money market instruments. See “Investment Objectives and Policies.”

## INVESTMENT OBJECTIVES AND POLICIES

### General

The Fund’s primary investment objective is to seek high current income. Capital appreciation is our secondary objective. The Fund is not intended as a complete investment program. There can be no assurance that the Fund will achieve its investment objectives.

Under normal market conditions, the Fund will invest:

- at least 40%, but no more than 60%, of its total assets in common stocks issued by real estate companies such as REITs. A real estate company derives at least 50% of its revenue from real estate or has at least 50% of its assets in real estate. A REIT is a company dedicated to owning, and usually operating, income producing real estate, or to financing real estate;
- at least 40%, but no more than 60%, of its total assets in preferred securities; up to 5% of the Fund’s total assets may be invested in preferred securities issued by REITs;
- up to 10% of its total assets in preferred or other securities that at the time of investment are rated below investment grade (Ba/BB or B by Moody’s, S&P or Fitch) or that are unrated but judged to be of comparable quality by the Fund’s Investment Manager;
- up to 20% of its total assets in debt securities, including convertible debt securities and convertible preferred securities;
- a significant portion, but less than 25%, of its total assets in the securities of companies principally engaged in the financial services industry (which are prominent issuers of preferred securities); and

- up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded or listed on a U.S. securities exchange or the U.S. over-the-counter market.

The policy referred to above of investing in the financial services industry and the Fund's concentration of its investments in the real estate industry make the Fund more susceptible to adverse economic or regulatory occurrences affecting these sectors. See "Principal Risks of the Fund—Special Risks of Securities Linked to the Real Estate Market" and "—General Risks of Securities Linked to the Financial Services Industry."

Although the Fund does not currently intend to invest in illiquid securities (*i.e.*, securities that are not readily marketable), it may invest up to 10% of its total assets in illiquid securities. Similarly, although the Fund does not intend to invest in convertible securities, it may invest up to 20% of its total assets in securities convertible into common or preferred securities where the conversion feature represents, in the Investment Manager's view, a significant element of the securities' value. Common stock acquired pursuant to a conversion feature will be subject to this 20% limitation.

Under normal conditions, the Fund intends to invest in income producing common stock issued by real estate companies, consisting primarily of REITs, and preferred and other debt securities. Substantially all of the common stocks issued by REITs in which the Fund intends to invest are traded on a national securities exchange or in the over-the-counter market. REITs are generally not taxed on income distributed to shareholders provided they distribute to their shareholders substantially all of their income and otherwise comply with the requirements of the Code. As a result, REITs generally pay relatively high dividends (as compared to other types of companies) and the Fund intends to use these REIT dividends in an effort to meet its objective of high current income. It is the Fund's current intention to invest approximately 50% of its total assets in common stocks of REITs, although the actual percentage of REIT common stocks in its portfolio may change.

With respect to the preferred securities component of the portfolio, under current market conditions the Fund expects that it will invest primarily in taxable preferred securities. Under current market conditions, the Fund's portfolio of preferred securities is expected to consist primarily of fixed rate preferred securities.

A security will be considered investment grade quality if it is rated "BBB" or higher by S&P, "Baa" or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency, or is unrated but judged to be of comparable quality by the Investment Manager. Bonds of below investment grade quality (BB/Ba or below) are commonly referred to as "junk bonds." Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. The Fund's credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security if a rating agency downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell a security that a rating agency has downgraded, the Investment Manager may consider such factors as its assessment of the credit quality of the issuer of the security, the price at which the security could be sold and the rating, if any, assigned to the security by other rating agencies. Appendix A to the SAI contains a general description of Moody's and S&P's ratings of securities.

The Fund's investment objectives and certain other policies are fundamental and may not be changed without the approval of the holders of a "majority of the outstanding" Common Shares

and the Fund Preferred Shares voting together as a single class, and of the holders of a “majority of the outstanding” Fund Preferred Shares voting as a separate class. When used with respect to particular shares of the Fund, a “majority of the outstanding” shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less. Unless otherwise indicated, the Fund’s investment policies are not fundamental and may be changed by the Board of Directors without the approval of shareholders, although we have no current intention of doing so.

## **Investment Strategies**

In making investment decisions with respect to common stocks and other equity securities issued by real estate companies, including REITs, the Investment Manager relies on a fundamental analysis of each company. The Investment Manager reviews each company’s potential for success in light of the company’s current financial condition, its industry and sector position, and economic and market conditions. The Investment Manager evaluates a number of factors, including growth potential, earnings estimates and the quality of management.

In making investment decisions with respect to preferred securities and debt securities, the Investment Manager seeks to select what it believes are superior securities, (*i.e.*, securities the Investment Manager views as undervalued on the basis of risk and return profiles). In making these determinations, the Investment Manager evaluates the fundamental characteristics of an issuer, including an issuer’s creditworthiness, and also takes into account prevailing market factors. In analyzing credit quality, the Investment Manager considers not only fundamental analysis, but also an issuer’s corporate and capital structure and the placement of the preferred or debt securities within that structure. The Investment Manager also takes into account other factors, such as call and other structural features, momentum and other exogenous signals (*i.e.*, the likely directions of ratings) and relative value versus other income security classes.

## **Portfolio Composition**

Our portfolio will be composed principally of the following investments. A more detailed description of our investment policies and restrictions and more detailed information about our portfolio investments are contained in the SAI.

*Initial Portfolio Composition.* Initially, the Fund intends to allocate approximately 50% of the Fund’s total assets to common stocks issued by real estate companies, consisting primarily of REITs, approximately 40% to preferred securities and approximately 10% to debt securities other than preferred securities. Thereafter, the portion of the Fund’s total assets invested in common stock issued by REITs, preferred securities and other debt securities will vary from time to time, consistent with the Fund’s investment objectives, although the Fund will normally invest at least 40% of its total assets in common stock issued by REITs and at least 40% of its total assets in preferred securities. At any time, under normal circumstances at least 80% of the Fund’s total assets will be invested in common stocks issued by REITs and preferred securities.

*Common Stocks Issued By Real Estate Companies and REITs.* For purposes of our investment policies, a real estate company is one that:

- derives at least 50% of its revenues from the ownership, construction, financing, management or sale of commercial, industrial or residential real estate; or

- has at least 50% of its assets in such real estate.

Under normal market conditions, we will invest at least 40%, but no more than 60%, of our total assets in the common stocks of real estate companies, consisting primarily of REITs. A REIT is a company dedicated to owning, and usually operating, income producing real estate, or to financing real estate. REITs pool investors' funds for investment primarily in income producing real estate or real estate-related loans or interests. REITs are generally not taxed on income distributed to shareholders provided, among other things, they distribute to their shareholders substantially all of their taxable income (other than net capital gains) for each taxable year. As a result, REITs tend to pay relatively higher dividends than other types of companies and the Fund intends to use these REIT dividends in an effort to meet the current income goal of its investment objectives.

REITs can generally be classified as Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs, which invest the majority of their assets directly in real property, derive their income primarily from rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs, which invest the majority of their assets in real estate mortgages, derive their income primarily from interest payments. Hybrid REITs combine the characteristics of both Equity REITs and Mortgage REITs. The Fund does not currently intend to invest more than 10% of its total assets in Mortgage REITs or Hybrid REITs.

*Preferred Securities.* Under normal market conditions, the Fund will invest at least 40%, but no more than 60%, of its total assets in preferred securities. There are two basic types of preferred securities. The first, sometimes referred to in this prospectus as traditional preferred securities, consists of preferred stock issued by an entity taxable as a corporation. The second is referred to in this prospectus as hybrid-preferred securities. Hybrid-preferred securities are usually issued by a trust or limited partnership and often represent preferred interests in deeply subordinated debt instruments issued by the corporation for whose benefit the trust or partnership was established. Initially, the preferred securities component of the Fund will be comprised primarily of taxable preferred securities.

*Traditional Preferred Securities.* Traditional preferred securities generally pay fixed or adjustable rate dividends to investors and generally have a "preference" over common stock in the payment of dividends and the liquidation of a company's assets. This means that a company must pay dividends on preferred stock before paying any dividends on its common stock. In order to be payable, distributions on such preferred securities must be declared by the issuer's board of directors. Income payments on typical preferred securities currently outstanding are cumulative, causing dividends and distributions to accumulate even if not declared by the board of directors or otherwise made payable. In such a case, all accumulated dividends must be paid before any dividend on the common stock can be paid. However, some traditional preferred stocks are non-cumulative, in which case dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred stock held by the Fund determine not to pay dividends on such stock, the amount of dividends the Fund pays may be adversely affected. There is no assurance that dividends or distributions on the traditional preferred securities in which the Fund invests will be declared or otherwise made payable. Preferred stockholders usually have no right to vote for corporate directors or on other matters. Shares of traditional preferred securities have a liquidation value that generally equals the original purchase price at the date of issuance. The market value of

preferred securities may be affected by favorable and unfavorable changes impacting companies in the utilities and financial services sectors, which are prominent issuers of preferred securities, and by actual and anticipated changes in tax laws, such as changes in corporate income tax rates. Because the claim on an issuer's earnings represented by traditional preferred securities may become onerous when interest rates fall below the rate payable on such securities, the issuer may redeem the securities. Thus, in declining interest rate environments in particular, the Fund's holdings of higher rate-paying fixed rate preferred securities may be reduced and the Fund may be unable to acquire securities of comparable credit quality paying comparable rates with the redemption proceeds.

Pursuant to the DRD, corporations may generally deduct 70% of the income they receive from dividends on traditional preferred securities that are paid out of earnings and profits of the issuer. Corporate shareholders of a regulated investment company like the Fund generally are permitted to claim a deduction with respect to that portion of their distributions attributable to amounts received by the regulated investment company that qualify for the DRD. However, not all traditional preferred securities pay dividends that are eligible for the DRD, including preferred securities issued by REITs described below. Under current market conditions, it is expected that few, if any, of the preferred securities in which the Fund intends to invest will qualify for the DRD.

Pursuant to recently enacted legislation, individuals will generally be taxed at long-term capital gain rates on qualified dividend income for taxable years beginning on or before December 31, 2008. Individual shareholders of a regulated investment company like the Fund generally are permitted to treat as qualified dividend income that portion of their distributions attributable to qualified dividend income received by the regulated investment company. However, not all traditional preferred securities will provide significant benefits under the rules relating to qualified dividend income, including preferred securities issued by REITs described below. Under current market conditions, it is expected that few, if any, of the preferred securities in which the Fund intends to invest will provide significant benefits under the rules relating to qualified dividend income.

Within the category of traditional preferred securities, the Fund may invest up to 5% of its total assets in traditional preferred securities issued by real estate companies, including REITs. REIT preferred securities are generally perpetual in nature, although REITs often have the ability to redeem the preferred securities after a specified period of time. The market value of REIT preferred securities may be affected by favorable and unfavorable changes impacting a particular REIT. While sharing characteristics that make them similar to traditional preferred securities, dividends from REIT preferred securities do not provide any DRD benefit (and generally do not provide significant benefits under the rules relating to qualified dividend income).

*Hybrid-Preferred Securities.* Hybrid-preferred securities are a comparatively new asset class. Hybrid-preferred securities are typically issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The hybrid-preferred securities market consists of both fixed and adjustable coupon rate securities that are either perpetual in nature or have stated maturity dates.

Hybrid-preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, hybrid-preferred securities typically permit an issuer to defer the payment

of income for eighteen months or more without triggering an event of default. Generally, the maximum deferral period is five years. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without default consequences to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when full cumulative payments on the trust preferred securities have not been made), these hybrid-preferred securities are often treated as close substitutes for traditional preferred securities, both by issuers and investors. Hybrid-preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer's capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows. Hybrid preferred securities include, but are not limited to, trust originated preferred securities ("TOPRS®"); monthly income preferred securities ("MIPS®"); quarterly income bond securities ("QUIBS®"); quarterly income debt securities ("QUIDS®"); quarterly income preferred securities ("QUIPS<sup>(SM)</sup>"); corporate trust securities ("CORTS®"); public income notes ("PINES®"); and other hybrid-preferred securities.\*

Hybrid-preferred securities are typically issued with a final maturity date, although some are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without default. No redemption can typically take place unless all cumulative payment obligations have been met, although issuers may be able to engage in open-market repurchases without regard to whether all payments have been paid.

