Investment Objective. Stone Harbor Emerging Markets Total Income Fund (the “Fund”) is a newly organized, non-diversified, closed-end management investment company. The Fund’s investment objective is to maximize total return, which consists of income and capital appreciation from investments in emerging markets securities. There is no assurance that the Fund will achieve its investment objective.

No Prior Trading History. Because the Fund is newly organized, its shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value and initial offering price. Such risks may be greater for investors expecting to sell their shares in a relatively short period after completion of the initial public offering. The Fund’s common shares of beneficial interest (“Common Shares”) have been approved for listing on the New York Stock Exchange (“NYSE”), subject to notice of issuance, under the symbol “EDI.”

Portfolio Contents. The Fund normally will invest at least 80% of its net assets (plus borrowings for investment purposes) in Emerging Markets Debt (the “80% policy”). “Emerging Markets Debt” includes fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, economies or ability to repay loans. The Fund normally expects to invest up to 20% of its total assets in

(continued on following page)

Investment in the Fund’s Common Shares involves certain risks. See “Principal Risk Factors” beginning on page 57 of this prospectus. There can be no assurance that the Fund will achieve its investment objective.

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

Per Share Total(1)

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<th>Total(1)</th>
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<tr>
<td>Public Offering Price</td>
<td>$25,000</td>
<td>$240,000,000</td>
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<tr>
<td>Sales Load(2)</td>
<td>$ 1.125</td>
<td>$ 10,800,000</td>
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<tr>
<td>Proceeds, After Expenses, to the Fund(3)</td>
<td>$23,825</td>
<td>$228,720,000</td>
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The underwriters expect to deliver the Common Shares to purchasers on or about October 30, 2012.
The Fund has granted the underwriters an option to purchase up to 1,440,000 additional Common Shares at the public offering price, less the sales load, within 45 days of the date of this prospectus, solely to cover over-allotments, if any. If this option is exercised in full, the public offering price, sales load and proceeds, after expenses, to the Fund will be $276,000,000, $12,420,000, and $263,028,000, respectively. See “Underwriters.”

Stone Harbor Investment Partners LP (“Stone Harbor” or the “Investment Manager”) (and not the Fund) has agreed to pay, from its own assets, structuring and syndication fees to Morgan Stanley & Co. LLC, and structuring fees to Citigroup Global Markets Inc., UBS Securities LLC and RBC Capital Markets, LLC. These fees are not reflected under sales load in the table above. See “Underwriters—Additional Compensation to be Paid by the Investment Manager.”

Total offering expenses in connection with the Common Shares (other than the sales load, but inclusive of the distribution assistance payment described below) are estimated to be $1,119,000, of which $480,000 is payable by the Fund. Actual offering expenses may vary substantially from this amount. Stone Harbor has agreed to pay all of the Fund’s organizational expenses, as well as the offering expenses of the Fund (other than the sales load, but inclusive of the distribution assistance payment to ALPS Distributors, Inc.) that exceed $0.05 per Common Share (0.20% of the offering price). As compensation for providing certain distribution-related services, ALPS Distributors, Inc., an affiliate of ALPS Fund Services, Inc., the Fund’s administrator, will receive 0.10% of the total public offering price (inclusive of the over-allotment option) plus reimbursement of certain of its expenses. Any offering costs paid by the Fund will be deducted from the total proceeds of the offering received by the Fund.

Emerging Markets Equity. “Emerging Markets Equity” (and, together with Emerging Markets Debt, “Emerging Markets Securities”) includes securities issued by either single country or regional exchange-traded funds (“ETFs”), common stocks, preferred stocks, other equity securities and other instruments (including derivatives) that are economically tied to the equity markets of emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, or economies. Emerging Markets Securities may be denominated in non-U.S. currencies or the U.S. dollar. The Fund may invest, without limitation, in debt securities that are rated below investment grade by a nationally recognized statistical rating organization or unrated securities that are deemed to be of comparable quality by the Investment Manager, including distressed and defaulted securities. Debt securities that are rated below investment grade (commonly referred to as “high yield” or “junk bonds”) are regarded as having predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. See “Principal Risk Factors—Non-Investment Grade Securities Risk.”

The Fund may use derivatives to a significant extent for hedging, investment, interest rate or duration management or leverage purposes. Although Emerging Markets Securities may include any derivative or other instrument that provides the Fund exposure to emerging markets, the Fund currently expects that its derivatives transactions will consist primarily of the following instruments and transactions: credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options.

Use of Leverage. The Fund currently intends to utilize leverage by entering into reverse repurchase agreements, borrowing from banks or other financial institutions or issuing debt securities (collectively, “Borrowings”) in an amount that, when combined with the liquidation value of preferred shares issued by the Fund (“Preferred Shares”), if any, does not exceed 33 1/3% of the Fund’s total assets, including assets attributable to any Borrowings and to any Preferred Shares that may be outstanding, immediately after such transactions. It is possible that following such Borrowings and/or issuances of Preferred Shares, the assets of the Fund will decline due to market conditions such that this 33 1/3% limit will be exceeded. In that case, the leverage risk to holders of the Fund’s Common Shares (“Common Shareholders”) will increase. See “Use of Leverage” and “Principal Risk Factors—Leverage Risk.” The Fund may also enter into other transactions that are not subject to this 33 1/3% limit but that may give rise to a form of effective leverage including,
among others, credit default swaps and certain other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. At all times, however, the Fund’s use of these transactions will be limited by the Fund’s policies relating to asset segregation and “coverage” of these types of transactions.

For more information on the Fund’s investment strategies, see “Investment Objective and Policies.”

**Investment Manager.** Stone Harbor will act as the Fund’s investment manager. As of September 30, 2012, Stone Harbor had approximately $58.1 billion in assets under management. Stone Harbor’s address is 31 West 52nd Street, 16th Floor, New York, NY 10019. See “Management of the Fund—Investment Manager.”

This prospectus sets forth concisely the information about the Fund that a prospective investor ought to know before investing. You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the Common Shares, and you should retain this prospectus for future reference. A Statement of Additional Information, dated October 25, 2012 (the “Statement of Additional Information”), containing additional information about the Fund, has been filed with the Securities and Exchange Commission (the “SEC”) and is incorporated by reference in its entirety into this prospectus, which means that it is part of this prospectus for legal purposes. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 101 of this prospectus, by calling 1-877-206-0791 (toll-free) or by writing to ALPS Fund Services, Inc., 1290 Broadway, Suite 1100, Denver, Colorado 80203, or obtain a copy (and other information regarding the Fund) from the SEC’s website (http://www.sec.gov) or from the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. To obtain annual and semi-annual shareholder reports electronically (when available), please visit the Fund’s web site (www.shiplpcef.com/edi), which also provides a link to the SEC’s website where the Fund’s Statement of Additional Information can be obtained, or call 1-877-206-0791 (toll-free). You may also call this number to request additional information or to make other inquiries pertaining to the Fund. The information contained in, or accessed through, the Fund’s website is not part of this prospectus.

THE COMMON SHARES DO NOT REPRESENT A DEPOSIT OR OBLIGATION OF, AND ARE NOT GUARANTEED OR ENDORSED BY, ANY BANK OR OTHER INSURED DEPOSITORY INSTITUTION, AND ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC), THE FEDERAL RESERVE BOARD OR ANY OTHER GOVERNMENT AGENCY.
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You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with information that differs from or is inconsistent with the information in this prospectus, you should not rely on it. The Fund is not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained herein is accurate only as of the date on the cover page of this prospectus. Subsequent to the date of this prospectus, the Fund will amend this prospectus if, during the period this prospectus is required to be delivered, any material information herein becomes materially inaccurate.
PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund’s common shares of beneficial interest (“Common Shares”). You should review the more detailed information contained in this prospectus and in the Statement of Additional Information, especially the information set forth under the heading “Principal Risk Factors.”

The Fund. Stone Harbor Emerging Markets Total Income Fund (the “Fund”) is a newly organized, non-diversified, closed-end management investment company. See “The Fund.”

The Offering. The Fund is offering 9,600,000 Common Shares through a group of underwriters (the “Underwriters”) led by Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and UBS Securities LLC. You must purchase at least 100 Common Shares ($2,500) if you wish to participate in this offering. The Fund has granted the Underwriters an option to purchase up to 1,440,000 additional Common Shares within 45 days of the date of this prospectus solely to cover overallocations. The initial public offering price is $25.00 per share. See “Underwriters.”

Listing and Symbol. The Fund’s Common Shares have been approved for listing on the New York Stock Exchange (“NYSE”), subject to notice of issuance, under the symbol “EDI.”

Investment Objective and Policies. The Fund’s investment objective is to maximize total return, which consists of income and capital appreciation from investments in emerging markets securities. There is no assurance that the Fund will achieve its investment objective. The Fund normally will invest at least 80% of its net assets (plus borrowings for investment purposes) in Emerging Markets Debt (the “80% policy”). “Emerging Markets Debt” includes fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, economies or ability to repay loans. A security or instrument is economically tied to an emerging market country if it is principally traded on the country’s securities markets or if the issuer is organized or principally operates in the country, derives a majority of its income from its operations within the country or has a majority of its assets within the country.

The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity. “Emerging Markets Equity” (and, together with Emerging Markets Debt, “Emerging Markets Securities”) includes securities issued by either single country or regional exchange-traded funds (“ETFs”), common stocks, preferred stocks, other equity securities and other instruments (including derivatives) that are economically tied to the equity markets of emerging market countries, that are denominated in the predominant
currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, or economies. Emerging Markets Securities may be denominated in non-U.S. currencies or the U.S. dollar.

The Fund may use derivatives to a significant extent for hedging, investment, interest rate or duration management or leverage purposes. Although Emerging Markets Securities may include any derivative or other instrument that provides the Fund exposure to emerging markets, the Fund currently expects that its derivatives transactions will consist primarily of the following instruments and transactions: credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options. The Fund may use these instruments for hedging purposes, for leverage or otherwise to gain, or reduce, long or short exposure to Emerging Markets Securities (for example, credit linked notes may be used to gain exposure to certain emerging markets fixed income securities).