Many hybrid-preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. At the time the trust or special purpose entity sells such preferred securities to investors, it purchases debt of the operating company (with terms comparable to those of the trust or special purpose entity securities), which enables the operating company to deduct for tax purposes the interest paid on the debt held by the trust or special purpose entity. The trust or special purpose entity is generally required to be treated as transparent for Federal income tax purposes such that the holders of the trust preferred securities are treated as owning beneficial interests in the underlying debt of the operating company. Accordingly, payments on the hybrid-preferred securities are treated as interest rather than dividends for Federal income tax purposes and, as such, are not eligible for the DRD or the reduced rates of tax that apply to qualified dividend income. The trust or special purpose entity in turn would be a holder of the operating company's debt and would have priority with respect to the operating company's earnings and profits over the operating company's common shareholders, but would typically be subordinated to other classes of the operating company's debt. Typically a preferred share has a rating that is slightly below that of its corresponding operating company's senior debt securities.

Within the category of hybrid-preferred securities are senior debt instruments that trade in the broader preferred securities market. These debt instruments, which are sources of long-term capital for the issuers, have structural features similar to preferred stock such as maturities ranging from

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\* TOPRS is a registered service mark owned by Merrill Lynch & Co., Inc. MIPS and QUIDS are registered service marks and QUIPS is a service mark owned by Goldman, Sachs & Co. QUIBS is a registered service mark owned by Morgan Stanley. CORTS and PINES are registered service marks owned by Salomon Smith Barney Inc.

30 years to perpetuity, call features, exchange listings and the inclusion of accrued interest in the trading price. Similar to other hybrid-preferred securities, these debt instruments usually do not offer equity capital treatment. CORTS® and PINES® are two examples of senior debt instruments which are structured and trade as hybrid-preferred securities.

*Lower-Rated Securities.* The Fund may invest up to 10% (measured at the time of purchase) of its total assets in securities rated below investment grade. These lower grade securities are commonly known as “junk bonds.” Securities rated below investment grade are judged to have speculative characteristics with respect to their interest and principal payments. Such securities may face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities; adverse conditions could make it difficult at times for the Fund to sell certain of these securities or could result in lower prices than those used in calculating the Fund’s net asset value. Preferred stock or debt securities will be considered to be investment grade if, at the time of investment, such security has a rating of “BBB” or higher by S&P, “Baa” or higher by Moody’s or an equivalent rating by a nationally recognized statistical rating agency, or, if unrated, such security is determined by the Investment Manager to be of comparable quality.

*Financial Services Company Securities.* The Fund intends to invest a significant portion, but less than 25%, of its total assets in securities issued by companies “principally engaged” in the financial services industry (which are prominent issuers of preferred securities). A company is “principally engaged” in financial services if it derives at least 50% of its consolidated revenues from providing financial services. Companies in the financial services sector include commercial banks, industrial banks, savings institutions, finance companies, diversified financial services companies, investment banking firms, securities brokerage houses, investment advisory companies, leasing companies, insurance companies and companies providing similar services.

*Foreign Securities.* The Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of non-U.S. issuers traded or listed on a U.S. securities exchange or the U.S. over-the-counter market. The Fund may invest in any region of the world and invests in companies operating in developed countries such as Canada, Japan, Australia, New Zealand and most Western European countries. The Fund does not intend to invest in companies based in emerging markets such as the Far East, Latin America and Eastern Europe. The World Bank and other international agencies define emerging markets based on such factors as trade initiatives, per capita income and level of industrialization. For purposes of this 20% limitation, non-U.S. securities include securities represented by American Depository Receipts.

*Debt Securities.* The Fund may invest up to 20% of its total assets in debt securities, including convertible debt securities and convertible preferred securities. Convertible securities are debt securities or preferred stock that are exchangeable for common stock of the issuer at a predetermined price (the “conversion price”). Depending upon the relationship of the conversion price to the market value of the underlying securities, convertible securities may trade more like common stock than debt instruments. Common stock acquired pursuant to a conversion feature will be subject to this 20% limitation. As a result of conversion, the Fund may hold common stocks issued by companies other than real estate companies or REITs, such holdings not normally

to exceed 5% of total assets. In addition, keeping with the income objective of the Fund, the Fund expects to sell any common stock holdings of issuers other than real estate companies or REITs as soon as practicable after conversion of a convertible security. The Fund's investments in debt securities may include investments in U.S. dollar-denominated corporate debt securities issued by domestic and non-U.S. corporations (subject to the requirements noted above) and U.S. dollar-denominated government debt securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities or a non-U.S. Government or its agencies or instrumentalities (subject to the requirements noted above).

*Common Stocks.* The Fund will normally invest at least 40%, but will not invest more than 60%, of its total assets in common stocks issued by real estate companies or REITs. Common stocks represent the residual ownership interest in the issuer and holders of common stock are entitled to the income and increase in the value of the assets and business of the issuer after all of its debt obligations and obligations to preferred stockholders are satisfied. Common stocks generally have voting rights. Common stocks fluctuate in price in response to many factors including historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

#### *Other Investment Companies*

The Fund may invest up to 10% of its total assets in securities of other open- or closed-end investment companies, including exchange traded funds, that invest primarily in securities of the types in which the Fund may invest directly. The Fund generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its common shares, or during periods when there is a shortage of attractive opportunities in the market. As a shareholder in an investment company, the Fund would bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory and other fees and expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The Investment Manager will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available bond investments. The securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks to which the Fund is subject. As described in the sections entitled "Use of Leverage" and "Use of Leverage—Leverage Risks," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. Investment companies may have investment policies that differ from those of the Fund. In addition, to the extent the Fund invests in other investment companies, the Fund will be dependent upon the investment and research abilities of persons other than the Investment Manager.

*Illiquid Securities.* While the Fund does not currently intend to invest in illiquid securities (*i.e.*, securities that are not readily marketable), it may invest up to 10% of its total assets in illiquid securities. For this purpose, illiquid securities include, but are not limited to, restricted securities (securities the disposition of which is restricted under the Federal securities laws), securities that may only be resold pursuant to Rule 144A under the Securities Act but that are deemed to be illiquid, and repurchase agreements with maturities in excess of seven days. The Board of Directors or its delegate has the ultimate authority to determine, to the extent permissible under

the Federal securities laws, which securities are liquid or illiquid for purposes of this 10% limitation. The Board of Directors has delegated to the Investment Manager the day-to-day determination of the illiquidity of any security held by the Fund, although it has retained oversight and ultimate responsibility for such determinations. Although no definitive liquidity criteria are used, the Board and/or the Investment Manager will consider factors such as (i) the nature of the market for a security (including the institutional private resale market; the frequency of trades and quotes for the security; the number of dealers willing to purchase or sell the security; the amount of time normally needed to dispose of the security; and the method of soliciting offers and the mechanics of transfer), (ii) the terms of certain securities or other instruments allowing for the disposition to a third party or the issuer thereof (e.g., certain repurchase obligations and demand instruments) and (iii) other permissible relevant factors.

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities Act. Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than that which prevailed when it decided to sell. Illiquid securities will be priced at fair value as determined in good faith by the Board of Directors or its delegate. If, through changes in the market value of its portfolio securities, the Fund should be in a position where more than 10% of the value of its total assets is invested in illiquid securities, including restricted securities that are not readily marketable, the Fund will take such steps as the Board and/or the Investment Manager deem advisable, if any, to protect liquidity.

*Strategic Transactions.* The Fund may, but is not required to, use various strategic transactions described below to mitigate risks and to facilitate portfolio management. Such strategic transactions are generally accepted under modern portfolio management and are regularly used by many closed-end funds and other institutional investors. Although the Investment Manager seeks to use the practices to further the Fund's investment objective, no assurance can be given that these practices will achieve this result.

The Fund may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, 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 or credit transactions and credit default swaps. The Fund also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Fund generally seeks to use Strategic 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, manage the effective maturity or duration of the Fund's portfolio, or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. There is no limit on the amount of credit derivative transactions that may be entered into by the Fund.

Strategic 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 or

illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on the Investment Manager's ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic 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. Additionally, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Fund for investment purposes. A more complete discussion of Strategic Transactions and their risks is contained in the Fund's SAI.

The Fund also may enter into certain interest rate transactions that are designed to reduce the risks inherent in the Fund's anticipated issuance of Fund Preferred Shares. See "Interest Rate Transactions."

*When-Issued and Delayed Delivery Transactions.* The Fund may buy and sell securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. This type of transaction may involve an element of risk because no interest accrues on the securities prior to settlement and, because securities are subject to market fluctuations, the value of the securities at time of delivery may be less (or more) than cost. A separate account of the Fund will be established with its custodian consisting of cash equivalents or liquid securities having a market value at all times at least equal to the amount of the commitment.

*Portfolio Turnover.* The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund's investment objectives. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of the Investment Manager, investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income.

*Defensive Position.* When the Investment Manager believes that market or general economic conditions justify a temporary defensive position, we may deviate from our investment objectives and invest all or any portion of our assets in investment grade debt securities, without regard to whether the issuer is a real estate company or REIT. When and to the extent we assume a temporary defensive position, we may not pursue or achieve our investment objectives.

## **Other Investments**

The Fund's cash reserves, held to provide sufficient flexibility to take advantage of new opportunities for investments and for other cash needs, will be invested in money market instruments. Money market instruments in which we may invest our cash reserves will generally consist of obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and such obligations which are subject to repurchase agreements and commercial paper. See "Investment Objectives and Policies" in the SAI.

## USE OF LEVERAGE

*Fund Preferred Shares.* Subject to market conditions and the Fund's receipt of AAA/Aaa credit rating on the Fund Preferred Shares, approximately one to three months after the completion of the offering of the Common Shares, the Fund intends to offer Fund Preferred Shares representing approximately 35% of the Fund's capital immediately after their issuance. The issuance of Fund Preferred Shares will leverage your investment in the Common Shares. As an alternative to the Fund Preferred Shares, the Fund may leverage through borrowings. The Fund Preferred Shares and any borrowings will have seniority over the Common Shares.

Changes in the value of the Fund's investment portfolio, including securities bought with the proceeds of the leverage, will be borne entirely by the holders of Common Shares. If there is a net decrease, or increase, in the value of the Fund's investment portfolio, the leverage will decrease, or increase (as the case may be), the net asset value per Common Share to a greater extent than if the Fund were not leveraged. During periods in which the Fund is using leverage, the fees paid to the Investment Manager for advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's managed assets, including the proceeds from the issuance of Fund Preferred Shares and other leverage. Leverage involves greater risks. The Fund's leveraging strategy may not be successful.

Borrowings may be made by the Fund through reverse repurchase agreements under which the Fund sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. Such agreements are considered to be borrowings under the 1940 Act. The Fund may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction.

Borrowings may also be made by the Fund through dollar roll transactions. A dollar roll transaction involves a sale by the Fund of a mortgage-backed or other security concurrently with an agreement by the Fund to repurchase a similar security at a later date at an agreed-upon price. The securities that are repurchased will bear the same interest rate and stated maturity as those sold, but pools of mortgages collateralizing those securities may have different prepayment histories than those sold. During the period between the sale and repurchase, the Fund will not be entitled to receive interest and principal payments on the securities sold. Proceeds of the sale will be invested in additional investments for the Fund, and the income from these investments will generate income for the Fund. If such income does not exceed the income, capital appreciation and gain or loss that would have been realized on the securities sold as part of the dollar roll, the use of this technique will diminish the investment performance of the Fund compared with what the performance would have been without the use of dollar rolls.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after the issuance the value of the Fund's total assets is at least 200% of the liquidation value of the outstanding preferred shares (*i.e.*, such liquidation value may not exceed 50% of the Fund's total assets less liabilities other than borrowing). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total assets less liabilities other than borrowing is at least 200% of such liquidation value. If Fund Preferred Shares are issued, the Fund intends, to the extent possible, to purchase or redeem Fund Preferred Shares from time to time to the extent necessary in order to maintain coverage of any Fund Preferred Shares of at least 200%. If the

Fund has Fund Preferred Shares outstanding, two of the Fund's Directors will be elected by the holders of Fund Preferred Shares, voting separately as a class. The remaining Directors of the Fund will be elected by holders of Common Shares and Fund Preferred Shares voting together as a single class. In the event the Fund failed to pay dividends on Fund Preferred Shares for two years, Fund Preferred Shareholders would be entitled to elect a majority of the Directors of the Fund. The failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code, which could have a material adverse effect on the value of the Common Shares. See "Description of Shares—Fund Preferred Shares."

Under the 1940 Act, the Fund generally is not permitted to borrow unless immediately after the borrowing the value of the Fund's total assets less liabilities other than the borrowing is at least 300% of the principal amount of such borrowing (*i.e.*, such principal amount may not exceed 33 $\frac{1}{3}$ % of the Fund's total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund's total assets, less liabilities other than the borrowings, is at least 300% of such principal amount. If the Fund borrows, the Fund intends, to the extent possible, to prepay all or a portion of the principal amount of the borrowing to the extent necessary in order to maintain the required asset coverage. Failure to maintain certain asset coverage requirements could result in an event of default and entitle the debt holders to elect a majority of the board of directors.

The Fund may be subject to certain restrictions imposed by either guidelines of one or more rating agencies which may issue ratings for Fund Preferred or, if the Fund borrows from a lender, by the lender. These restrictions may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these restrictions will impede the Investment Manager from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies. In addition to other considerations, to the extent that the Fund believes that the guidelines required by the rating agencies would impede its ability to meet its investment objectives, or if the Fund is unable to obtain the rating on the Fund Preferred Shares (expected to be AAA/Aaa), the Fund will not issue the Fund Preferred Shares.

Assuming that the Fund Preferred Shares or borrowings will represent approximately 35% of the Fund's capital and pay dividends or interest or involve payment at a rate set by an interest rate transaction at an annual average rate of 2.88%, the income generated by the Fund's portfolio (net of estimated expenses) must exceed 1.01% in order to cover such dividend payments or interest or payment rates and other expenses specifically related to the Fund Preferred Shares or borrowings. Of course, these numbers are merely estimates, used for illustration. Actual Fund Preferred Share dividend rates, interest or borrowings, or payment rates may vary frequently and may be significantly higher or lower than the rate estimated above.

The following table is furnished in response to requirements of the Securities and Exchange Commission. It is designed to illustrate the effect of leverage on Common Share total return, assuming investment portfolio total returns (comprised of income and changes in the value of investments held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns expected to be experienced by the Fund. The table further reflects the issuance of Fund Preferred Shares or borrowings representing 35% of the Fund's total capital. See "Use of Leverage—Leverage Risks."

Assumed Portfolio Total Return .....	(10)%	(5)%	0 %	5%	10%
Common Share Total Return .....	(16.94)%	(9.24)%	(1.55)%	6.14%	13.83%

Common Share total return is composed of two elements—the Common Share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends on Fund Preferred Shares or interest on borrowings or payment rate set by an interest rate transaction) and gains or losses on the value of the securities the Fund owns. As required by Securities and Exchange Commission rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation.

During the time in which the Fund is utilizing leverage, the fees paid to the Investment Manager for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund’s managed assets. Only the Fund’s Common Shareholders bear the cost of the Fund’s fees and expenses, including the costs associated with any offering of Fund Preferred Shares (estimated to be slightly more than 1% of the total amount of the Fund Preferred Share offering) which will be borne immediately by Common Shareholders, and the costs associated with any borrowing. See “Summary of Fund Expenses.”

The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

### **Leverage Risks**

Utilization of leverage is a speculative investment technique and involves certain risks to the holders of Common Shares. These include the possibility of higher volatility of the net asset value of the Common Shares and potentially more volatility in the market value of the Common Shares. So long as the Fund is able to realize a higher net return on its investment portfolio than the then current cost of any leverage together with other related expenses, the effect of the leverage will be to cause holders of Common Shares to realize higher current net investment income than if the Fund were not so leveraged. On the other hand, to the extent that the then current cost of any leverage, together with other related expenses, approaches the net return on the Fund’s investment portfolio, the benefit of leverage to holders of Common Shares will be reduced, and if the then current cost of any leverage were to exceed the net return on the Fund’s portfolio, the Fund’s leveraged capital structure would result in a lower rate of return to Common Shareholders than if the Fund were not so leveraged.

Any decline in the net asset value of the Fund’s investments will be borne entirely by Common Shareholders. Therefore, if the market value of the Fund’s portfolio declines, the leverage will result in a greater decrease in net asset value to Common Shareholders than if the Fund were not leveraged. Such greater net asset value decrease will also tend to cause a greater decline in the market price for the Common Shares. To the extent that the Fund is required or elects to redeem any Fund Preferred Shares or prepay any borrowings, the Fund may need to liquidate investments to fund such redemptions or prepayments. Liquidation at times of adverse economic conditions may result in capital loss and reduce returns to Common Shareholders.

In addition, such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of the swap

could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. See “Interest Rate Transactions.”

Unless and until Fund Preferred Shares are issued or borrowings for leverage are made, the Common Shares will not be leveraged and the disclosure regarding these strategies will not apply.

### **INTEREST RATE TRANSACTIONS**

In order to reduce the interest rate risk inherent in our underlying investments and capital structure, we may enter into interest rate swap or cap transactions. Interest rate swaps involve the Fund’s agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment that is intended to approximate the Fund’s variable rate payment obligation on the Fund Preferred Shares or any variable rate borrowing. The payment obligation would be based on the notional amount of the swap. We may use an interest rate cap, which would require us to pay a premium to the cap counterparty and would entitle us, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount of such cap. We would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on the performance of the Fund’s Common Shares as a result of leverage.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, our use of interest rate swaps or caps could enhance or harm the overall performance of the Fund’s Common Shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the Common Shares. In addition, if short-term interest rates are lower than our rate of payment on the interest rate swap, this will reduce the performance of the Fund’s Common Shares. If, on the other hand, short-term interest rates are higher than our rate of payment on the interest rate swap, this will enhance the performance of the Fund’s Common Shares. Buying interest rate caps could enhance the performance of the Fund’s Common Shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net income of the Fund’s Common Shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement. The Fund has no current intention of selling an interest rate swap or cap. We would not enter into interest rate swap or cap transactions in an aggregate notional amount that exceeds the outstanding amount of the Fund’s leverage.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the counterparty defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset the dividend payments on the Fund Preferred Shares or rate of interest on borrowings. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such default could negatively impact the performance of the Fund’s Common Shares. Although this will not guarantee that the counterparty does not default, the Fund will not enter into an interest rate swap or cap transaction with any counterparty that the Investment Manager believes does not have the financial resources to honor its obligation

under the interest rate swap or cap transaction. Further, the Investment Manager will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Fund's investments. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of the Fund's Common Shares.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily.

The Fund may choose or be required to redeem some or all of the Fund Preferred Shares or prepay any borrowings. This redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Such early termination of a swap could result in termination payment by or to the Fund. An early termination of a cap could result in a termination payment to the Fund.

## **PRINCIPAL RISKS OF THE FUND**

We are a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that we will achieve our investment objectives.

### **No Operating History**

We are a newly organized, non-diversified, closed-end management investment company with no operating history.

### **Investment Risk**

An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest.

### **Stock Market Risk**

Your investment in Common Shares represents an indirect investment in the common stock, preferred securities and other securities owned by the Fund, substantially all of which are traded on a national securities exchange or in the over-the-counter markets. The value of these securities, like other stock market investments, may move up or down, sometimes rapidly and unpredictably. Your Common Shares at any point in time may be worth less than what you invested, even after taking into account the reinvestment of Fund dividends and distributions. The Fund may utilize leverage, which magnifies the stock market risk. See "Use of Leverage—Leverage Risks."

## **Interest Rate Risk**

Interest rate risk is the risk that fixed-income securities such as preferred and debt securities, and to a lesser extent dividend-paying common stocks and shares such as REIT common shares, will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. The Fund's investment in such securities means that the net asset value and market price of common shares may tend to decline if market interest rates rise. Because investors generally look to REITs for a stream of income, the prices of REIT shares may be more sensitive to changes in interest rates than are other equity securities.

During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled which is generally known as call or prepayment risk. If this occurs, the Fund may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred and debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. This is known as extension risk. Market interest rates for investment grade fixed-income securities in which the Fund will invest have recently declined significantly below the recent historical average rates for such securities. This decline may have increased the risk that these rates will rise in the future (which would cause the value of the Fund's net assets to decline) and the degree to which asset values may decline in such events; however, historical interest rate levels are not necessarily predictive of future interest rate levels.

## **Credit Risk and Lower-Rated Securities Risk**

Credit risk is the risk that a preferred or debt security in the Fund's portfolio will decline in price or fail to make dividend, interest or principal payments when due because the issuer of the security experiences a decline in its financial status. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income, and therefore will be subject to greater credit risk than debt instruments. The Fund may invest up to 10% (measured at the time of purchase) of its total assets in preferred or other debt securities that are rated below investment grade. Securities rated below investment grade are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and these bonds are commonly referred to as "junk bonds." These securities are subject to a greater risk of default. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market values of lower grade securities tend to be more volatile than investment grade securities. Preferred stock or debt securities will be considered to be investment grade if, at the time of investment, such security has a rating of "BBB" or higher by S&P, "Baa" or higher by Moody's or an equivalent rating by a nationally recognized statistical rating agency, or, if unrated, such security is determined by the Investment Manager to be of comparable quality.

Lower-rated securities may be considered speculative with respect to the issuer's continuing ability to make principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities, and our ability to achieve our investment objectives may, to the extent we are invested in lower-rated securities, be more dependent upon such creditworthiness analysis than would be the case if we were investing in higher quality securities. An issuer of these securities has a currently identifiable vulnerability to default and the issuer may be in default or there may be present elements of danger with respect to principal or interest. We will not invest in securities which are in default at the time of purchase.

Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. The prices of lower-rated securities have been found to be less sensitive to interest-rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual corporate developments. Yields on lower-rated securities will fluctuate if the issuer of lower-rated securities defaults, the Fund may incur additional expenses to seek recovery.

The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect the price at which we could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the net asset value of our shares. Adverse publicity and investor perceptions may decrease the values and liquidity of high yield securities.

It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of such securities and adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon. New laws and proposed new laws may adversely impact the market for lower-rated securities.

### **Counterparty Risk**

The Fund will be subject to credit risk with respect to the counterparties to any derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

### **Special Risks of Securities Linked to the Real Estate Market**

At least 40%, but no more than 60%, of the Fund's total assets will be concentrated in common stock of real estate companies which will consist primarily of REITs. The Fund will not invest in real estate directly, but only in securities issued by real estate companies or REITs. However, because of the Fund's policy of concentration in the securities of companies in the real estate industry, the Fund is also subject to the risks associated with the direct ownership of real estate. These risks include:

- declines in the value of real estate;

- risks related to general and local economic conditions;
- possible lack of availability of mortgage funds;
- overbuilding;
- extended vacancies of properties;
- increased competition;
- increases in property taxes and operating expenses;
- changes in zoning laws;
- losses due to costs resulting from the clean-up of environmental problems;
- liability to third parties for damages resulting from environmental problems;
- casualty or condemnation losses;
- limitations on rents;
- changes in neighborhood values and the appeal of properties to tenants; and
- changes in interest rates.

Thus, the value of the Common Shares may change at different rates compared to the value of shares of a registered investment company with investments in a mix of different industries and will depend on the general condition of the economy. An economic downturn could have a material adverse effect on the real estate markets and on real estate companies in which the Fund invests, which in turn could result in the Fund not achieving its investment objectives.

*General Real Estate Risks.* Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values may also be adversely affected by such factors as applicable laws (e.g., Americans with Disabilities Act and tax laws), interest rate levels and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the real estate company to make payments of any interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions in which the real estate owned by the portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company may also have joint venture investments in certain of its properties and, consequently, its ability to control decisions relating to such properties may be limited.

Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing.