The Fund considers emerging market countries as those countries identified by the World Bank Group as being “low income economies” or which are included in a J.P. Morgan emerging market bond index. It is anticipated that the Fund will focus most of its investments in Asia, Africa, the Middle East, Latin America and the developing countries of Europe. The Fund’s investments may include, among other things, sovereign debt obligations, corporate debt securities, structured notes, convertible securities, common stock, preferred stock and other equity securities, securities issued by supranational organizations, other investment companies, floating rate commercial loans, securitized loan participations, Rule 144A securities, non-U.S. currencies, currency forward contracts and other foreign currency transactions, and derivatives related to or referencing these types of securities and instruments. The Fund seeks income and capital appreciation through country selection, sector selection, security selection and currency selection.

The Fund may invest up to 25% of its total assets in a single country.

In selecting Emerging Markets Securities for investment, Stone Harbor Investment Partners LP (“Stone Harbor” or the “Investment Manager”) will apply a market risk analysis contemplating the assessment of various factors, such as liquidity, volatility, tax implications, interest rate sensitivity, counterparty risks, economic factors, currency exchange rates and technical market considerations.
The Fund may invest, without limitation, in debt securities that are rated below investment grade by a nationally recognized statistical rating organization (an “NRSRO”) or unrated securities that are deemed to be of comparable quality by the Investment Manager, including distressed and defaulted securities. Debt securities rated below investment grade are commonly known as “high yield” or “junk bonds” and are regarded as predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.

The Fund’s fixed income holdings may range in maturity from overnight to 30 years or more. The Investment Manager does not manage the Fund to have a specific average maturity or duration. The Fund may also invest in currencies, money market and short-term debt securities and cash equivalents, warrants, structured investments or other derivatives, which may be used to achieve the 80% policy. Under certain limited circumstances, the Fund may obtain a substantial part of its investment exposure to Emerging Markets Securities through the use of derivatives. As noted above, the Fund expects that its derivatives transactions or instruments will consist primarily of credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options.

The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity, which the Fund expects will consist primarily of single country and regional ETFs. The ETFs in which the Fund expects to invest will generally invest in, or track indices related to, equity securities. Emerging Markets Equity may also include other types of equity from time to time, including, but not limited to, common stock, preferred stocks, securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including without limitation securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may invest in issuers with any market capitalization, including small and medium market capitalization issuers.

In addition, the Fund may invest the remainder of its total assets in securities and other instruments (including derivatives) which will not be used to achieve the Fund’s 80% policy, including, without limitation, shares of open- and closed-end investment companies, common stocks, bonds and convertible securities of non-emerging market issuers.
The Fund’s investment objective and 80% policy are non-fundamental, and may be changed without shareholder approval; however, shareholders will be notified in writing of any material changes to the investment objective or the 80% policy at least 60 days prior to any change.

Under normal market conditions, the Fund intends to leverage the Fund by engaging in Borrowings (as defined in “Leverage” below) and/or issuing preferred shares (“Preferred Shares”). The aggregate amount of the Fund’s Borrowings and the liquidation value of any Preferred Shares will generally not exceed 33⅓% of the Fund’s Total Managed Assets (as defined in “Investment Manager” below), immediately after such transactions. See “Leverage” below and “Use of Leverage” in this prospectus. The Fund may also enter into other transactions that are not subject to this 33⅓% limit but that may give rise to a form of effective leverage including, among others, credit default swaps and other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions.

Investment Strategy

The Investment Manager analyzes emerging market countries to identify potential investments for the Fund. The Investment Manager’s disciplined process of rigorous credit analysis focuses primarily on fundamental analysis and political analysis.

The Investment Manager has established a lengthy track record managing fixed-income emerging markets portfolios through a variety of market environments. As a result, it believes it has developed a deep awareness and understanding of how macroeconomic fundamentals, as well as policies and politics of emerging market countries, influence the markets for Emerging Markets Debt.

In allocating the Fund’s investments among emerging market countries, the Investment Manager may consider a number of factors, including, without limitation:

- Currency, inflation and interest rates and trends;
- Growth rate forecasts;
- Liquidity of a country’s debt markets;
- Fiscal policies and balances;
- Political outlook;
- Tax environment; and
- Amount of debt outstanding.
When analyzing corporate issuers, the Investment Manager will analyze factors such as:

- The strength of the issuer’s financial resources and sensitivity to economic conditions and trends;
- The issuer’s operating history; and
- The experience and track record of the issuer’s management.

The Investment Manager believes its strong credit views on emerging market countries and regions can be applied to analyzing the equity markets of emerging countries. The Investment Manager currently expects that the majority of its equity investments will be intended to provide relatively broad exposure to the relevant emerging markets, countries and regions rather than to individual companies.

When investing in Emerging Markets Equity, Stone Harbor searches for ETFs and stocks that exhibit attractive valuations on several metrics, such as price movement, volatility, growth rates, price to cash flow, strong relative earnings growth and earnings quality. The Investment Manager uses an investment approach that blends growth (investing in equity securities that the Investment Manager believes have good prospects for earnings growth) and value (investing in equity securities that are priced below what the Investment Manager believes to be their worth).

When making country allocation decisions, the type of country-specific information that the Investment Manager may utilize includes:

- Budget balance as percentage of gross domestic product (“GDP”);
- Current account as percentage of GDP;
- Debt as percentage of GDP;
- Reserves in months of imports;
- Growth in fixed investment;
- Savings as percentage of GDP;
- Inflation rate;
- Unemployment rate;
- Political stability;
- Rate and direction of future changes; and
- The global investment policy set by Stone Harbor’s Investment Policy Committee.
Furthermore, Stone Harbor’s portfolio management team conducts extensive travel to key countries in order to complement its research.

The Investment Manager’s portfolio management team aggregates and discusses the information above to select the available securities in each country that it considers to offer the highest potential return relative to the risks presented.

The Investment Manager will look to sell or reduce exposure to securities or country allocations that, in its opinion, do not offer enough potential return relative to the risks presented.

When the Investment Manager anticipates unusual market or other conditions, the Fund may temporarily depart from its principal investment strategies as a defensive measure. To the extent that the Fund invests defensively, it likely will not achieve its investment objective.

Investment Manager

Stone Harbor Investment Partners LP is the Fund’s investment manager. The Investment Manager was established in 2006 and provides investment advisory services to clients located throughout the world. The Investment Manager’s principal address is 31 West 52nd Street, 16th Floor, New York, New York 10019. As of September 30, 2012, the Investment Manager managed approximately $58.1 billion in assets under management. The Investment Manager is 100% employee owned.

Subject to the general supervision of the Fund’s Board of Trustees (the “Board”), the Investment Manager is responsible for making investment decisions for the Fund. For these services the Investment Manager will receive an annual fee (the “Management Fee”), payable monthly, in an amount equal to 1.00% of the Fund’s average daily total assets, including assets attributable to any Borrowings (as defined in “—Leverage” below) and to any Preferred Shares that may be outstanding minus accrued liabilities (other than liabilities representing Borrowings) (collectively, “Total Managed Assets”). With respect to any reverse repurchase agreements, “Total Managed Assets” also includes the value as of the relevant measuring date of the underlying assets sold to the counterparty.

Administrator

ALPS Fund Services, Inc. (“ALPS” or the “Administrator”) is the Fund’s administrator. Pursuant to a Marketing, Administration, Bookkeeping and Pricing Services Agreement (the “Administration Agreement”) with the Fund, ALPS, with principal offices at 1290 Broadway, Suite 1100, Denver, Colorado 80203, serves as administrator to the Fund and pays expenses incurred in connection with its administrative activities. As Administrator, ALPS provides certain services, including assisting in maintaining the Fund’s office; furnishing the Fund with clerical and certain other services required by it; compiling data for and preparing notices and shareholder reports to the Securities and Exchange Commission (“SEC”);
calculating the Fund’s daily net asset value (“NAV”); preparing any reports that are required by the securities, investment, tax or other laws and regulations of the United States; preparing filings with state securities commissions; coordinating federal and state tax returns; monitoring the Fund’s expense accruals; monitoring compliance with the Fund’s investment policies and limitations; and generally assisting in the Fund’s operations.

**Leverage**

The Fund currently intends to utilize leverage by entering into reverse repurchase agreements, borrowing from banks or other financial institutions or issuing debt securities (collectively, “Borrowings”) in an amount that, when combined with the liquidation value of Preferred Shares issued by the Fund, if any, does not exceed 33⅓% of the Fund’s Total Managed Assets, immediately after such transactions. It is possible that following such Borrowings and/or issuances of Preferred Shares, the assets of the Fund will decline due to market conditions such that this 33⅓% limit will be exceeded. In that case, the leverage risk to holders of the Fund’s Common Shares (“Common Shareholders”) will increase. See “Use of Leverage” and “Principal Risk Factors—Leverage Risk.” The Fund may also enter into other transactions that are not subject to this 33⅓% limit but that may give rise to a form of effective leverage including, among others, credit default swaps and certain other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. At all times, however, the Fund’s use of these transactions will be limited by the Fund’s policies relating to asset segregation and “coverage” of these types of transactions.

There is no assurance that the Fund will use leverage. If used, there is no assurance that the Fund’s leveraging strategies will be successful. See “Principal Risk Factors—Leverage Risk.” The amount and composition of leverage used may vary depending upon a number of factors, including economic and market conditions in the relevant emerging market countries, the availability of relatively attractive investment opportunities not requiring leverage and the costs and risks that the Fund would incur as a result of leverage.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that any use of Borrowings, issuance of Preferred Shares or the use of other forms of effective leverage (such as the use of derivatives strategies) will result in a higher investment return on your Common Shares, and it may result in losses. When leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See “Principal Risk Factors—Leverage Risk.” In addition, fees and expenses of Borrowings, any...
future issuance of Preferred Shares, and other forms of leverage borne by the Fund are borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Common Shares. Unless the income and appreciation, if any, on assets acquired with leverage proceeds exceed the associated costs of such leverage (and other Fund expenses), the use of leverage will diminish the investment performance of the Fund's Common Shares compared with what it would have been without leverage.

During periods in which the Fund is using leverage, the fees paid to the Investment Manager for investment advisory services and to the Administrator for administrative 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 Total Managed Assets, which may create an incentive for the Investment Manager to leverage the Fund or to leverage using strategies that increase the Investment Manager's fee.

The Fund's willingness to incur leverage for investment purposes, and the amount of leverage the Fund may incur, will depend on many factors, the most important of which are market conditions and the cost of such leverage.