*Retail Properties.* Retail properties are affected by the overall health of the applicable economy. A retail property may be adversely affected by the growth of alternative forms of

retailing, bankruptcy, decline in drawing power, departure or cessation of operations of an anchor tenant, a shift in consumer demand due to demographic changes, and/or changes in consumer preference (for example, to discount retailers) and spending patterns. A retail property may also be adversely affected if a significant tenant ceases operation at such location, voluntarily or otherwise. Certain tenants at retail properties may be entitled to terminate their leases if an anchor tenant ceases operations at such property.

*Office Properties.* Office properties generally require their owners to expend significant amounts for general capital improvements, tenant improvements and costs of reletting space. In addition, office properties that are not equipped to accommodate the needs of modern businesses may become functionally obsolete and thus noncompetitive. Office properties are affected by the overall health of the economy as well as economic declines in the businesses operated by their tenants. The risks of such an adverse effect is increased if the property revenue is dependent on a single tenant or if there is a significant concentration of tenants in a particular business or industry.

*Hotel Properties.* The risks of hotel properties include, among other things, the necessity of a high level of continuing capital expenditures to keep necessary furniture, fixtures and equipment updated, competition from other hotels, increases in operating costs (which increases may not necessarily be offset in the future by increased room rates), dependence on business and commercial travelers and tourism, increases in fuel costs and other expenses of travel, changes to regulation of operating liquor and other licenses, and adverse effects of general and local economic conditions. Due to the fact that hotel rooms are generally rented for short periods of time, hotel properties tend to be more sensitive to adverse economic conditions and competition than many other commercial properties.

Also, hotels may be operated pursuant to franchise, management and operating agreements that may be terminable by the franchiser, the manager or the operator. Contrarily, it may be difficult to terminate an ineffective operator of a hotel property subsequent to a foreclosure of such property.

*Healthcare Properties.* Healthcare properties and healthcare providers are affected by several significant factors including federal, state and local laws governing licenses, certification, adequacy of care, pharmaceutical distribution, rates, equipment, personnel and other factors regarding operations; continued availability of revenue from government reimbursement programs (primarily Medicaid and Medicare); and competition in terms of appearance, reputation, quality and cost of care with similar properties on a local and regional basis.

These governmental laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. Changes may also be applied retroactively and the timing of such changes cannot be predicted. The failure of any healthcare operator to comply with governmental laws and regulations may affect its ability to operate its facility or receive government reimbursement. In addition, in the event that a tenant is in default on its lease, a new operator or purchaser at a foreclosure sale will have to apply in its own right for all relevant licenses if such new operator does not already hold such licenses. There can be no assurance that such new licenses could be obtained, and consequently, there can be no assurance that any healthcare property subject to foreclosure will be disposed of in a timely manner.

*Multifamily Properties.* The value and successful operation of a multifamily property may be affected by a number of factors such as the location of the property, the ability of management to

provide adequate maintenance and insurance, types of services provided by the property, the level of mortgage rates, presence of competing properties, the relocation of tenants to new projects with better amenities, adverse economic conditions in the locale, the amount of rent charged and oversupply of units due to new construction. In addition, multifamily properties may be subject to rent control laws or other laws affecting such properties, which could impact the future cash flows of such properties.

*Insurance Issues.* Certain of the portfolio companies may, in connection with the issuance of securities, have disclosed that they carry comprehensive liability, fire, flood, earthquake extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. However such insurance is not uniform among the portfolio companies. Moreover, there are certain types of extraordinary losses that may be uninsurable, or not economically insurable. Certain of the properties may be located in areas that are subject to earthquake activity for which insurance may not be maintained. Should a property sustain damage as a result of an earthquake, even if the portfolio company maintains earthquake insurance, the portfolio company may incur substantial losses due to insurance deductibles, co-payments on insured losses or uninsured losses. Should any type of uninsured loss occur, the portfolio company could lose its investment in, and anticipated profits and cash flows from, a number of properties and, as a result, would impact the Fund's investment performance.

*Credit Risk.* REITs may be highly leveraged and financial covenants may affect the ability of REITs to operate effectively. The portfolio companies are subject to risks normally associated with debt financing. If the principal payments of a REIT's debt cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, the REIT's cash flow may not be sufficient to repay all maturing debt outstanding.

In addition, a portfolio company's obligation to comply with financial covenants, such as debt-to-asset ratios and secured debt-to-total asset ratios, and other contractual obligations may restrict a REIT's range of operating activity. A portfolio company, therefore, may be limited from incurring additional indebtedness, selling its assets and engaging in mergers or making acquisitions which may be beneficial to the operation of the REIT.

*Environmental Issues.* In connection with the ownership (direct or indirect), operation, management and development of real properties that may contain hazardous or toxic substances, a portfolio company may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and liabilities for injuries to persons and property. The existence of any such material environmental liability could have a material adverse effect on the results of operations and cash flow of any such portfolio company and, as a result, the amount available to make distributions on the shares could be reduced.

*Smaller Companies.* Even the larger REITs in the industry tend to be small to medium-sized companies in relation to the equity markets as a whole. There may be less trading in a smaller company's stock, which means that buy and sell transactions in that stock could have a larger impact on the stock's price than is the case with larger company stocks. Smaller companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on a smaller company's stock price than is the case for a larger company. Further, smaller company stocks may perform in different cycles than larger company stocks. Accordingly, REIT

shares can be more volatile than—and at times will perform differently from—large company stocks such as those found in the Dow Jones Industrial Average.

*Tax Issues.* REITs are subject to a highly technical and complex set of provisions in the Code. It is possible that the Fund may invest in a real estate company which purports to be a REIT and that the company could fail to qualify as a REIT. In the event of any such unexpected failure to qualify as a REIT, the company would be subject to corporate-level taxation, significantly reducing the return to the Fund on its investment in such company. REITs could possibly fail to qualify for tax free pass-through of income under the Code, or to maintain their exemptions from registration under the 1940 Act. The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

### **Special Risks Related to Preferred Securities**

There are special risks associated with investing in preferred securities, including:

*Deferral and Omission.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring or omitting its distributions, the Fund may be required to report income for tax purposes although it has not yet received such income.

*Subordination.* Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.

*Liquidity.* Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities.

*Limited Voting Rights.* Generally, traditional preferred securities offer no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid-preferred security holders generally have no voting rights.

*Special Redemption Rights.* In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in Federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by the Fund.

*Supply of Hybrid-Preferred Securities.* The Financial Accounting Standards Board currently is reviewing accounting guidelines relating to hybrid-preferred securities. To the extent that a change in the guidelines could adversely affect the market for, and availability of, these securities, the Fund may be adversely affected. The adoption of the Bush Administration's proposal to eliminate the Federal income tax on dividends may also adversely impact the market and supply of hybrid-preferred securities if the issuance of such securities becomes less attractive to issuers.

*New Types of Securities.* From time to time, preferred securities, including hybrid-preferred securities, have been, and may in the future be, offered having features other than those described herein. The Fund reserves the right to invest in these securities if the Investment Manager believes that doing so would be consistent with the Fund's investment objectives and policies. Since the market for these instruments would be new, the Fund may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility.

### **General Risks of Securities Linked to the Financial Services Industry**

The Fund intends to invest a significant portion, but less than 25%, of its total assets in securities of companies principally engaged in the financial services industry, which are prominent issuers of preferred securities. Because the Fund may invest such amounts in this sector, the Fund may be susceptible to adverse economic or regulatory occurrences affecting that sector.

Investing in the financial services sector includes the following risks:

- regulatory actions—financial services companies may suffer a setback if regulators change the rules under which they operate;
- changes in interest rates—unstable interest rates can have a disproportionate effect on the financial services sector;
- concentration of loans—financial services companies whose securities the Fund may purchase may themselves have concentrated portfolios, such as a high level of loans to real estate developers, which makes them vulnerable to economic conditions that affect that sector; and
- competition—financial services companies have been affected by increased competition, which could adversely affect the profitability or viability of such companies.

### **Foreign Securities Risks**

Under normal market conditions, the Fund may invest up to 20% of its total assets in U.S. dollar-denominated securities of foreign issuers traded or listed on a U.S. securities exchange or the U.S. over-the-counter market ("Foreign Securities"). Typically, the Fund will not hold any Foreign Securities of issuers in so-called "emerging markets" (or lesser developed countries), but to the extent it does, the Fund will not invest more than 10% of its total assets in such securities. Investments in such securities are particularly speculative. Investing in Foreign Securities involves certain risks not involved in domestic investments, including, but not limited to:

- future foreign economic, financial, political and social developments;
- different legal systems;
- the possible imposition of exchange controls or other foreign governmental laws or restrictions;
- less governmental supervision;
- regulation changes;
- changes in currency exchange rates;
- less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices;

- high and volatile rates of inflation;
- fluctuating interest rates;
- less publicly available information; and
- different accounting, auditing and financial record-keeping standards and requirements.

Investments in Foreign Securities, especially in emerging market countries, will expose the Fund to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or in which the issuers are located. Certain countries in which the Fund may invest, especially emerging market countries, have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates which are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of:

- the possibility of expropriation of assets;
- confiscatory taxation;
- difficulty in obtaining or enforcing a court judgment;
- economic, political or social instability; and
- diplomatic developments that could affect investments in those countries.

In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as:

- growth of gross domestic product;
- rates of inflation;
- capital reinvestment;
- resources;
- self-sufficiency; and
- balance of payments position.

In addition, certain investments in Foreign Securities also may be subject to foreign withholding taxes.

Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments, and on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities,

especially in these markets. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates and corresponding currency devaluations have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries. Typically, the Fund will not hold any Foreign Securities of emerging market issuers, and, if it does, such securities will not comprise more than 10% of the Fund's total assets.

As a result of these potential risks, the Investment Manager may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Fund may invest in countries in which foreign investors, including the Investment Manager, have had no or limited prior experience.

### **Other Investment Management Techniques Risk**

Strategic Transactions in which the Fund may engage also involve certain risks and special considerations, including engaging in hedging and risk management transactions such as interest rate transactions, options, futures, swaps and other derivatives transactions. Strategic Transactions will be entered into to seek to manage the risks of the Fund's portfolio of securities, but may have the effect of limiting the gains from favorable market movements. Strategic Transactions involve risks, including (1) that the loss on the Strategic Transaction position may be larger than the gain in the portfolio position being hedged and (2) that the derivative instruments used in Strategic Transactions may not be liquid and may require the Fund to pay additional amounts of money. Successful use of Strategic Transactions depends on the Investment Manager's ability to predict correctly market movements, which, of course, cannot be assured. Losses on Strategic Transactions may reduce the Fund's net asset value and its ability to pay dividends if they are not offset by gains on the portfolio positions being hedged. The Fund may also lend the securities it owns to others, which allows the Fund the opportunity to earn additional income. Although the Fund will require the borrower of the securities to post collateral for the loan and the terms of the loan will require that the Fund be able to reacquire the loaned securities if certain events occur, the Fund is still subject to the risk that the borrower of the securities may default, which could result in the Fund losing money, which would result in a decline in the Fund's net asset value. The Fund may also purchase securities for delayed settlement. This means that the Fund is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement.

### **Convertible Securities Risk**

Although to a lesser extent than with fixed-income securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. A unique feature of convertible securities is that as the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis, and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the convertible securities tend to rise as a reflection of the value of the underlying common stock. While no securities

investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer.

### **Common Stock Risk**

While common stock has historically generated higher average returns than fixed income securities, common stock has also experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of common stock held by the Fund. Also, the price of common stock is sensitive to general movements in the stock market. A drop in the stock market may depress the price of common stock held by the Fund.

### **Tax Risk**

The Fund may invest in preferred securities or other securities the Federal income tax treatment of which may not be clear or may be subject to recharacterization by the Internal Revenue Service. It could be more difficult for the Fund to comply with the tax requirements applicable to regulated investment companies if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the Internal Revenue Service. See "Taxation."

In addition, investors should note that the Fund is not expected to generate significant income that qualifies for the DRD or the reduced rates of tax that apply to qualified dividend income. See "Taxation."

### **Restricted and Illiquid Securities Risk**

The Fund may invest, on an ongoing basis, in restricted securities and other investments that may be illiquid. Illiquid securities are securities that are not readily marketable and may include some restricted securities, which are securities that may not be resold to the public without an effective registration statement under the Securities Act or, if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. Illiquid investments involve the risk that the securities will not be able to be sold at the time desired by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

### **Leverage Risk**

The Fund intends to use leverage by issuing Fund Preferred Shares, representing approximately 35% of the Fund's total capital after their issuance or alternatively, through borrowing. Leverage is a speculative technique and there are special risks and costs associated with leveraging. For a more detailed description of the risks associated with leverage, see "Use of Leverage."

### **Interest Rate Transactions Risk**

The Fund may enter into a swap or cap transaction to attempt to protect itself from increasing dividend or interest expenses resulting from increasing short-term interest rates. A decline in interest rates may result in a decline in the value of the swap or cap which may result in a decline in the net asset value of the Fund. A sudden and dramatic decline in interest rates

may result in a significant decline in the net asset value of the Fund. See “Interest Rate Transactions.”

### **Risk of Market Price Discount From Net Asset Value**

Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund’s net asset value could decrease as a result of our investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. The net asset value of the shares will be reduced immediately following the offering as a result of the payment of certain offering costs in connection with this offering and any offering of Fund Preferred Shares. Whether investors will realize gains or losses upon the sale of the shares will depend not upon the Fund’s net asset value but entirely upon whether the market price of the shares at the time of sale is above or below the investor’s purchase price for the shares. Because the market price of the shares will be determined by factors such as relative supply of and demand for shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, we cannot predict whether the shares will trade at below or above net asset value, or at below or above the initial public offering price.

## **ADDITIONAL RISK CONSIDERATIONS**

### **Portfolio Turnover Risk**

We may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund’s investment objectives. Although we cannot accurately predict our portfolio turnover rate, it is not expected to exceed 100% under normal circumstances. However, there are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when, in the opinion of the Investment Manager, investment considerations warrant such action. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses which are borne by the Fund. High portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income. See “Taxation.”

### **Inflation Risk**

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions can decline. In addition, during any periods of rising inflation, Fund Preferred share dividend rates would likely increase, which would tend to further reduce returns to holders of Common Shares.

### **Non-Diversified Status**

The Fund is classified as a “non-diversified” investment company under the 1940 Act, which means we are not limited by the 1940 Act in the proportion of our assets that may be invested in the securities of a single issuer. However, we intend to conduct our operations so as to qualify as a regulated investment company for purposes of the Code, which generally will relieve the Fund of

any liability for Federal income tax to the extent our earnings are distributed to shareholders. See “Taxation” in the SAI. To so qualify, among other requirements, we will limit our investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of our total assets will be invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of a single issuer, or two or more issuers which the Fund controls and are engaged in the same, similar or related trades or businesses and (ii) at least 50% of the market value of our total assets will be invested in cash and cash items, U.S. Government securities, securities of other regulated investment companies and other securities; provided, however, that with respect to such other securities, not more than 5% of the market value of our total assets will be invested in the securities of a single issuer and we will not own more than 10% of the outstanding voting securities of a single issuer. Because we, as a non-diversified investment company, may invest in a smaller number of individual issuers than a diversified investment company, an investment in the Fund presents greater risk to you than an investment in a diversified company.

### **Anti-Takeover Provisions**

Certain provisions of our Articles of Incorporation and By-Laws may have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change our structure. These provisions may also have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices. These include provisions for staggered terms of office for Directors, super-majority voting requirements for merger, consolidation, liquidation, termination and asset sale transactions, amendments to the Articles of Incorporation and conversion to open-end status. See “Description of Shares” and “Certain Provisions of the Articles of Incorporation and By-Laws.”

### **Market Disruption Risk**

The terrorist attacks in the U.S. on September 11, 2001 had a disruptive effect on the securities markets. The war in Iraq and instability in the Middle East also has resulted in recent market volatility and may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the U.S. and worldwide. The Fund does not know how long the securities markets will continue to be affected by these events and cannot predict the effects of the war or similar events in the future on the U.S. economy and securities markets.

## **HOW THE FUND MANAGES RISK**

### **Investment Limitations**

The Fund has adopted certain investment limitations designed to limit investment risk. These limitations are fundamental and may not be changed without the approval of the holders of a majority of the outstanding common shares and, if issued, Fund Preferred Shares voting together as a single class, and the approval of the holders of a majority of the Preferred Shares voting as a separate class. Among other restrictions, the Fund may not invest more than 25% of its managed assets in securities of issuers in any one industry except for the real estate industry.

The Fund may become subject to guidelines that are more limiting than its investment restrictions in order to obtain and maintain ratings from Moody’s, S&P or another nationally

recognized rating agency on the Fund Preferred Shares that it intends to issue. The Fund does not anticipate that such guidelines would have a material adverse effect on the Fund's common shareholders or the Fund's ability to achieve its investment objectives. See "Investment Objectives and Policies" in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

### **Management of Investment Portfolio and Capital Structure to Limit Leverage Risk**

The Fund may take certain actions if short-term interest rates increase or market conditions otherwise change (or the Fund anticipates such an increase or change) and the Fund's leverage begins (or is expected) to adversely affect Common Shareholders. In order to attempt to offset such a negative impact of leverage on Common Shareholders, the Fund may shorten the average maturity of its investment portfolio (by investing in short-term securities) or may reduce its indebtedness or extend the maturity of outstanding Fund Preferred Shares or otherwise reduce borrowings. The Fund may also attempt to reduce the leverage by redeeming or otherwise purchasing Fund Preferred Shares. As explained above under "Use of Leverage—Leverage Risks," the success of any such attempt to limit leverage risk depends on the Investment Manager's ability to accurately predict interest rate or other market changes. Because of the difficulty of making such predictions, the Fund may never attempt to manage its capital structure in the manner described in this paragraph.

If market conditions suggest that additional leverage would be beneficial, the Fund may sell previously unissued Fund Preferred Shares or Fund Preferred Shares that the Fund previously issued but later repurchased or otherwise increase borrowings.

### **Strategic Transactions**

The Fund may use various investment strategies designed to limit the risk of fluctuations of fixed income securities and to preserve capital. These strategies include using swaps, financial futures contracts, options on financial futures or options based on either an index of long-term securities or on taxable debt securities whose prices, in the opinion of the Investment Manager, correlate with the prices of the Fund's investments.

### **Limited Issuance of Fund Preferred Shares**

Under the 1940 Act, the Fund could issue Fund Preferred Shares having a total liquidation value (original purchase price of the shares being liquidated plus any accrued and unpaid dividends) of up to one-half of the value of the asset coverage of the Fund. If the total liquidation value of the Fund Preferred shares was ever more than one-half of the value of the Fund's asset coverage, the Fund would not be able to declare dividends on the Common Shares until the liquidation value, as a percentage of the Fund's assets, was reduced. The Fund intends to issue Fund Preferred shares representing about 35% of the Fund's total capital immediately after the time of issuance. This higher than required margin of net asset value provides a cushion against later fluctuations in the value of the Fund's portfolio and will subject Common Shareholders to less income and net asset value volatility than if the Fund were more leveraged. The Fund intends to purchase or redeem Fund Preferred Shares, if necessary, to keep the liquidation value of the Fund Preferred Shares below one-half of the value of the Fund's asset coverage.

## **Limited Borrowings**

Under the requirements of the 1940 Act, the Fund, immediately after any borrowings, must have an asset coverage of at least 300%. With respect to any such borrowings, 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 such borrowings represented by senior securities issued by the Fund. Certain types of borrowings may result in the Fund being subject to covenants in credit agreements relating to asset coverages or portfolio composition or otherwise. In addition, the Fund may be subject to certain restrictions imposed by guidelines of one or more NRSROs which may issue ratings for commercial paper or notes issued by the Fund. Such restrictions may be more stringent than those imposed by the 1940 Act.

## **MANAGEMENT OF THE FUND**

The business and affairs of the Fund are managed under the direction of the Board of Directors. The Directors approve all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund's agreement with its Investment Manager, administrator, custodian and transfer agent. The management of the Fund's day-to-day operations is delegated to its officers, the Investment Manager and the Fund's administrator, subject always to the investment objectives and policies of the Fund and to the general supervision of the Directors. The names and business addresses of the Directors and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under "Management of the Fund" in the SAI.

## **Investment Manager**

Cohen & Steers Capital Management, Inc., with offices located at 757 Third Avenue, New York, New York 10017, has been retained to provide investment advice, and, in general, to conduct the management and investment program of the Fund under the overall supervision and control of the Directors of the Fund. Cohen & Steers Capital Management, Inc., a registered investment adviser, was formed in 1986 and is a leading U.S. manager of portfolios dedicated to investments primarily in REITs with approximately \$7.5 billion of assets under management as of May 31, 2003, including more than \$630.0 million in REIT preferred securities. Its current clients include pension plans, endowment funds and registered investment companies, including the Fund, Cohen & Steers Advantage Income Realty Fund, Inc., Cohen & Steers Quality Income Realty Fund, Inc., Cohen & Steers Premium Income Realty Fund, Inc. and Cohen & Steers Total Return Realty Fund, Inc., which are closed-end investment companies, and Cohen & Steers Institutional Realty Shares, Inc., Cohen & Steers Realty Shares, Inc., Cohen & Steers Special Equity Fund, Inc. and Cohen & Steers Equity Income Fund, Inc., which are open-end investment companies.

## **Investment Management Agreement**

Under its Investment Management Agreement with the Fund, the Investment Manager furnishes a continuous investment program for the Fund's portfolio, makes the day-to-day investment decisions for the Fund, and generally manages the Fund's investments in accordance with the stated policies of the Fund, subject to the general supervision of the Board of Directors

of the Fund. The Investment Manager also performs certain administrative services for the Fund and provides persons satisfactory to the Directors of the Fund to serve as officers of the Fund. Such officers, as well as certain other employees and Directors of the Fund, may be directors, officers or employees of the Investment Manager.

For its services under the Investment Management Agreement, the Fund pays the Investment Manager a monthly management fee computed at the annual rate of .65% of the average daily managed assets of the Fund. Managed assets is the net asset value of the Common Shares plus the liquidation preference of any Fund Preferred Shares and the principal amount of any borrowings used for leverage. In addition to the monthly management fee, the Fund pays all other costs and expenses of its operations, including compensation of its Directors, custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of repurchasing shares, expenses of issuing any Fund Preferred Shares, listing expenses, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. When the Fund is utilizing leverage, the fees paid to the Investment Manager for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on the Fund's managed assets, which includes the liquidation preference of any Fund Preferred Shares and the principal amount of borrowings for leverage. See "Use of Leverage."

The Fund's portfolio managers are:

Martin Cohen—Mr. Cohen is a Director, President and Treasurer of the Fund. He is, and has been since their inception, President of Cohen & Steers Capital Management, Inc., the Fund's investment adviser, and Vice President of Cohen & Steers Securities, Inc., a registered broker-dealer. Mr. Cohen is a "controlling person" of the Investment Manager on the basis of his ownership of the Investment Manager's stock.

Robert H. Steers—Mr. Steers is a Director, Chairman and Secretary of the Fund. He is, and has been since their inception, Chairman of Cohen & Steers Capital Management, Inc., the Fund's investment adviser, and President of Cohen & Steers Securities, Inc., a registered broker-dealer. Mr. Steers is a "controlling person" of the Investment Manager on the basis of his ownership of the Investment Manager's stock.

Greg E. Brooks—Mr. Brooks joined Cohen & Steers Capital Management, Inc., the Fund's Investment Manager, as a Vice President in April 2000 and has been a Senior Vice President since January 2002. Prior to joining Cohen & Steers in 2000, Mr. Brooks was an investment analyst with another real estate securities investment manager. Mr. Brooks is a Chartered Financial Analyst.

William F. Scapell—Mr. Scapell joined Cohen & Steers Capital Management, Inc., the Fund's Investment Manager, as a Senior Vice President in February 2003. Prior to joining Cohen & Steers, Mr. Scapell was a director in the fixed income research department of Merrill Lynch & Co., Inc., where he was also its chief strategist for preferred securities. Before joining Merrill Lynch's research department, Mr. Scapell worked in Merrill Lynch Treasury with a focus on balance sheet management. Prior to working for Merrill Lynch, Mr. Scapell was employed at the Federal Reserve Bank of New York in both bank supervision and monetary policy roles. Mr. Scapell is a Chartered Financial Analyst.