Unless and until the Fund issues Preferred Shares, makes Borrowings, or enters into other transactions that generate leverage, the Common Shares will not be leveraged, and the risks and special considerations related to leverage described in this prospectus will not apply. It will not be possible to seek to achieve any potential returns from such leveraging of the Common Shares until the proceeds resulting from the use of leverage have been invested in accordance with the Fund's investment objective and policies. There is no assurance that any leveraging strategy will be successful during any period in which such strategy is employed.

**Principal Risk Factors**

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or even all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in the Fund's Common Shares. See the section entitled “Principal Risk Factors” for a more complete discussion of the risks of investing in the Fund's Common Shares.

**Non-Diversified Status.** As a non-diversified investment company under the Investment Company Act of 1940 (the “1940 Act”) the Fund is not limited in the proportion of its assets that may be invested in securities of a single issuer, and accordingly, the Fund may invest a greater portion of its assets in a more limited number of issuers than a diversified fund. Because the Fund, 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
may, under certain circumstances, present greater risk to an
investor than an investment in a diversified investment
company because changes in the financial condition or market
assessment of a single issuer may cause greater fluctuations in
the Fund’s NAV. Notwithstanding its status as a non-diversified
investment company, the Fund intends to conduct its
operations so as to meet the diversification requirements for
qualification as a “regulated investment company,” which
generally will relieve the Fund of any liability for U.S. federal
income tax to the extent its earnings are timely distributed to
shareholders. See “U.S. Federal Income Tax Matters.”

*No Operating History.* The Fund is a newly organized,
non-diversified, closed-end investment company with no
history of operations and is subject to all of the business risks
and uncertainties associated with any new business. An
investment in the Fund’s Common Shares is subject to
investment risk, including the possible loss of the entire
amount that you invest. See also “—Investment and Market
Risk.”

*Management Risk.* The Fund’s ability to identify and invest in
attractive opportunities is dependent upon the Investment
Manager. If one or more key individuals leave the Investment
Manager, it may not be able to hire qualified replacements, or
may require an extended time to do so, which may adversely
affect the Fund’s ability to achieve its investment objective.
Thomas Brock, the Investment Manager’s Chief Executive
Officer, will retire on December 31, 2012. Mr. Brock does not
serve as a portfolio manager of the Fund. Upon his
retirement, his duties with the Investment Manager will be
assumed by an executive management committee. Although
the Investment Manager is the adviser to several registered
open-end funds, the Fund is one of the first closed-end funds
to be managed by the Investment Manager. In addition, the
Investment Manager does not have an established
performance record investing in equity securities. As with any
managed fund, the Investment Manager may not be successful
in selecting the best-performing securities, leverage strategy or
investment techniques, and the Fund’s performance may lag
behind that of similar funds as a result.

*Asset Allocation Risk.* The Fund’s investment performance
depends, in part, upon how its assets are allocated and
reallocated by the Investment Manager. The investment
performance of the Fund may be adversely affected if the
Investment Manager allocates a significant portion of the
Fund’s assets to a country, industry or sector, asset class or
subset of an asset class that performs poorly, including relative
to other asset classes or subsets of asset classes. In addition,
the Investment Manager’s assessment of the relative value of a particular country, industry or sector, asset class or subset of an asset class may prove incorrect, resulting in the Fund’s experiencing losses or poor performance.

Investment and Market Risk. An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities and other financial assets owned by the Fund. Securities held by the Fund are generally traded in over-the-counter markets. The value of these securities and financial assets, like other market investments, may move up or down, sometimes rapidly and unpredictably. The Common Shares at any point in time may be worth less than their original cost, even after taking into account any reinvestment of dividends and distributions.

Further, the value of securities held by the Fund may decline in value due to factors affecting securities markets generally or particular industries.

Investments in Foreign Securities. Investing in foreign securities or issuers with significant exposure to foreign markets involves certain special considerations that are not typically associated with investments in the securities of U.S. issuers. Foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards and may have policies that are not comparable to those of domestic issuers. As a result, there may be less information available about foreign issuers than about domestic issuers. Securities of some foreign issuers may be less liquid and more volatile than securities of comparable domestic issuers. There is generally less government supervision and regulation of securities markets, brokers and issuers in non-U.S. countries than in the United States. In addition, with respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, political, social and/or financial instability, or adverse diplomatic developments, which could adversely affect the value of investments in those countries. The costs of investing in foreign countries frequently are higher than the costs of investing in the United States. Although the Investment Manager endeavors to achieve the most favorable execution costs in portfolio transactions, trading costs in non-U.S. securities markets are generally higher than trading costs in the United States.

Investments in securities of foreign issuers often will be denominated in foreign currencies. Accordingly, the value of the Fund’s assets, as measured in U.S. dollars, may be affected favorably or unfavorably by changes in currency exchange rates and in exchange control regulations. The Fund may incur costs in connection with conversions between various currencies. See “—Foreign Currency Risk.”
Certain foreign governments levy withholding or other taxes on dividend and interest income or on the sale or other disposition of foreign securities. Although in some countries a portion of these taxes are recoverable, the non-recovered portion of foreign withholding taxes will reduce the income received from investments in such countries.

From time to time, the Fund may invest in certain sovereign debt obligations that are issued by, or in certain companies that operate in or have dealings with, countries that thereafter become subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or that the U.S. government identifies as state sponsors of terrorism. Investments in such countries or companies may be adversely affected because, for example, the credit rating of the sovereign debt security may be lowered due to the country’s instability or unreliability or the company may suffer damage to its reputation if it is identified as a company which operates in, or has dealings with, such countries. As an investor in such companies, the Fund will be indirectly subject to those risks and may be required to dispose of such investments at a time when it may not be advantageous to do so.

Investments in Emerging Market Countries. Investing in the securities of issuers located in emerging market countries involves special considerations not typically associated with investing in the securities of other foreign or U.S. issuers, including heightened risks of expropriation and/or nationalization, armed conflict, confiscatory taxation, restrictions on transfers of assets, lack of uniform accounting and auditing standards, less publicly available financial and other information and potential difficulties in enforcing contractual obligations.

The economies of individual emerging market countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest in the country.

Accordingly, government actions could have a significant effect on economic conditions in an emerging market country and on market conditions, prices and yields of securities in the Fund’s portfolio. Moreover, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist...
measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. With respect to any emerging market country, there is the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, overburdened and obsolete or unseasoned financial systems, environmental problems, less developed legal systems, economic or social instability or diplomatic developments (including war), which could affect adversely the economies of such countries or the value of the Fund’s investments in those countries. It also may be difficult to obtain and to enforce a judgment in a court outside of the United States.

In addition, the interrelatedness of the economies in emerging market countries has deepened over the years, with the effect that economic difficulties in one country may spread throughout a region or even among all or most emerging market countries, an effect that may vitiate any attempt by the Fund to reduce risk through geographic diversification of its portfolio investments.

Investments in emerging market countries may entail purchasing securities issued by or on behalf of entities that are insolvent, bankrupt, in default or otherwise engaged in an attempt to reorganize or reschedule their obligations or in entities that have little or no proven credit rating or credit history. In any such case, the issuer’s poor or deteriorating financial condition may increase the likelihood that the Fund will experience losses or diminution in available gains due to bankruptcy, insolvency or fraud.

Investments in emerging market countries may also be exposed to an extra degree of custodial and/or market risk, especially where the securities purchased are not traded on an official exchange or where ownership records regarding the securities are maintained by an unregulated entity (or even the issuer itself).

*Foreign Currency Risk.* The Fund will invest in Emerging Markets Securities, which may include or be denominated in foreign currencies. The Fund is subject to the risk that those currencies will decline in value relative to the value of the U.S. dollar. The values of the currencies of the emerging market countries in which the Fund may invest may be subject to a high degree of fluctuation due to changes in interest rates, the effects of the monetary policies of the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. Therefore, the Fund’s exposure to foreign currencies may result in losses to the Fund.
The Fund will compute, and expects to distribute, its income in U.S. dollars, and the computation of income is made on the date that the income is earned by the Fund at the foreign exchange rate in effect on that date. If the value of the foreign currencies in which the Fund receives its income falls relative to the U.S. dollar between the earning of the income and the time at which the Fund converts the foreign currencies to U.S. dollars, the Fund will realize foreign currency losses for U.S. federal income tax purposes. See “U.S. Federal Income Tax Matters.” The Fund may be required to liquidate securities in order to make distributions if the Fund has insufficient cash in U.S. dollars to meet distribution requirements. See “Distributions” and “Dividend Reinvestment Plan.” The liquidation of investments, if required, may have an adverse effect on the Fund’s performance.

Since the Fund may invest in securities denominated in foreign currencies, changes in foreign currency exchange rates will affect the value of securities in the Fund’s portfolio and the unrealized appreciation or depreciation of investments. In addition to changes in the value of the Fund’s portfolio investments resulting from currency fluctuations, the Fund may incur costs in connection with conversions between various currencies. Foreign exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or in the derivatives markets, including through entering into forward, futures or options contracts to purchase or sell foreign currencies.

Currency exchange rates may be negatively affected by rates of inflation, interest rate levels, balance of payments and governmental surpluses or deficits in the countries in which the Fund invests. The currencies of countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain countries. Governments that issue obligations may engage in certain techniques to control the value of their local currencies. Such techniques include central bank intervention, imposition of regulatory controls or the imposition of taxes that may affect the exchange rates of the local currencies in which the debt securities are denominated. Countries may also issue a new currency to replace an existing currency or may devalue their
currencies. The liquidity and market values of the Fund’s investments may be affected by the actions of the governments of the countries in which the Fund invests. The Fund may be negatively affected by developments associated with the euro. See “—Redenomination Risk” below.

The Fund may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, the use of other derivatives, as well as purchasing put or call options on currencies, in U.S. or foreign markets. Currency hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent the Investment Manager’s view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if they had not been used. In addition, in certain countries in which the Fund may invest, currency hedging opportunities may not be available.

*Sovereign Debt Obligations Risk.* Investments in countries’ government debt obligations involve special risks. Certain 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. The issuer or governmental authority that controls the repayment of a country’s debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A debtor’s willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation and, in the case of a government debtor, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the government debtor’s policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. Government debtors may default on their debt and may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a debtor’s implementation of economic reforms and/or economic performance and the timely service of such debtor’s obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties’ commitments to lend funds
to the government debtor, which may further impair such debtor’s ability or willingness to service its debts on a timely basis. Holders of government debt, including the Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to government debtors.