## **Administration and Sub-Administration Agreement**

Under its Administration Agreement with the Fund, the Investment Manager provides certain administrative and accounting functions for the Fund, including providing administrative services necessary for the operations of the Fund and furnishing office space and facilities required for conducting the business of the Fund.

In accordance with the Administration Agreement and with the approval of the Board of Directors of the Fund, the Fund has entered into an agreement with State Street Bank as sub-administrator under a fund accounting and administration agreement (the “Sub-Administration Agreement”). Under the Sub-Administration Agreement, State Street Bank has assumed responsibility for certain fund administration services.

Under the Administration Agreement, the Fund pays the Investment Manager an amount equal to, on an annual basis, .06% of the Fund’s average daily managed assets up to \$1 billion, .04% of the Fund’s average daily managed assets in excess of \$1 billion up to \$1.5 billion and .02% of the Fund’s average daily managed assets in excess of \$1.5 billion. Under the Sub-Administration agreement, the Fund pays State Street Bank a monthly administration fee. The sub-administration fee paid by the Fund to State Street Bank is computed on the basis of the average daily managed assets in the Fund at an annual rate equal to .03% of the first \$200.0 million in assets, .02% of the next \$200.0 million and .01% of assets in excess of \$400.0 million, with a minimum fee of \$120,000. The aggregate fee paid by the Fund and the other funds advised by the Investment Manager to State Street Bank is computed by multiplying the total number of funds by each break point in the above schedule in order to determine the aggregate break points to be used in calculating the total fee paid by the Cohen & Steers family of funds (*i.e.*, six funds at \$200.0 million or \$1.2 billion at .04%, etc.). The Fund is then responsible for its pro rata amount of the aggregate administration fee. State Street Bank also serves as the Fund’s custodian and EquiServe Trust Company, NA has been retained to serve as the Fund’s transfer agent, dividend disbursing agent and registrar. See “Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar.”

## **DIVIDENDS AND DISTRIBUTIONS**

### **Level Rate Dividend Policy**

Subject to the determination of the Board of Directors to implement a Managed Dividend Policy, as discussed below, commencing with the Fund’s first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a level rate based on the projected performance of the Fund, which rate is a fixed dollar amount that may be adjusted from time to time. Distributions can only be made from net investment income after paying accrued dividends on, or redeeming or liquidating, Fund Preferred Shares, if any, and making interest and required principal payments on Borrowings, if any, as well as making any required payments on any interest rate transactions. The Fund’s ability to maintain a Level Rate Dividend Policy will depend on a number of factors, including the stability of income received from its investments and dividends payable on Fund Preferred Shares, if any, and interest and required principal payments on Borrowings, if any. Over time, all the net investment income of the Fund will be distributed. At least annually, the Fund intends to distribute all of its net capital gain and ordinary taxable income after paying any accrued dividends on, or redeeming or liquidating, any Fund Preferred Shares, if any, or making interest and required principal payments on Borrowings, if any. Initial distributions

to Common Shareholders are expected to be declared approximately 45 days, and paid approximately 60 to 75 days, from the commencement of this offering, depending upon market conditions. The net income of the Fund consists of all income accrued on portfolio assets less all expenses of the Fund. Expenses of the Fund are accrued each day. In addition, the Fund currently expects that a portion of its distributions will consist of amounts in excess of investment company taxable income and net capital gain derived from the non-taxable components of the cash flow from the real estate underlying the Fund's portfolio investments. Accordingly, a Level Rate Dividend Policy may require certain distributions that may be deemed a return of capital for tax purposes. To permit the Fund to maintain a more stable monthly distribution, the Fund will initially distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund's net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's net asset value. See "Taxation."

### **Managed Dividend Policy**

In reliance on an exemptive order, issued by the Securities and Exchange Commission, the Fund may, subject to the determination of its Board of Directors, implement a Managed Dividend Policy. Under a Managed Dividend Policy, the Fund would intend to distribute a monthly fixed percentage of net asset value to Common Shareholders. As with the Level Dividend Rate Policy, distributions would be made only after paying dividends on, or redeeming or liquidating, Fund Preferred Shares, if any, and making interest and required principal payments on borrowings, if any. Under a Managed Dividend Policy, if, for any monthly distribution, net investment income and net realized capital gain were less than the amount of the distribution, the difference would be distributed from the Fund's assets. Accordingly, a Managed Dividend Policy may require certain distributions that may be deemed a return of capital for tax purposes. The Fund's final distribution for each calendar year would include any remaining net investment income and net realized capital gain undistributed during the year. Pursuant to the requirements of the 1940 Act and other applicable laws, a notice would accompany each monthly distribution with respect to the estimated source of the distribution made. In the event the Fund distributed in any calendar year amounts in excess of net investment income and net realized capital gain (such excess, the "Excess"), such distribution would decrease the Fund's total assets and, therefore, have the likely effect of increasing the Fund's expense ratio. There is a risk that the Fund would not eventually realize capital gains in an amount corresponding to a distribution of the Excess. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. There is no guarantee that the Board of Directors will determine to implement a Managed Dividend Policy. The Board of Directors reserves the right to change the dividend policy from time to time.

### **Dividend Reinvestment Plan**

The Fund has a Dividend Reinvestment Plan (the "Plan") commonly referred to as an "opt-out" plan. Each shareholder will have all distributions of dividends and capital gains automatically

reinvested in additional Common Shares by EquiServe Trust Company, NA as agent for shareholders pursuant to the Plan (the “Plan Agent”), unless they elect to receive cash. The Plan Agent will either (i) effect purchases of Common Shares under the Plan in the open market or (ii) distribute newly issued Common Shares of the Fund. Shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or makes a capital gain distribution, the Plan Agent will, as agent for the participants, either (i) receive the cash payment and use it to buy Common Shares in the open market, on the New York Stock Exchange or elsewhere for the participants’ accounts or (ii) distribute newly issued Common Shares of the Fund on behalf of the participants. The Plan Agent will receive cash from the Fund with which to buy Common Shares in the open market if, on the determination date, the net asset value per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the dividend or distribution in newly issued Common Shares of the Fund if, on the determination date, the market price per share plus estimated brokerage commissions equals or exceeds the net asset value per share of the Fund on that date. The number of shares to be issued will be computed at a per share rate equal to the greater of (i) the net asset value or (ii) 95% of the closing market price per share on the payment date.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a distribution record date; otherwise, it will be effective for all subsequent dividend record dates. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole Common Shares credited to his or her account under the Plan will be issued and a cash payment will be made for any fraction of a Common Share credited to such account. In the alternative, upon receipt of the participant’s instructions, Common Shares will be sold and the proceeds sent to the participant less brokerage commissions and any applicable taxes.

The Plan Agent maintains each shareholder’s account in the Plan and furnishes confirmations of all acquisitions made for the participant as soon as practicable but no later than 60 days after such acquisition. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the participant. Proxy material relating to shareholders’ meetings of the Fund will include those shares purchased as well as shares held pursuant to the Plan.

In the case of shareholders, such as banks, brokers or nominees, which hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder’s name and held for the account of beneficial owners who are participants in the Plan. Common Shares may be purchased through any of the underwriters, acting as broker or, after the completion of this offering, dealer.

The Plan Agent’s fees for the handling of reinvestment of dividends and other distributions will be paid by the Fund. Each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent’s open market purchases in connection with the

reinvestment of distributions. There are no other charges to participants for reinvesting dividends or capital gain distributions.

The automatic reinvestment of dividends and other distributions will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions. See “Taxation.”

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any distribution paid subsequent to written notice of the change sent to all shareholders of the Fund at least 90 days before the record date for the dividend or distribution. The Plan also may be amended or terminated by the Plan Agent by at least 90 days’ written notice to all shareholders of the Fund. All correspondence concerning the Plan should be directed to the Plan Agent by telephone at 800-426-5523.

### **CLOSED-END STRUCTURE**

The Fund is a recently organized, non-diversified management investment company (commonly referred to as a closed-end fund). Closed-end funds differ from open-end funds (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that if you wish to sell your shares of a closed-end fund you must trade them on the market like any other stock at the prevailing market price at that time. In a mutual fund, if the shareholder wishes to sell shares, the mutual fund will redeem or buy back the shares at “net asset value.” Mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the fund’s investments. By comparison, closed-end funds are generally able to stay fully invested in securities that are consistent with their investment objectives, and also have greater flexibility to make certain types of investments, and to use certain investment strategies, such as financial leverage and investments in illiquid securities.

Shares of closed-end funds frequently trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the best interest of shareholders, the Fund’s Board of Directors might consider from time to time engaging in open market repurchases, tender offers for shares at net asset value or other programs intended to reduce the discount. We cannot guarantee or assure, however, that the Fund’s Board will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in shares trading at a price equal or close to net asset value per share. See “Repurchase of Shares.” The Board of Directors might also consider converting the Fund to an open-end mutual fund, which would also require a vote of the shareholders of the Fund.

### **POSSIBLE CONVERSION TO OPEN-END STATUS**

The Fund may be converted to an open-end investment company at any time by a vote of the outstanding shares. See “Certain Provisions of the Articles of Incorporation and By-Laws” for a discussion of voting requirements applicable to conversion of the Fund to an open-end investment company. If the Fund converted to an open-end investment company, it would be required to redeem all Fund Preferred Shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio) and the Fund’s Common Shares would no longer be listed on the New

York Stock Exchange. Conversion to open-end status could also require the Fund to modify certain investment restrictions and policies. 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 permitted under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end investment companies typically engage in a continuous offering of their shares. Open-end investment companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management. The Board of Directors may at any time propose conversion of the Fund to open-end status, depending upon its judgment regarding the advisability of such action in light of circumstances then prevailing.

### **REPURCHASE OF SHARES**

Shares of closed-end investment companies often trade at a discount to net asset value, and the Fund's shares may also trade at a discount to their net asset value, although it is possible that they may trade at a premium above net asset value. The market price of the Fund's shares will be determined by such factors as relative demand for and supply of shares in the market, the Fund's net asset value, general market and economic conditions and other factors beyond the control of the Fund. Although Common Shareholders will not have the right to redeem their shares, the Fund may take action to repurchase shares in the open market or make tender offers for its shares at net asset value. During the pendency of any tender offer, the Fund will publish how Common Shareholders may readily ascertain the net asset value. For more information see "Repurchase of Shares" in the SAI. Repurchase of the Common Shares may have the effect of reducing any market discount to net asset value.

There is no assurance that, if action is undertaken to repurchase or tender for shares, such action will result in the shares trading at a price which approximates their net asset value. Although share repurchases and tenders could have a favorable effect on the market price of the shares, you should be aware that the acquisition of shares by the Fund will decrease the total assets of the Fund and, therefore, have the effect of increasing the Fund's expense ratio and may adversely affect the ability of the Fund to achieve its investment objectives. To the extent the Fund may need to liquidate investments to fund repurchases of shares, this may result in portfolio turnover which will result in additional expenses being borne by the Fund. The Board of Directors currently considers the following factors to be relevant to a potential decision to repurchase shares: the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action on the Fund or its shareholders and market considerations. Any share repurchases or tender offers will be made in accordance with the requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act. See "Taxation" for a description of the potential tax consequences of a share repurchase.

### **TAXATION**

The following brief tax discussion assumes you are a U.S. shareholder and that you hold your shares as a capital asset. In the SAI we have provided more detailed information regarding the tax consequences of investing in the Fund. Dividends paid to you out of the Fund's current and accumulated earnings and profits will, except in the case of capital gain dividends described below,

be taxable to you as ordinary income. For taxable years beginning on or before December 31, 2008, distributions of investment income designated by the Fund as derived from qualified dividend income will be taxed in the hands of individuals at the rates applicable to long-term capital gain, provided holding period and other requirements are met. The Fund does not expect a significant portion of Fund distributions to be derived from qualified dividend income. Distributions of net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, designated as capital gain dividends are taxable to you as long-term capital gains, regardless of how long you have held your Fund shares. Long-term capital gain rates for individuals have been temporarily reduced to 15% (with lower rates for individuals in the 10% and 15% rate brackets) for taxable years beginning on or before December 31, 2008.

A distribution of an amount in excess of the Fund's current and accumulated earnings and profits is treated as a non-taxable return of capital that reduces your tax basis in your Fund shares; any such distributions in excess of your basis are treated as gain from a sale of your shares. The tax treatment of your dividends and distributions will be the same regardless of whether they were paid to you in cash or reinvested in additional Fund shares.

A distribution will be treated as paid to you on December 31 of the current calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid during January of the following year.

Each year, we will notify you of the tax status of dividends and other distributions.

If you sell your Fund shares, or have shares repurchased by the Fund, you may realize a capital gain or loss which will be long-term or short-term, depending generally on your holding period for the shares.

We may be required to withhold U.S. Federal income tax on all taxable distributions and redemption proceeds payable if you

- fail to provide us with your correct taxpayer identification number;
- fail to make required certifications; or
- have been notified by the Internal Revenue Service that you are subject to backup withholding.

Backup withholding is not an additional tax. Any amounts withheld may be credited against your U.S. Federal income tax liability.

The Fund intends to qualify as a regulated investment company under Federal income tax law. If the Fund so qualifies and distributes each year to its shareholders at least 90% of the sum of its investment company taxable income (as that term is defined in the Code, but without regard to the deduction for dividends paid) and net tax-exempt interest, the Fund will not be required to pay Federal income taxes on any income it distributes to shareholders. If the Fund distributes less than an amount equal to the sum of 98% of its ordinary income for the calendar year and 98% of its capital gain net income for the one-year period ending on October 31 of such calendar year, plus such amounts from previous years that were not distributed, then the Fund will be subject to a nondeductible 4% excise tax on the undistributed amounts.

Fund distributions also may be subject to state and local taxes. You should consult with your own tax adviser regarding the particular consequences of investing in the Fund.

## DESCRIPTION OF SHARES

### Common Shares

The Fund is authorized to issue 100,000,000 shares of Common Shares, \$.001 par value. The Common Shares have no preemptive, conversion, exchange or redemption rights. Each share has equal voting, dividend, distribution and liquidation rights. The Common Shares outstanding are, and those offered hereby when issued, will be, fully paid and nonassessable. Common Shareholders are entitled to one vote per share. All voting rights for the election of Directors are noncumulative, which means that, assuming there are no Fund Preferred Shares outstanding, the holders of more than 50% of the Common Shares can elect 100% of the Directors then nominated for election if they choose to do so and, in such event, the holders of the remaining Common Shares will not be able to elect any Directors. Whenever Fund Preferred Shares or borrowings are outstanding, holders of Common Shares will not be entitled to receive any distributions from the Fund unless all accrued dividends on the Fund Preferred Shares and interest and principal payments on borrowings have been paid, and unless the applicable asset coverage requirements under the 1940 Act would be satisfied after giving effect to the distribution. See “Fund Preferred Shares” below. The Fund’s Common Shares have been approved for listing on the New York Stock Exchange upon notice of issuance under the symbol “RNP.” Under the rules of the New York Stock Exchange applicable to listed companies, the Fund will be required to hold an annual meeting of shareholders in each year. The foregoing description and the descriptions below under “Fund Preferred Shares” and “Certain Provisions of the Articles of Incorporation and By-Laws” and above under “Possible Conversion to Open-End Status” are subject to the provisions contained in the Fund’s Articles of Incorporation and By-Laws.

Net asset value will be reduced immediately following the offering by the amount of the sales load and offering expenses paid by the Fund. The Investment Manager has agreed to pay all organizational expenses and offering costs (other than sales load) that exceed \$.05 per Common Share. See “Use of Proceeds.”

As of the date of this prospectus, Cohen & Steers Capital Management, Inc. owned of record and beneficially 4,200 shares of the Fund’s Common Shares, constituting 100% of the outstanding shares of the Fund, and thus, until the public offering of the shares is completed, will control the Fund.

### Fund Net Asset Value

The Fund will determine the net asset value of its shares daily, as of the close of trading on the New York Stock Exchange (currently 4:00 p.m. New York time). Net asset value is computed by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses and dividends declared but unpaid), by the total number of shares outstanding. Any swap transaction that the Fund enters into may, depending on the applicable interest rate environment, have a positive or negative value for purposes of calculating net asset value. Any cap transaction that the Fund enters into may, depending on the applicable interest rate environment, have no value or a positive value. In addition, accrued payments to the Fund under such transactions will be assets of the Fund and accrued payments by the Fund will be liabilities of the Fund.

For purposes of determining the net asset value of the Fund, readily marketable portfolio securities listed on the New York Stock Exchange are valued, except as indicated below, at the last

sale price reflected on the consolidated tape at the close of the New York Stock Exchange on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices on such day. If no bid or asked prices are quoted on such day, then the security is valued by such method as the Board of Directors shall determine in good faith to reflect its fair market value. Readily marketable securities not listed on the New York Stock Exchange but listed on other domestic or foreign securities exchanges or admitted to trading on the National Association of Securities Dealers Automated Quotations, Inc. (“NASDAQ”) National List are valued in a like manner (NASDAQ traded securities are valued at the NASDAQ official closing price). Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by the Investment Manager to be over-the-counter, but excluding securities admitted to trading on the NASDAQ National List, are valued at the mean of the current bid and asked prices as reported by NASDAQ or, in the case of securities not quoted by NASDAQ, the National Quotation Bureau or such other comparable source as the Directors deem appropriate to reflect their fair market value. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the Board of Directors to reflect the fair market value of such securities. The prices provided by a pricing service take into account institutional size trading in similar groups of securities and any developments related to specific securities. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes reflect most closely the value of such securities.

### **Fund Preferred Shares**

The Fund’s Articles of Incorporation authorize the Board of Directors, without approval of the Common Stockholders, to classify any unissued shares of the Fund’s common stock into preferred shares, par value \$.001 per share, in one or more classes or series, with rights as determined by the Board of Directors.

The Fund’s Board of Directors has indicated its intention to authorize an offering of Fund Preferred Shares (representing approximately 35% of the Fund’s capital immediately after the time the Fund Preferred Shares are issued) approximately one to three months after completion of the offering of Common Shares. Any such decision is subject to market conditions, the Fund’s receipt of a AAA/Aaa credit rating on the Fund Preferred Shares and to the Board’s continuing belief that leveraging the Fund’s capital structure through the issuance of Fund Preferred Shares is likely to achieve the benefits to the Common Shareholders described in this prospectus. The Board of Directors has indicated that the preference on distribution, liquidation preference and redemption provisions of the Fund Preferred Shares will likely be as stated below.

*Limited Issuance of Fund Preferred Shares.* Under the 1940 Act, the Fund could issue Fund Preferred Shares with an aggregate liquidation value of up to one-half of the value of the Fund’s total assets less liabilities other than borrowings, measured immediately after issuance of the Fund Preferred Shares. “Liquidation value” means the original purchase price of the shares being liquidated plus any accrued and unpaid dividends. In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless the liquidation value

of the Fund Preferred Shares is less than one-half of the value of the Fund's total assets less liabilities other than borrowings (determined after deducting the amount of such dividend or distribution) immediately after the distribution. If the Fund sells all the Common Shares and Fund Preferred Shares discussed in this prospectus, the liquidation value of the Fund Preferred Shares is expected to be approximately 35% of the value of the Fund's total assets less liabilities other than borrowings. The Fund intends to purchase or redeem Fund Preferred Shares, if necessary, to keep that fraction below one-half.

*Distribution Preference.* The Fund Preferred Shares will have complete priority over the Common Shares.

*Liquidation Preference.* In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Fund, holders of Fund Preferred Shares will be entitled to receive a preferential liquidating distribution (expected to equal the original purchase price per share plus accumulated and unpaid dividends thereon, whether or not earned or declared) before any distribution of assets is made to holders of Common Shares.

*Voting Rights.* Fund Preferred Shares are required to be voting shares and to have equal voting rights with Common Shares. Except as otherwise indicated in this Prospectus or the SAI and except as otherwise required by applicable law, holders of Fund Preferred Shares will vote together with Common Shareholders as a single class.

Holders of Fund Preferred Shares, voting as a separate class, will be entitled to elect two of the Fund's Directors. The remaining Directors will be elected by Common Shareholders and holders of Fund Preferred Shares, voting together as a single class. In the unlikely event that two full years of accrued dividends are unpaid on the Fund Preferred Shares, the holders of all outstanding Fund Preferred Shares, voting as a separate class, will be entitled to elect a majority of the Fund's Directors until all dividends in arrears have been paid or declared and set apart for payment. In order for the Fund to take certain actions or enter into certain transactions, a separate class vote of holders of Fund Preferred Shares will be required, in addition to the combined single class vote of the holders of Fund Preferred Shares and Common Shares.

*Redemption, Purchase and Sale of Fund Preferred Shares.* The terms of the Fund Preferred Shares may provide that they are redeemable at certain times, in whole or in part, at the original purchase price per share plus accumulated dividends. The terms may also state that the Fund may tender for or purchase Fund Preferred Shares and resell any shares so tendered. Any redemption or purchase of Fund Preferred Shares by the Fund will reduce the leverage applicable to Common Shares, while any resale of shares by the Fund will increase such leverage. See "Use of Leverage."

The discussion above describes the Board of Directors' present intention with respect to a possible offering of Fund Preferred Shares. If the Board of Directors determines to authorize such an offering, the terms of the Fund Preferred Shares may be the same as, or different from, the terms described above, subject to applicable law and the Fund's Articles of Incorporation.

## **CERTAIN PROVISIONS OF THE ARTICLES OF INCORPORATION AND BY-LAWS**

The Fund has provisions in its Articles of Incorporation and By-Laws that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. Commencing with the first annual meeting of shareholders, the Board of Directors will be divided into three classes, having initial terms of one, two and three years, respectively. At the annual meeting of shareholders in each

year thereafter, the term of one class will expire and directors will be elected to serve in that class for terms of three years. This provision could delay for up to two years the replacement of a majority of the Board of Directors. A director may be removed from office only for cause and only by a vote of the holders of at least 75% of the outstanding shares of the Fund entitled to vote on the matter.

The affirmative vote of at least 75% of the entire Board of Directors is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. Such conversion also requires the affirmative vote of the holders of at least 75% of the votes entitled to be cast thereon by the shareholders of the Fund unless it is approved by a vote of at least 75% of the Continuing Directors (as defined below), in which event such conversion requires the approval of the holders of a majority of the votes entitled to be cast thereon by the shareholders of the Fund. A "Continuing Director" is any member of the Board of Directors of the Fund who (i) is not a person or affiliate of a person who enters or proposes to enter into a Business Combination (as defined below) with the Fund (an "Interested Party") and (ii) who has been a member of the Board of Directors of the Fund for a period of at least 12 months, or has been a member of the Board of Directors since the Fund's initial public offering of Common Shares, or is a successor of a Continuing Director who is unaffiliated with an Interested Party and is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors of the Fund. The affirmative vote of at least 75% of the votes entitled to be cast thereon by shareholders of the Fund will be required to amend the Articles of Incorporation to change any of the provisions in this paragraph and the preceding paragraph.