As a result of the foregoing, a government obligor may default on its obligations. If such an event occurs, the Fund may have limited legal recourse against the issuer and/or guarantor. Remedies must, in some cases, be pursued in the courts of the defaulting party itself, and the ability of the holder of foreign government debt securities to obtain recourse may be subject to the political climate in the relevant country. In addition, no assurance can be given that the holders of more senior fixed income securities, such as commercial bank debt, will not contest payments to the holders of other foreign government debt securities in the event of default under their commercial bank loan agreements.

Government obligors in emerging market countries are among the world’s largest debtors to commercial banks, other governments, international financial organizations and other financial institutions. The issuers of the government debt securities in which the Fund may invest have in the past experienced substantial difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness. Restructuring arrangements have included, among other things, reducing and rescheduling interest and principal payments by negotiating new or amended credit agreements, and obtaining new credit to finance interest payments. Holders of certain foreign government debt securities may be requested to participate in the restructuring of such obligations and to extend further loans to their issuers. There can be no assurance that the foreign government debt securities in which the Fund may invest will not be subject to similar restructuring arrangements or to requests for new credit, which may adversely affect the Fund’s holdings. Furthermore, certain participants in the secondary market for such debt may be directly involved in negotiating the terms of these arrangements and may therefore have access to information not available to other market participants.

Since 2010, the risks of investing in foreign sovereign debt have increased significantly as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future.
on the United States and the global economy and securities markets or on the Fund’s investments. It is possible that these or similar events could have a significant adverse effect on the value and risk profile of the Fund. See “—Redenomination Risk.”

Investments in emerging market countries’ government debt securities involve currency risk. See “—Foreign Currency Risk.”

**Corporate Debt Risks.** Like all debt securities, corporate debt securities generally represent an issuer’s obligation to repay to the investor (or lender) the amount borrowed plus interest over a specified time period. A typical corporate bond specifies a fixed date when the amount borrowed (principal) is due in full, known as the maturity date, and specifies dates when periodic interest (coupon) payments will be made over the life of the security.

Corporate debt securities come in many varieties and may differ in the way that interest is calculated, the amount and frequency of payments, the type of collateral, if any, and the presence of special features (e.g., conversion rights). The Fund’s investments in corporate debt securities may include, but are not limited to, senior, junior, secured and unsecured bonds, convertible securities, notes and other debt securities, and may be fixed rate, floating rate, zero coupon and inflation linked, among other things.

Prices of corporate debt securities fluctuate and, in particular, are subject to several key risks including, but not limited to, interest rate risk, credit risk, prepayment risk and spread risk. The market value of a corporate bond may be affected by the credit rating of the issuer, the issuer’s performance, perceptions of the market place, management performance, financial leverage and reduced demand for the issuer’s goods and services. There is a risk that the issuers of the corporate debt securities in which the Fund may invest may not be able to meet their obligations on interest or principal payments at the time called for by such securities.

**Interest Rate Risk.** Interest rate risk is the risk that investments, will decline in value because of changes in market interest rates. When interest rates rise the market value of fixed income securities generally will fall, and when interest rates fall the market value of such securities generally will rise. The Fund’s investment in such securities means that the NAV and market price of the Common Shares may decline if market interest rates rise. This risk may be particularly acute because market interest rates are currently at historically low levels. During periods of declining interest rates, an issuer of fixed income securities may exercise its option to redeem or prepay securities prior to maturity, which could result in the Fund’s having to reinvest in lower yielding fixed income...
securities or other types of securities. This is known as call or prepayment risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected payments. This may lock in a below market yield, increase the security's duration, and reduce the value of the security. This is known as extension risk. Investments in debt securities with long-term maturities may experience significant price declines if long-term interest rates increase. This is known as maturity risk. The value of the Fund’s investments in common shares or other equity securities may also be influenced by changes in interest rates.

Credit Risk. Credit risk is the risk that an issuer of, for example, a fixed income security or preferred stock, or the counterparty to a derivatives contract, will be unable to make interest, principal, dividend, or other payments when due. In general, lower rated securities carry a greater degree of credit risk. If rating agencies lower their ratings of securities in the Fund’s portfolio, the value of those obligations could decline. In addition, the underlying revenue source for a fixed income security, a preferred stock or a derivatives contract may be insufficient to pay dividends, interest, principal or other required payments in a timely manner. Because a significant primary source of income for the Fund is the dividend, interest, principal and other payments on the fixed income securities, preferred stocks and derivatives in which it invests, any default by an issuer of such an instrument could have a negative effect on the Fund’s ability to pay dividends on Common Shares and/or cause a decline in the value of Fund assets. Even if the issuer does not actually default, adverse changes in the issuer’s financial condition may negatively affect its credit rating or presumed creditworthiness. These developments would adversely affect the market value of the issuer’s obligations or the value of credit derivatives if the Fund has sold credit protection.

Non-Investment Grade Securities Risk. The Fund’s investments in fixed income securities and preferred stocks of below investment grade quality (commonly referred to as “high yield” or “junk bonds”) are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, such below investment grade securities entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of below investment grade quality securities are more likely to default on their payments of interest and principal owed to the Fund, and such defaults will reduce the Fund’s NAV and income distributions. The prices of these lower quality securities are more sensitive to negative developments than higher rated securities. Adverse business conditions, such as a decline in the issuer’s revenues or an economic downturn, generally lead to a higher non-payment
rate. In addition, such a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates. The Fund may invest without limit in securities rated below investment grade. See “—Credit Risk.”

**Equity Securities and Related Market Risk.** The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See “—Issuer Risk.” The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They also may decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

**Issuer Risk.** The value of securities may decline for a number of reasons that directly relate to the issuer, such as its financial strength, management performance, financial leverage and reduced demand for the issuer’s goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets.

**Preferred Securities Risk.** Investments in preferred securities are subject to many of the risks associated with both fixed income securities and common shares or other equity securities. Preferred securities may also contain provisions that allow an issuer, under certain conditions, to skip or defer dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred stock in some instances is convertible into common shares or other securities. See “—Convertible Securities Risk.”

**ETFs and Other Investment Companies Risk.** As an investor in an ETF or other investment company, the Fund will be subject to the risks of the underlying securities in which the other investment company invests. In addition, as a shareholder in an ETF or other investment company, the Fund will bear its ratable share of that investment company’s expenses, and would remain subject to payment of the Fund’s investment management fees with respect to the assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may use leverage, in which case an investment
would subject the Fund to additional risks associated with leverage. See “—Leverage Risk.” The Fund may invest in other investment companies for which the Investment Manager or an affiliate serves as investment manager or with which the Investment Manager is otherwise affiliated. The relationship between the Investment Manager and any such other investment company could create a conflict of interest between the Investment Manager and the Fund.

In addition to the risks related to investing in investment companies generally, investments in ETFs involve the risk that the ETF’s performance may not track the performance of the index or markets the ETF is designed to track. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed above. See “—Derivatives Risk.”

Smaller Company Risk. The Fund may invest in small or medium capitalization issuers. The general risks associated with debt instruments or equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Small capitalization companies involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They also may have limited liquidity. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Derivatives Risk. Generally, a derivative is a financial contract the value of which depends upon, or is derived from, the value of an underlying asset, reference rate, or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates, commodities, related indexes, and other assets. The Fund may use derivatives to a significant extent for hedging, investment, interest rate or duration management or leverage purposes. Derivative transactions (such as swaps, options and futures contracts and options thereon) may subject the Fund to increased risk of principal loss due to imperfect correlation between the values of the derivatives and the underlying securities or unexpected price or interest rate movements. Some derivatives may be subject to central clearing, while others may not. If a derivative is centrally cleared, a central clearing entity stands between the two parties to the trade as counterparty to each. The Fund will be subject to credit risk with respect to the counterparties to the derivatives contracts (whether a clearing corporation in the case of a cleared derivative instrument or
another third party in the case of an uncleared derivative instrument) purchased and sold by the Fund, in addition to the risks associated with direct investments in the underlying reference securities, currencies or other instruments. 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 a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy or other analogous reorganization proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. To the extent the Fund’s claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. See “—Counterparty Risk.” The Fund’s use of derivatives can affect the amount, timing and character of distributions to shareholders; the extent to which the Fund invests in derivatives may be limited by tax considerations (see discussion in “U.S. Federal Income Tax Matters”). The use of derivatives involves costs which are ultimately borne by the Fund and reduce returns. Derivatives involve exposure that may exceed the original cost, and a small use of derivatives could result in a potentially unlimited loss to the Fund under certain circumstances.

The use of certain derivatives may expose the Fund to leverage risk. See “—Leverage Risk.” It is possible that government regulation of various types of derivative instruments, including interest rate swaps, interest rate options, credit linked notes, foreign currency forward contracts, credit default swaps and total return swaps on individual securities and groups or indices of securities may limit or prevent the Fund from using such instruments as part of its investment strategy, which could negatively affect the Fund’s performance. For example, the U.S. Government recently enacted legislation that provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Although the U.S. Commodity Futures Trading Commission (the “CFTC”) has released final rules relating to reporting, recordkeeping and registration requirements, many of the provisions contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) are subject to further final rule making and thus its ultimate impact remains unclear. New regulations could, among other things, restrict the Fund’s ability to engage in derivatives transactions (for example, by making certain types of derivatives transactions no longer available to the Fund).
and/or increase the costs of such derivatives transactions (for example, by increasing margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.