The affirmative votes of at least 75% of the entire Board of Directors and the holders of at least (i) 80% of the votes entitled to be cast thereon by the shareholders of the Fund and (ii) in the case of a Business Combination (as defined below), 66⅔% of the votes entitled to be cast thereon by the shareholders of the Fund other than votes held by an Interested Party who is (or whose affiliate is) a party to a Business Combination (as defined below) or an affiliate or associate of the Interested Party, are required to authorize any of the following transactions:

- (i) merger, consolidation or statutory share exchange of the Fund with or into any other entity;
- (ii) issuance or transfer by the Fund (in one or a series of transactions in any 12-month period) of any securities of the Fund to any person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of \$1,000,000 or more, excluding (a) issuances or transfers of debt securities of the Fund, (b) sales of securities of the Fund in connection with a public offering, (c) issuances of securities of the Fund pursuant to a dividend reinvestment plan adopted by the Fund, (d) issuances of securities of the Fund upon the exercise of any stock subscription rights distributed by the Fund and (e) portfolio transactions effected by the Fund in the ordinary course of business;
- (iii) sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund (in one or a series of transactions in any 12 month period) to or with any person or entity of any assets of the Fund having an aggregate fair market value of \$1,000,000 or more except for portfolio transactions (including pledges of portfolio securities in connection with borrowings) effected by the Fund in the ordinary course of its business (transactions within clauses (i), (ii) and (iii) above being known individually as a "Business Combination");
- (iv) any voluntary liquidation or dissolution of the Fund or an amendment to the Fund's Articles of Incorporation to terminate the Fund's existence; or

(v) any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund's assets as to which shareholder approval is required under Federal or Maryland law.

However, the shareholder vote described above will not be required with respect to the foregoing transactions (other than those set forth in (v) above) if they are approved by a vote of at least 75% of the Continuing Directors (as defined above). In that case, if Maryland law requires shareholder approval, the affirmative vote of a majority of votes entitled to be cast thereon shall be required and if Maryland law does not require shareholder approval, no shareholder approval will be required. The Fund's By-Laws contain provisions the effect of which is to prevent matters, including nominations of directors, from being considered at a shareholders' meeting where the Fund has not received notice of the matters generally at least 90 but no more than 120 days prior to the first anniversary of the preceding year's annual meeting.

The Board of Directors has determined that the foregoing voting requirements, which are generally greater than the minimum requirements under Maryland law and the 1940 Act, are in the best interest of the Fund's shareholders generally.

Reference is made to the Articles of Incorporation and By-Laws of the Fund, on file with the Commission, for the full text of these provisions. These provisions could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. On the other hand, these provisions may require persons seeking control of a Fund to negotiate with its management regarding the price to be paid for the shares required to obtain such control, they promote continuity and stability and they enhance the Fund's ability to pursue long-term strategies that are consistent with its investment objectives.

## UNDERWRITING

Subject to the terms and conditions stated in the purchase agreement dated June 24, 2003, each underwriter named below, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative, has severally agreed to purchase, and the Fund has agreed to sell to such underwriter, the number of Common Shares set forth opposite the name of such underwriter.

<u>Underwriter</u>	<u>Number of Common Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	21,400,000
A.G. Edwards & Sons, Inc. ....	4,000,000
Deutsche Bank Securities Inc. ....	700,000
Legg Mason Wood Walker, Incorporated .....	1,400,000
Raymond James & Associates, Inc. ....	3,000,000
RBC Dain Rauscher Inc. ....	1,100,000
U.S. Bancorp Piper Jaffray Inc. ....	400,000
Wachovia Securities, LLC .....	1,100,000
Wells Fargo Securities, LLC .....	1,100,000
Advest, Inc. ....	400,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc. ....	400,000
Robert W. Baird & Co. Incorporated .....	400,000
H&R Block Financial Advisors, Inc. ....	700,000
Fahnestock & Co. Inc. ....	700,000
J.J.B. Hilliard, W.L. Lyons, Inc. ....	700,000
Janney Montgomery Scott LLC .....	400,000
McDonald Investments Inc., a KeyCorp Company .....	400,000
Quick & Reilly, Inc. ....	700,000
Stifel, Nicolaus & Company, Incorporated .....	400,000
TD Waterhouse Investor Services, Inc. ....	400,000
UBS Securities LLC .....	350,000
William Blair & Company, L.L.C. ....	85,000
Brean Murray & Co., Inc. ....	85,000
C.E. Unterberg, Towbin .....	85,000
Crowell, Weedon & Co. ....	85,000
D.A. Davidson & Co. ....	85,000
Doft & Co., Inc. ....	85,000
Ferris, Baker Watts, Incorporated .....	85,000
First Southwest Company .....	85,000
Johnston, Lemon & Co. Incorporated .....	85,000
Morgan Keegan & Company, Inc. ....	85,000
Parker/Hunter Incorporated .....	85,000
Ryan Beck & Co. ....	85,000
Charles Schwab & Co., Inc. ....	85,000
Stephens Inc. ....	85,000
SunTrust Capital Markets, Inc. ....	85,000

Wedbush Morgan Securities Inc. ....	85,000
Arthurs, Lestrage & Company, Incorporated .....	40,000
Chatsworth Securities LLC .....	40,000
David A. Noyes & Company .....	40,000
Gerard Klauer Mattison & Co., Inc. ....	40,000
Gilford Securities Incorporated .....	40,000
Howe Barnes Investments, Inc. ....	40,000
Wayne Hummer Investments LLC .....	40,000
Lasalle St. Securities Inc. ....	40,000
Leerink Swann & Company .....	40,000
Maxim Group LLC .....	40,000
McGinn, Smith & Co., Inc. ....	40,000
Mesirow Financial, Inc. ....	40,000
NatCity Investments, Inc. ....	40,000
National Securities Corporation .....	40,000
Needham & Company, Inc. ....	40,000
Northeast Securities, Inc. ....	40,000
Nutmeg Securities, Ltd. ....	40,000
Ormes Capital Markets, Inc. ....	40,000
Pacific Crest Securities, Inc. ....	40,000
Paulson Investment Company, Inc. ....	40,000
Peacock, Hislop, Staley & Given, Inc. ....	40,000
Sands Brothers & Co., Ltd. ....	40,000
Source Capital Group Inc. ....	40,000
Southwest Securities, Inc. ....	40,000
Spelman & Company .....	40,000
Sterling Financial Investment Group, Inc. ....	40,000
Stone & Youngberg LLC .....	40,000
Strand, Atkinson, Williams & York, Inc. ....	40,000
Torrey Pines Securities, Inc. ....	40,000
J.P. Turner & Company, LLC .....	40,000
Westminster Financial Securities, Inc. ....	40,000
Total .....	<u>42,750,000</u>

The purchase agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to the approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the Common Shares sold under the purchase agreement if any of the Common Shares are purchased. In the purchase agreement, the Fund and the Investment Manager have agreed to indemnify the underwriters against certain liabilities, including liabilities arising under the Securities Act, or to contribute payments the underwriters may be required to make for any of those liabilities.

The underwriters propose to initially 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 certain dealers at the public offering price less a concession not in excess of \$.75 per share. The sales load investors in the Fund will pay of \$1.125 per share is equal to 4.5%

of the initial offering price. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$.10 per share on sales to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, sales load and proceeds before expenses to the Fund. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price .....	\$25.00	\$1,068,750,000	\$1,229,062,500
Sales load .....	\$1.125	\$48,093,750	\$55,307,813
Estimated offering expense .....	\$.05	\$2,137,500	\$2,458,125
Proceeds to the Fund.....	\$23.825	\$1,018,518,750	\$1,171,296,563

The expenses of the offering are estimated at \$2,137,500 and are payable by the Fund. The Fund has agreed to pay the underwriters \$.0083 per Common Share as a partial reimbursement of expenses incurred in connection with the offering. The Investment Manager has agreed to pay all organizational expenses and offering costs of the Fund (other than sales load) that exceed \$.05 per Common Share.

The Fund has granted the underwriters an option to purchase up to 6,412,500 additional Common Shares at the public offering price, less the sales load, within 45 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the preceding table.

Until the distribution of the Common Shares is complete, Securities and Exchange Commission rules may limit underwriters and selling group members from bidding for and purchasing our Common Shares. However, the representatives may engage in transactions that stabilize the price of our Common Shares, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in our Common Shares in connection with the offering, *i.e.*, if they sell more Common Shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing Common Shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of Common Shares sold in this offering for their account may be reclaimed by the syndicate if such Common Shares are repurchased by the syndicate in stabilizing or covering transactions. Purchases of our Common Shares to stabilize its price or to reduce a short position may cause the price of our Common Shares to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transaction described above may have on the price of our Common Shares. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Fund has agreed not to offer or sell any additional Common Shares for a period of 180 days after the date of the purchase agreement without the prior written consent of the underwriters, except for the sale of the Common Shares to the underwriters pursuant to the purchase agreement.

The Fund anticipates that the underwriters may from time to time act as brokers or dealers in executing the Fund's portfolio transactions after they have ceased to be underwriters, and may also act as placement agent for issuers whose securities the Fund purchases in direct placement transactions. The underwriters are active underwriters of, and dealers in, securities and act as market makers in a number of such securities, and therefore can be expected to engage in portfolio transactions with the Fund.

The common shares will be sold to ensure that New York Stock Exchange distribution standards (*i.e.*, round lots, public shares and aggregate market value) will be met.

The Investment Manager has also agreed to pay a fee to Merrill Lynch, payable quarterly at the annual rate of .15% of the Fund's managed assets during the continuance of the Investment Management Agreement between the Investment Manager and the Fund. Merrill Lynch has agreed to provide certain after-market support services designed to maintain the visibility of the Fund on an ongoing basis, and Merrill Lynch has additionally agreed to provide to the Investment Manager relevant information, studies or reports regarding the Fund and the closed-end investment company and asset management industry. The Investment Manager may also offer to pay certain other underwriters that reach a specified sales threshold an additional commission payable from the Investment Manager's own assets at an annual rate of .10% of the Fund's managed assets attributable to the Common Shares sold by such underwriters in this offering. In consideration for such payment, those additional underwriters that reach the specified threshold will provide certain informational services on an ongoing basis. Such payments will be paid quarterly and will continue for the duration of the Investment Management Agreement or other advisory agreement between the Investment Manager and the Fund. The sum amount of the fee payable to Merrill Lynch, any fees payable to additional qualifying underwriters, plus the amount paid by the Fund as the \$.0083 per Common Share partial reimbursement to the underwriters, will not exceed 4.5% of the aggregate initial offering price of the Common Shares offered hereby; provided, that in determining when the maximum amount has been paid, the value of each of the quarterly payments shall be discounted at the annual rate of 10% to the closing date of this offering.

The principal business address of Merrill Lynch, Pierce, Fenner & Smith Incorporated is 4 World Financial Center, New York, New York 10080.

#### **CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR**

State Street Bank and Trust Company, whose principal business address is 225 Franklin Street, Boston, MA 02110, has been retained to act as custodian of the Fund's investments and EquiServe Trust Company, NA, whose principal business address is 150 Royall Street, Canton, MA 02021 to serve as the Fund's transfer and dividend disbursing agent and registrar. Neither State Street Bank nor EquiServe Trust Company, NA has any part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

## **REPORTS TO SHAREHOLDERS**

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

## **VALIDITY OF THE SHARES**

The validity of the shares offered hereby is being passed on for the Fund by Simpson Thacher & Bartlett LLP, New York, New York, and certain other legal matters will be passed on for the underwriters by Clifford Chance US LLP, New York, New York. Venable, Baetjer and Howard, LLP will opine on certain matters pertaining to Maryland law. Simpson Thacher & Bartlett LLP and Clifford Chance US LLP may rely as to certain matters of Maryland law on the opinion of Venable, Baetjer and Howard, LLP.

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**42,750,000 Shares**

**COHEN & STEERS**  
REIT AND PREFERRED INCOME FUND

**Cohen & Steers**  
**REIT and Preferred Income Fund, Inc.**  
Common Shares  
\$25.00 per share

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PROSPECTUS

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**Merrill Lynch & Co.**  
**A.G. Edwards & Sons, Inc.**  
**Deutsche Bank Securities**  
**Legg Mason Wood Walker**  
Incorporated  
**Raymond James**  
**RBC Capital Markets**  
**U.S. Bancorp Piper Jaffray**  
**Wachovia Securities**  
**Wells Fargo Securities, LLC**  
**Advest, Inc.**  
**BB&T Capital Markets**  
**Robert W. Baird & Co.**  
**H&R Block Financial Advisors, Inc.**  
**Fahnestock & Co. Inc.**  
**J.J.B. Hilliard, W.L. Lyons, Inc.**  
**Janney Montgomery Scott LLC**  
**McDonald Investments Inc.**  
**Quick & Reilly, Inc.**  
**Stifel, Nicolaus & Company**  
Incorporated  
**TD Waterhouse**

June 24, 2003

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