**Leverage Risk.** Although the Fund presently intends to utilize leverage, there can be no assurance that the Fund will do so, or that, if utilized, it will be successful during any period in which leverage is employed. The use of leverage by the Fund would result in more risk to the Fund's shareholders than if leverage had not been used and can magnify the effect of any losses. If the income and gains earned on securities to which the Fund has exposure through the use of leverage are greater than the costs of Borrowings, the costs of derivatives transactions used to generate leverage and the dividend payable on any outstanding Preferred Shares, the Fund's returns will be greater than if leverage had not been used. Conversely, if the income and gains from those securities do not cover the payments due in connection with the leverage used, the return will be less than if such leverage had not been used. In addition, if an event of default were to occur with respect to a reference obligation on which the Fund had sold a credit default swap, the value of the reference obligation received by the Fund (if any), coupled with the periodic payments previously received from the counterparty, may be less than the full notional value the Fund pays to the buyer, in which case the investment performance of the Fund's Common Shares will underperform as compared to what the performance would have been had the Fund not written any credit default swaps. See “—Credit Default Swaps Risk” for further information on the risks associated with credit default swaps. The Investment Manager nevertheless may determine to continue to use leverage if it believes that the benefits to the Fund will in the long-term outweigh the potential risk of a reduced return. The expenses associated with Borrowings, sales of credit default swaps, derivatives transactions and issuances of Preferred Shares will be borne by Common Shareholders and, consequently, will result in a reduction of the NAV of the Common Shares. During periods in which the Fund is using leverage in the form of Borrowings or Preferred Shares, the fees paid by the Fund for investment advisory and administrative services will be higher than if the Fund did not use such leverage, as such fees will be calculated on the basis of the Fund’s Total Managed Assets, which includes assets attributable to any Borrowings and to any Preferred Shares. In this regard, holders of debt or Preferred Shares do not bear such fees. Rather, Common Shareholders bear the portion of such fees attributable to the assets purchased with the proceeds of such leverage or the investment exposure obtained through such leverage, which means that Common
Shareholders effectively bear the entirety of advisory and administrative fees.

Short Sales Risk. To the extent the Fund makes use of short sales for investment and/or risk management purposes, the Fund may be subject to certain risks associated with selling short. Short sales are transactions in which the Fund sells securities or other instruments that the Fund does not own. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. The Fund may engage in short sales when it does not own or have the right to acquire the security sold short at no additional cost. The Fund’s loss on a short sale theoretically could be unlimited in a case in which the Fund is unable, for whatever reason, to close out its short position. In addition, the Fund’s short selling strategies may limit its ability to benefit from increases in the markets. If the Fund engages in short sales, it will segregate liquid assets, enter into offsetting transactions or own positions covering its obligations; however, such segregation and cover requirements will not limit or offset losses on related positions. Also, there is the risk that the counterparty to a short sale may fail to honor its contractual terms, causing a loss to the Fund.

Risks of Short Economic Exposure Through Derivatives. The use by the Fund of derivatives such as options, forwards or futures contracts for investment and/or risk management purposes may subject the Fund to risks associated with short economic exposure. Taking a short economic position through derivatives exposes the Fund to the risk that it will be obligated to make payments to its counterparty if the underlying asset appreciates in value, resulting in a loss to the Fund. The Fund’s loss on a short position using derivatives theoretically could be unlimited.

Credit Default Swaps Risk. Credit default swaps involve greater risks than investing in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk, counterparty risk and credit risk. A buyer will lose its investment and recover nothing should no event of default occur. If an event of default were to occur, the value of the reference obligation received by the seller (if any), coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the seller. When the Fund acts as a seller of a credit default swap, it is exposed to many of the same risks of leverage described herein since if an event of default occurs the seller must pay the buyer the full notional value of the reference obligation.
Although the Fund will seek to realize gains by writing credit default swaps that increase in value, to realize gains on writing credit default swaps, an active secondary market for such instruments must exist or the Fund must otherwise be able to close out these transactions at advantageous times. If no such secondary market exists or the Fund is otherwise unable to close out these transactions at advantageous times, writing credit default swaps may not be profitable for the Fund.

The market for credit default swaps has become more volatile in recent years as the creditworthiness of certain counterparties has been questioned and/or downgraded. The Fund will be subject to credit risk with respect to the counterparties to the derivative contract (whether a clearing corporation in the case of a cleared credit default swap or another third party in the case of an uncleared credit default swap). If a counterparty’s credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase the risk that the Fund may not receive adequate collateral. As of the date of this prospectus, credit default swaps are not currently traded on any securities exchange; however, the CFTC has issued a proposed rule which would require certain credit default swaps to be cleared through swaps clearing houses. The Fund may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause the Fund to incur more losses.

**Redenomination Risk.** Continuing uncertainty as to the status of the euro and the European Monetary Union (the “EMU”) has created significant volatility in currency and financial markets generally. Any partial or complete dissolution of the EMU could have significant adverse effects on currency and financial markets, and on the values of the Fund’s portfolio investments, especially any investments denominated in euros. As a result, the value of those investments could decline significantly and unpredictably. In addition, securities or other investments that are redenominated may be subject to foreign currency risk, liquidity risk and valuation risk to a greater extent than similar investments currently denominated in euros. See “—Foreign Currency Risk,” “—Liquidity Risk” and “—Valuation Risk.” To the extent a currency used for redenomination purposes is not specified in respect of certain euro-related investments, or should the euro cease to be used entirely, the currency in which such investments are denominated may be unclear, making such investments particularly difficult to value or dispose of. The Fund may incur additional expenses to the extent it is required to seek judicial or other clarification of the denomination or value of such securities.
Reinvestment Risk. Income from the Fund’s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio’s current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to reinvest the proceeds in lower-yielding securities. A decline in income received by the Fund from its investments is likely to have a negative effect on the market price, net asset value and/or overall return of the Common Shares.

Hedging Strategy Risk. Certain of the investment techniques that the Fund may employ for hedging will expose the Fund to additional or increased risks.

There may be an imperfect correlation between changes in the value of the Fund’s portfolio holdings and hedging positions entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, the Fund’s success in using hedge instruments is subject to the Investment Manager’s ability to predict correctly changes in the relationships of such hedge instruments to the Fund’s portfolio holdings, and there can be no assurance that the Investment Manager’s judgment in this respect will be accurate. Consequently, the use of hedging transactions might result in a poorer overall performance for the Fund, whether or not adjusted for risk, than if the Fund had not hedged its portfolio holdings.

The Investment Manager is under no obligation to engage in any hedging strategies, and may, in its discretion, choose not to. Even if the Investment Manager desires to hedge some of the Fund’s risks, suitable hedging transactions may not be available or, if available, attractive. A failure to hedge may result in losses to the value of the Fund’s investments.

Counterparty Risk. The Fund is subject to credit risk with respect to the counterparties to the derivative contracts (whether a clearing corporation in the case of cleared instruments or another third party in the case of uncleared instruments) and other instruments entered into by the Fund or held by special purpose or structured vehicles in which the Fund invests. In the event that the Fund enters into a derivative transaction with a counterparty that subsequently becomes insolvent or becomes the subject of a bankruptcy case, the derivative transaction may be terminated in accordance with its terms and the Fund’s ability to realize its rights under the derivative instrument and its ability to distribute the proceeds could be adversely affected. To the extent the Fund’s claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. 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 a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy or other analogous reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

**Net Asset Value Discount Risk.** Frequently, shares of closed-end investment companies, such as the Fund, trade at a price below their NAV, commonly referred to as a “discount.”

The Fund cannot predict whether, or to what extent, its Common Shares will trade at a discount to their NAV. Immediately following this offering, the NAV of the Fund’s Common Shares will be reduced by offering costs paid by the Fund, creating an increased risk that the Common Shares will trade at a discount to their NAV for a period following the offering. Therefore, there is an added risk to investors who may sell their shares shortly after the offering. Before making an investment decision, a prospective investor should consider the suitability of this investment with respect to the investor’s investment objectives and personal situation. See “Description of Shares.”

**Structured Products Risk.** The Fund may invest in structured investments, structured notes and other similar products consistent with the Fund’s investment objective and policies. Generally, structured investments are interests in entities organized and operated for the purpose of restructuring the investment characteristics of underlying investment interests or securities. These investment entities may be structured as trusts or other types of pooled investment vehicles. This type of restructuring generally involves the deposit with or purchase by an entity of the underlying investments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying investments or referencing an indicator related to such investments. The cash flow or rate of return on the underlying investments may be apportioned among the newly issued securities to create different investment characteristics, such as varying maturities, credit quality, payment priorities and interest rate provisions.

Structured notes are derivative securities for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors may include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or the London Interbank Offered Rate (“LIBOR”)), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. In some cases, the effect
of the movements of these factors may increase or decrease through the use of multipliers or deflators.

The cash flow or rate of return on a structured investment may be determined by applying a multiplier to the rate of total return on the underlying investments or referenced indicator. Application of a multiplier is comparable to the use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss. As a result, a relatively small decline in the value of the underlying investments or referenced indicator could result in a relatively large loss in the value of a structured product. Holders of structured products indirectly bear risks associated with the underlying investments, index or reference obligation, and are subject to counterparty risk. The Fund generally has the right to receive payments to which it is entitled only from the structured product, and generally does not have direct rights against the issuer. While certain structured investment vehicles enable the investor to acquire interests in a pool of securities without the brokerage and other expenses associated with directly holding the same securities, investors in structured vehicles generally pay their share of the investment vehicle’s administrative and other expenses. Certain structured products may be thinly traded or have a limited trading market and may have the effect of increasing the Fund’s illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

Structured products are generally privately offered and sold, and thus, are not registered under the securities laws. Certain structured products may be thinly traded or have a limited trading market and may have the effect of increasing the Fund’s illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities. In addition to the general risks associated with fixed income securities discussed herein, structured products carry additional risks including, but not limited to:

- the possibility that distributions from underlying investments will not be adequate to make interest or other payments;
- the quality of the underlying investments may decline in value or default;
- the possibility that the security may be subordinate to other classes; and
- the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Investments in structured notes involve risks including interest rate risk, credit risk and market risk. When the Fund’s investments in structured notes are based upon the movement
of one or more factors, depending on the factor used and the use of multipliers or deflators, changes in interest rates and movement of the factor may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the interest rate on the structured note to be reduced to zero and any further changes in the reference instrument may then reduce the principal amount payable on maturity.

Warrants Risk. The Fund may invest in warrants. While the market value of a warrant tends to be more volatile than that of the securities underlying the warrant, the market value of a warrant may not necessarily change with that of the underlying security. A warrant ceases to have value if it is not exercised prior to any expiration date to which the warrant is subject.

The purchase of warrants involves a risk that the Fund could lose the purchase value of a warrant if the right to subscribe to additional shares is not exercised prior to the warrant’s expiration. Also, the purchase of warrants involves the risk that the effective price paid for the warrant added to the subscription price of the related security may exceed the value of the subscribed security’s market price, such as when there is no movement in the level of the underlying security.

Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from the Fund’s investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Fund’s portfolio could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund’s portfolio and Common Shares.

Liquidity Risk. Certain of the Fund’s investments may be illiquid (i.e., securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose readily of illiquid securities when that would be beneficial at a favorable time or price or at prices approximating those at which the Fund then values them. Further, the lack of an established secondary market for illiquid securities may make it more difficult to value such securities, which may negatively affect the price the Fund would receive upon disposition of such securities. See “—Valuation Risk.”

Valuation Risk. When market quotations are not readily available or are deemed to be unreliable, the Fund values its
investments at fair value as determined in good faith pursuant to policies and procedures approved by the Board. See “Net Asset Value.” Fair value pricing may require subjective determinations about the value of a security or other asset. As a result, there can be no assurance that fair value pricing will result in adjustments to the prices of securities or other assets, or that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security or other asset will be materially different from quoted or published prices, from the prices used by others for the same security or other asset and/or from the value that actually could be or is realized upon the sale of that security or other asset.

Legal and Regulatory Risk. Legal, tax and regulatory changes could occur and may adversely affect the Fund and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the CFTC, the SEC, the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Fund. In particular, these agencies are empowered to promulgate a variety of new rules pursuant to recently enacted financial reform legislation in the United States. The Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations.

Market Disruption and Geopolitical Risk. The wars with Iraq and Afghanistan and similar conflicts and geopolitical developments, their aftermath and substantial military presence in Afghanistan are likely to have a substantial effect on the U.S. and world economies and securities markets. The nature, scope and duration of the wars and the potential costs of rebuilding infrastructure cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period and similar future events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, if repeated, could be highly disruptive to economies and markets. Those events as well as other changes in foreign and domestic economic and political conditions also could have an acute effect on individual issuers or related groups of issuers.
These risks also could adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the Fund’s investments and the market value and net asset value of the Fund’s Common Shares.

**Portfolio Turnover Risk.** The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. The Fund cannot accurately predict its securities portfolio turnover rate, but anticipates that its annual portfolio turnover rate will not exceed 150% under normal market conditions, although it could be materially higher under certain conditions. Higher portfolio turnover rates result in corresponding increases in brokerage commissions and other trading costs and generate short-term capital gains taxable as ordinary income.

**Anti-Takeover Provisions.** The Fund’s Declaration of Trust (the “Declaration of Trust”) includes provisions that could have the effect of inhibiting the Fund’s possible conversion to open-end status and limiting the ability of other entities or persons to acquire control of the Fund or the Board. In certain circumstances, these provisions might also inhibit the ability of Common Shareholders to sell their shares at a premium over prevailing market prices. See “Anti-Takeover Provisions in the Declaration of Trust.”

**Distributions**

The Fund intends to make a level dividend distribution each month to Common Shareholders. The level dividend rate may be modified by the Board from time to time, and will be based upon the past and projected performance and expenses of the Fund. The Fund will also make a distribution during or with respect to each calendar year (which may be combined with a regular monthly distribution), which will generally include any net investment income and net realized capital gain for the year not otherwise distributed. If the total distributions made in any calendar year exceed the Fund’s current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, such excess distributed amount would be a tax-free return of capital to the extent of the adjusted tax basis in the Common Shares. After such adjusted tax basis is reduced to zero, the distribution would constitute capital gain (assuming the shares are held as capital assets). In general terms, a return of capital would involve a situation in which a Fund distribution (or a portion thereof) represents a return of a portion of the Common Shareholder’s investment, rather than net income or capital gains generated from his or her investment during a particular period. Although return of capital distributions may not be taxable, such distributions would reduce the basis of a shareholder’s Common Shares and therefore may increase a shareholder’s tax liability for capital gains upon a sale of Common Shares.
The Fund’s initial distribution is expected to be declared approximately 45 days after the completion of this offering and paid approximately 60 days after the completion of the offering, depending on market conditions. The initial distributions may consist primarily of a return of capital if the Fund is delayed in investing the proceeds of this offering.

Stone Harbor has received an order from the SEC granting an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder to permit certain closed-end funds managed by Stone Harbor to include realized long-term capital gains as a part of their regular distributions to common shareholders more frequently than would otherwise be permitted by the 1940 Act (generally once per taxable year). Stone Harbor expects the exemptive order to apply to the Fund.

The level dividend distribution described above is intended to result in the payment of approximately the same amount or percentage to Common Shareholders each month. Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide a written statement accompanying any such payment that adequately discloses its source or sources. Thus, if the source of the dividend or other distribution were the original capital contribution of the Common Shareholder, and the payment amounted to a return of capital, the Fund would be required to provide written disclosure to that effect. Nevertheless, persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Common Shareholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net income or net profit. In addition, in cases in which the Fund would return capital to Common Shareholders, such distribution may bear on the Fund’s ability to maintain its asset coverage requirements and to pay the dividends on any Preferred Shares that the Fund may issue.

Dividend Reinvestment Plan

Unless a Common Shareholder elects otherwise, the Common Shareholder’s distributions will be reinvested in additional Common Shares under the Fund’s automatic dividend reinvestment plan (the “Plan”). Common 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 Common Shares are held in street or other nominee name, then to such nominee). See “Dividend Reinvestment Plan.”

**Custodian and Transfer Agent**

The Bank of New York Mellon (“BNYM”) serves as the Fund’s custodian and Computershare Shareowner Services, LLC (“Computershare”) serves as the Fund’s transfer agent. See “Custodian and Transfer Agent.”
SUMMARY OF FUND EXPENSES

The purpose of the tables below is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The expenses shown in the tables are based on estimated amounts for the Fund's first year of operations, unless otherwise indicated, and assume that the Fund issues approximately 9,600,000 Common Shares. See “Management of the Fund” and “Dividend Reinvestment Plan.” The following table also assumes Borrowings in an aggregate amount equal to 33 1/3% of the Fund’s Total Managed Assets, and shows Fund expenses as a percentage of net assets attributable to Common Shares (“Net Assets”). Footnote (7) below shows Annual Expenses assuming no Borrowings. See “Management of the Fund—Investment Manager” for more information about the Management Fee. The Fund’s actual expenses may vary substantially from the estimates below.

### Shareholder Transaction Expenses

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Percentage of Net Assets Attributable to Common Shares(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Load (as a percentage of offering price)</td>
<td>4.50%</td>
</tr>
<tr>
<td>Offering Expenses (as a percentage of offering price)</td>
<td>0.20%</td>
</tr>
<tr>
<td>Dividend Reinvestment Plan fees</td>
<td>None</td>
</tr>
</tbody>
</table>

### Annual Expenses

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Percentage of Net Assets Attributable to Common Shares(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Fees</td>
<td>1.50%</td>
</tr>
<tr>
<td>Administration Fees</td>
<td>0.23%</td>
</tr>
<tr>
<td>Interest Payments on Borrowed Funds</td>
<td>0.37%</td>
</tr>
<tr>
<td>Acquired Fund Fees and Expenses</td>
<td>0.19%</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>0.37%</td>
</tr>
<tr>
<td>Total Annual Expenses</td>
<td>2.66%</td>
</tr>
</tbody>
</table>

(1) Total offering expenses in connection with the Common Shares (other than the sales load, but inclusive of the distribution assistance payment described below) are estimated to be $1,119,000, of which $480,000 is payable by the Fund. Actual offering expenses may vary substantially from this amount. Stone Harbor has agreed to pay all of the Fund’s organizational expenses, as well as the offering expenses of the Fund (other than the sales load, but inclusive of the distribution assistance payment to ALPS Distributors, Inc.) that exceed $0.05 per Common Share (0.20% of the offering price). As compensation for providing certain distribution-related services, ALPS Distributors, Inc., an affiliate of ALPS Fund Services, Inc., the Fund’s administrator, will receive 0.10% of the total public offering price (inclusive of the over-allotment option) plus reimbursement of certain of its expenses. The Fund will pay this distribution assistance fee to the extent the Fund’s offering expenses are less than or equal to $0.05 per Common Share, and the Investment Manager will pay this fee to the extent the Fund’s offering expenses exceed $0.05 per Common Share. See “Underwriters.” The offering expenses may vary substantially from these estimates.

Offering expenses borne by Common Shareholders will result in a reduction of capital of the Fund attributable to the Common Shares.

(2) The Investment Manager (and not the Fund) has agreed to pay, from its own assets, structuring and syndication fees to Morgan Stanley & Co. LLC, and structuring fees to Citigroup Global Markets Inc., UBS Securities LLC and RBC Capital Markets, LLC. See
“Underwriters—Additional Compensation to be Paid by the Investment Manager.” These fees are not reflected in the table above.

(3) There will be no brokerage charges with respect to Common Shares issued directly by the Fund under the Plan. You will pay brokerage charges in connection with open market purchases or if you direct the Plan Administrator, as defined below, to sell your Common Shares held in a dividend reinvestment account.

(4) The Management Contract between the Fund and the Investment Manager obligates the Fund to pay the Investment Manager an annual investment advisory fee equal to 1.00% of the average daily Total Managed Assets. As noted above, “Total Managed Assets” includes the assets attributable to any Borrowings and to any Preferred Shares that may be outstanding, minus accrued liabilities (other than liabilities representing Borrowings). With respect to any reverse repurchase agreements, “Total Managed Assets” also includes the value as of the relevant measuring date of the underlying assets sold to the counterparty. Because the costs of using leverage are borne by the Common Shareholders, the Management Fee as a percentage of Net Assets will exceed 1.00% if leverage is used.

(5) The Administration Agreement between the Fund and the Administrator obligates the Fund to pay the Administrator an administration fee of 0.15% of the average daily Total Managed Assets of the Fund, plus out-of-pocket expenses, for providing administration, bookkeeping and pricing services to the Fund.

(6) Assumes the Fund (i) utilizes leverage through Borrowings in an aggregate amount of 33 1/3% of the Fund’s Total Managed Assets and (ii) the annual interest rate on the amount obtained through the use of leverage is 0.74%.

(7) The table presented below in this footnote estimates what the Fund’s annual expenses would be stated as percentages of the Fund’s Net Assets but, unlike the table above, assumes that the Fund has not utilized any leverage. In accordance with these assumptions, the Fund’s expenses would be estimated to be as follows:

<table>
<thead>
<tr>
<th>Annual Expenses (as a percentage of Net Assets)</th>
<th>Percentage of Net Assets Attributable to Common Shares (assuming no use of leverage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Fees</td>
<td>1.00%</td>
</tr>
<tr>
<td>Administration Fees</td>
<td>0.15%</td>
</tr>
<tr>
<td>Other Expenses(9)</td>
<td>0.31%</td>
</tr>
<tr>
<td>Acquired Fund Fees and Expenses</td>
<td>0.12%</td>
</tr>
<tr>
<td>Total Annual Expenses</td>
<td>1.58%</td>
</tr>
</tbody>
</table>

(8) The Fund’s shareholders indirectly bear the expenses of the other investment companies, including ETFs, in which the Fund invests (“Acquired Funds”). The operating expenses in this fee table may not correlate to the expense ratio in the Fund’s financial statements, when available, because the financial statements typically include only the direct operating expenses incurred by the Fund, not the indirect costs of investing in the Acquired Funds.

(9) “Other Expenses” are based on estimated amounts for the current fiscal year.
Example

The following example illustrates the expenses (including the sales load of $45 and estimated expenses of this offering of $2) that you would pay on a $1,000 investment in Common Shares, assuming (i) total annual expenses of 2.66% of the Fund’s Net Assets (which assumes the Fund obtains leverage through Borrowings in an amount equal to 33⅓% of the Fund’s Total Managed Assets) and (ii) a 5% annual return*:  

<table>
<thead>
<tr>
<th>Total Expenses Incurred</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$73</td>
<td>$126</td>
<td>$181</td>
<td>$332</td>
</tr>
</tbody>
</table>

*The example should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown. The example assumes that the estimated “Interest Expenses” and “Other Expenses” set forth in the Annual Expenses table are accurate, that the rates listed under “Annual Expenses” remain the same each year and that all dividends and distributions are reinvested at NAV. 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% annual return.
THE FUND

The Fund is a newly organized, non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on May 25, 2012, pursuant to the Declaration of Trust. The Declaration of Trust is governed by the laws of The Commonwealth of Massachusetts. As a newly organized entity, the Fund has no operating history. The Fund’s principal office is located at 31 West 52nd Street, 16th Floor, New York, NY 10019 and its telephone number is 1-877-206-0791 (toll-free).

USE OF PROCEEDS

The net proceeds of this offering of Common Shares will be approximately $228,720,000 ($263,028,000 if the Underwriters exercise the overallotment option in full) after payment of the sales load and estimated offering expenses (inclusive of the distribution assistance payment to ALPS Distributors, Inc.) payable by the Fund (expected to be approximately $0.05 per Common Share).

The net proceeds of the offering will be invested in accordance with the Fund’s investment objective and policies (as stated below) as soon as practicable after completion of the offering. The Fund currently anticipates being able to do so within approximately one to three months after the completion of the offering. Pending such investment, the Fund will invest its assets in money market and short-term debt securities or money market mutual funds. Investors should expect, therefore, that before the Fund has fully invested the proceeds of the offering in accordance with its investment objective and policies, the Fund’s net asset value would be subject to less fluctuation than would be the case at such time as the Fund is fully invested. If the Fund is delayed in investing the proceeds of this offering, the Fund’s initial distribution could consist principally of a return of capital.

INVESTMENT OBJECTIVE AND POLICIES

The Fund’s investment objective is to maximize total return, which consists of income and capital appreciation from investments in emerging markets securities. There is no assurance that the Fund will achieve its investment objective.
The Fund normally will invest at least 80% of its net assets (plus borrowings for investment purposes) in Emerging Markets Debt (the “80% policy”). “Emerging Markets Debt” includes fixed income securities and other instruments (including derivatives) that are economically tied to emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, economies or ability to repay loans. A security or instrument is economically tied to an emerging market country if it is principally traded on the country’s securities markets or if the issuer is organized or principally operates in the country, derives a majority of its income from its operations within the country or has a majority of its assets within the country.

The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity. “Emerging Markets Equity” includes securities issued by either single country or regional ETFs, common stocks, preferred stocks, other equity securities and other instruments (including derivatives) that are economically tied to the equity markets of emerging market countries, that are denominated in the predominant currency of the local market of an emerging market country or whose performance is linked or otherwise related to those countries’ markets, currencies, or economies. Emerging Markets Securities may be denominated in non-U.S. currencies or the U.S. dollar.

The Fund may use derivatives to a significant extent for hedging, investment, interest rate or duration management or leverage purposes. Although Emerging Markets Securities may include any derivative or other instrument that provides the Fund exposure to emerging markets, the Fund currently expects that its derivatives transactions will consist primarily of the following instruments and transactions: credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options. The Fund may use these instruments for hedging purposes, for leverage or otherwise to gain, or reduce, long or short exposure to Emerging Markets Securities (for example, credit linked notes may be used to gain exposure to certain emerging markets fixed income securities).

The Fund considers emerging market countries as those countries identified by the World Bank Group as being “low income economies” or which are included in a J.P. Morgan emerging market bond index. It is anticipated that the Fund will focus most of its investments in Asia, Africa, the Middle East, Latin America and the developing countries of Europe. The Fund’s investments may include, among other things, sovereign debt obligations, corporate debt securities, structured notes, convertible securities, common stock, preferred stock and other equity securities, securities issued by supranational organizations, other investment companies, floating rate commercial loans, securitized loan participations, Rule 144A securities, non-U.S. currencies, currency forward contracts and other foreign currency transactions, and derivatives related to or referencing these types of securities and instruments. The Fund seeks income and capital appreciation through country selection, sector selection, security selection and currency selection.

The Fund may invest up to 25% of its total assets in a single country.

In selecting Emerging Markets Securities for investment, Stone Harbor will apply a market risk analysis contemplating the assessment of various factors, such as liquidity, volatility, tax implications, interest rate sensitivity, counterparty risks, economic factors, currency exchange rates and technical market considerations.

The Fund may invest, without limitation, in debt securities that are rated below investment grade by an NRSRO or unrated securities that are deemed to be of comparable quality by the Investment Manager, including distressed and defaulted securities. Debt securities rated below investment grade are commonly known as “high yield” or “junk bonds” and are regarded as predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.
The Fund’s fixed income holdings may range in maturity from overnight to 30 years or more. The Investment Manager does not manage the Fund to have a specific average maturity or duration. The Fund may also invest in currencies, money market and short-term debt securities and cash equivalents, warrants, structured investments or other derivatives, which may be used to achieve the 80% policy. Under certain limited circumstances, the Fund may obtain a substantial part of its investment exposure to Emerging Markets Securities through the use of derivatives. As noted above, the Fund expects that its derivatives transactions or instruments will consist primarily of credit linked notes, foreign currency forward contracts, credit default swaps, interest rate swaps, total return swaps on individual securities and groups or indices of securities, and interest rate futures contracts and options.

The Fund normally expects to invest up to 20% of its total assets in Emerging Markets Equity, which the Fund expects will consist primarily of single country and regional ETFs. The ETFs in which the Fund expects to invest will generally invest in, or track indices related to, equity securities. Emerging Markets Equity may also include other types of equity from time to time, including, but not limited to, common stock, preferred stocks, securities that have not been registered for public sale in the U.S. or relevant non-U.S. jurisdiction, including without limitation securities eligible for purchase and sale pursuant to Rule 144A under the Securities Act, or relevant provisions of applicable non-U.S. law, and other securities issued in private placements. The Fund may invest in issuers with any market capitalization, including small and medium market capitalization issuers.

In addition, the Fund may invest the remainder of its total assets in securities and other instruments (including derivatives) which will not be used to achieve the Fund’s 80% policy, including, without limitation, shares of open- and closed-end investment companies, common stocks, bonds and convertible securities of non-emerging market issuers.

The Fund’s investment objective and 80% policy are non-fundamental, and may be changed without shareholder approval; however, shareholders will be notified in writing of any material changes to the investment objective or the 80% policy at least 60 days prior to any change.

Under normal market conditions, the Fund intends to leverage the Fund by engaging in Borrowings and/or issuing Preferred Shares. The aggregate amount of the Fund’s Borrowings and the liquidation value of any Preferred Shares will generally not exceed 33 1/3% of the Fund’s Total Managed Assets, immediately after such transactions. The Fund may also enter into other transactions that are not subject to this 33 1/3% limit but that may give rise to a form of effective leverage including, among others, credit default swaps and other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. At all times, however, the Fund’s use of these transactions will be limited to the Fund’s policies relating to asset segregation and “coverage” of these types of transactions. See “Use of Leverage.”

Emerging Market Countries. The Fund defines “emerging market countries” to include countries identified by the World Bank Group as being “low income economies” or which are included in a J.P. Morgan emerging market bond index. As of the date of this prospectus, the countries listed below meet one or both of these criteria. The Fund expects that its investments in Emerging Markets
Securities will be made primarily, but not exclusively, in some or all of the emerging market countries included in the list below. Countries may be added to or removed from this list at any time.

<table>
<thead>
<tr>
<th>Algeria</th>
<th>Ghana</th>
<th>Moldova</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Greece</td>
<td>Morocco</td>
<td>South Korea</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Guatemala</td>
<td>Nicaragua</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Belize</td>
<td>Hong Kong</td>
<td>Nigeria</td>
<td>Taiwan</td>
</tr>
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<td>Brazil</td>
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**Investment Strategy**

The Investment Manager analyzes emerging market countries to identify potential investments for the Fund. The Investment Manager’s disciplined process of rigorous credit analysis focuses primarily on fundamental analysis and political analysis.

The Investment Manager has established a lengthy track record managing fixed-income emerging markets portfolios through a variety of market environments. As a result, it believes it has developed a deep awareness and understanding of how macroeconomic fundamentals, as well as policies and politics of emerging market countries, influence the markets for Emerging Markets Debt.

In allocating the Fund’s investments among emerging market countries, the Investment Manager may consider a number of factors, including, without limitation:

- Currency, inflation and interest rates and trends;
- Growth rate forecasts;
- Liquidity of a country’s debt markets;
- Fiscal policies and balances;
- Political outlook;
- Tax environment; and
- Amount of debt outstanding.

When analyzing corporate issuers, the Investment Manager will analyze factors such as:

- The strength of the issuer’s financial resources and sensitivity to economic conditions and trends;
- The issuer’s operating history; and
- The experience and track record of the issuer’s management.
The Investment Manager believes its strong credit views on emerging market countries and regions can be applied to analyzing the equity markets of emerging countries. The Investment Manager currently expects that the majority of its equity investments will be intended to provide relatively broad exposure to the relevant emerging markets, countries and regions rather than to individual companies.

When investing in Emerging Markets Equity, Stone Harbor searches for ETFs and stocks that exhibit attractive valuations on several metrics, such as price movement, volatility, growth rates, price to cash flow, strong relative earnings growth and earnings quality. The Investment Manager uses an investment approach that blends growth (investing in equity securities that the Investment Manager believes have good prospects for earnings growth) and value (investing in equity securities that are priced below what the Investment Manager believes to be their worth).

When making country allocation decisions, the type of country-specific information that the Investment Manager may utilize includes:

- Budget balance as percentage of GDP;
- Current account as percentage of GDP;
- Debt as percentage of GDP;
- Reserves in months of imports;
- Growth in fixed investment;
- Savings as percentage of GDP;
- Inflation rate;
- Unemployment rate;
- Political stability;
- Rate and direction of future changes; and
- The global investment policy set by Stone Harbor’s Investment Policy Committee.

Furthermore, Stone Harbor’s portfolio management team conducts extensive travel to key countries in order to complement its research.

The Investment Manager’s portfolio management team aggregates and discusses the information above to select the available securities in each country that it considers to offer the highest potential return relative to the risks presented.

The Investment Manager will look to sell or reduce exposure to securities or country allocations that, in its opinion, do not offer enough potential return relative to the risks presented.

When the Investment Manager anticipates unusual market or other conditions, the Fund may temporarily depart from its principal investment strategies as a defensive measure. To the extent that the Fund invests defensively, it likely will not achieve its investment objective.

**Portfolio Composition**

The Fund’s permitted investments include, but are not limited to:

* **Sovereign Debt Obligations.** Sovereign debt obligations are obligations of governmental issuers in foreign developed and emerging market countries. Sovereign debt obligations include, but are not limited to, debt securities issued or guaranteed by governments, government agencies or instrumentalities and political subdivisions, debt securities issued by government owned, controlled or sponsored entities and supranational government entities, interests in entities organized and operated for the purposes of restructuring the investment characteristics of instruments issued by any of the
above issuers or participation in loans between governments and financial institutions (see “—Loan Participations and Assignments”). Supranational entities include international organizations that are organized or supported by one or more government entities to promote economic reconstruction or development and by international banking institutions and related governmental agencies. As a holder of sovereign debt obligations, the Fund may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there are generally no bankruptcy proceedings similar to those in the United States by which defaulted sovereign debt obligations may be collected. Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities. See “—Investments in Foreign Securities.”

**High Yield Securities.** The Fund may invest without limit in debt securities that are rated below investment grade (below Baa by Moody’s Investors Service (“Moody’s”) or below BBB by either Standard & Poor’s (“S&P”) or Fitch Ratings “Fitch”) or unrated but judged by the Investment Manager to be of comparable quality. Non-investment grade bonds are commonly referred to as “high yield” securities or “junk bonds.” Non-investment grade bonds involve a greater degree of risk (in particular, a greater risk of default) than, and special risks in addition to the risks associated with, investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, non-investment grade bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Non-investment grade bonds may be regarded as predominantly speculative with respect to the issuer’s continuing ability to make timely principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities. Debt securities in the lowest investment grade category also may be considered to possess some speculative characteristics by one or more NRSROS.

The market values of non-investment grade bonds tend to reflect individual developments of the issuer to a greater extent than do higher-quality securities, which tend to react mainly to fluctuations in the general level of interest rates. In addition, lower-quality debt securities tend to be more sensitive to general economic conditions. Certain emerging market governments that issue non-investment grade bonds in which the Fund may invest are among the largest debtors to commercial banks, foreign governments and supranational organizations, such as the World Bank, and may not be able or willing to make principal and/or interest payments as they come due.

**Corporate Debt Securities.** The Fund may invest in debt securities of corporate and other non-governmental issuers (e.g., partnerships, limited liability companies and other entities). Like all debt securities, corporate debt securities generally represent an issuer’s obligation to repay to the investor (or lender) the amount borrowed plus interest over a specified time period. A typical corporate bond specifies a fixed date when the amount borrowed (principal) is due in full, known as the maturity date, and specifies dates when periodic interest (coupon) payments will be made over the life of the security.

Corporate debt securities come in many varieties and may differ in the way that interest is calculated, the amount and frequency of payments, the type of collateral, if any, and the presence of special features (e.g., conversion rights). The Fund’s investments in corporate debt securities may include, but are not limited to, senior, junior, secured and unsecured bonds, notes and other debt securities, and may be fixed rate, variable rate, floating rate, zero coupon and inflation linked, among other things. The Fund may invest in convertible bonds and warrant structures, which are fixed income securities with imbedded warrants that are exercisable into other debt or equity securities.

**Bonds.** The Fund may invest in a wide variety of bonds of varying maturities issued by U.S. and foreign corporations and other business entities, governments and municipalities and other issuers. Bonds are fixed or variable/floating-rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as
well as governments and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Some bonds are “perpetual” in that they have no maturity date.

**Currency.** The Fund may engage in foreign currency exchange transactions in connection with its investments. The Fund will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or in the derivatives markets, including through entering into forward, futures or options contracts to purchase or sell foreign currencies. Additional instruments that provide exposure to currencies include, but are not limited to, currency swap contracts, currency futures contracts and options on such futures contracts, purchasing put or call options on currencies in U.S. or foreign markets and other currency derivatives.

**Loan Participations and Assignments.** The Fund may invest in fixed, variable and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions. The Fund’s investments in loans may be in the form of involvement in the primary syndicate for a loan, participations in loans or assignments of all or a portion of loans from third parties. The Fund’s investment in participations typically will result in the Fund having a contractual relationship only with the lender and not with the borrower. The Fund will have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the borrower.

The purchaser of an assignment acquires direct rights against the borrower on the loan. Because assignments are arranged through private negotiations between potential assignees and potential assignors, however, the rights and obligations so acquired may differ from, and be more limited than, those held by the assigning lender. The assignability of certain loans, especially with respect to sovereign debt obligations, is restricted by the governing documentation as to the nature of the assignee such that the only way in which the Fund may acquire an interest in such a loan is through a participation and not through an assignment.

**Forward Foreign Currency Exchange Contracts.** The Fund may enter into forward foreign currency exchange contracts (“forward contracts”) for purposes of gaining exposure to the currency of an emerging market country or other foreign country or as a hedge against fluctuations in future foreign currency exchange rates. A forward contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large, commercial and investment banks) and their customers. A non-deliverable currency forward contract is a short-term forward contract on a foreign currency where the profit and loss is the difference between a specified exchange rate and the spot rate at the time of settlement.

At times, the Fund may enter into “cross-currency” hedging transactions involving currencies other than those in which securities are held or proposed to be purchased are denominated.

By entering into a forward contract for the purchase or sale, for a fixed amount of dollars or other currency, of the amount of foreign currency involved in an underlying security transaction, the Fund may be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the currency which is being used for the security transaction.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend to actually convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will, however, do so with respect to a portion of the Fund’s assets from time to time, and investors should be aware of the costs of currency conversion. Although foreign currency exchange dealers typically do not charge a fee for conversion, they do realize a profit based on the spread between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.
Forward contracts may limit gains on portfolio securities that could otherwise be realized had they not been utilized and could result in losses. The contracts also may increase the Fund's volatility and may involve a significant amount of risk relative to the investment of cash.

**Options.** A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer of the option the obligation to buy, the underlying security, commodity, index or other instrument at the exercise price. The Fund’s purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. The Fund’s purchase of a call option on a security, financial future contract, index or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. An American style put or call option may be exercised at any time during the option exercise period while a European style put or call option may be exercised only upon expiration. A Bermudan style put or call may be exercised on fixed dates occurring during the term of the option. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. For more information, see “Additional Investment Activities and Restrictions—Derivatives—Options” in the Statement of Additional Information. In addition, many derivative transactions involving options require designation or segregation of Fund assets, as described below under “—Use of Asset Segregation and Special Accounts.”

**Futures Contracts.** The Fund may enter into contracts for the purchase or sale for future delivery of securities or foreign currencies, or contracts based on financial indices, including any stock index or index of government or other securities. A futures contract purchaser incurs an obligation to take delivery of a specified amount of the security, currency or other asset underlying the contract at a specified time in the future for a specified price. A seller of a futures contract incurs an obligation to deliver the specified amount of the underlying security, currency or other asset at a specified time in return for an agreed upon price. The purchase of a futures contract enables the Fund, during the term of the contract, to lock in a price at which it may purchase a security, currency or other asset and protect against a rise in prices pending purchase. The sale of a futures contract enables the Fund to lock in a price at which it may sell a security, currency or other asset and protect against declines pending sale.

Although most futures contracts call for actual delivery or acceptance of the underlying security, currency or other asset, the contracts usually are closed out before the settlement date without the making or taking of delivery. Index futures contracts provide for the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the open or close of the last trading day of the contract and the futures contract price. A futures contract sale is closed out by effecting a futures contract purchase for the same aggregate amount of the specific type of security, currency or other asset and the same delivery date. If the sale price exceeds the offsetting purchase price, the seller would be paid the difference and would realize a gain. If the offsetting purchase price exceeds the sale price, the seller would pay the difference and would realize a loss. Similarly, a futures contract purchase is closed out by effecting a futures contract sale for the same aggregate amount of the specific type of security, currency or other asset and the same delivery date. If the offsetting sale price exceeds the purchase price, the purchaser would realize a gain, whereas if the purchase price exceeds the offsetting sale price, the purchaser would realize a loss. There is no assurance that the Fund will be able to enter into a closing transaction.

Currently, securities index futures contracts can be purchased with respect to several indices on various exchanges. Differences in the securities included in the indices may result in differences in correlation of the futures contracts with movements in the value of the securities being hedged. The
Fund also may invest in foreign stock index futures contracts traded outside the United States which involve additional risks, including fluctuations in foreign exchange rates, foreign currency exchange controls, political and economic instability, differences in financial reporting and securities regulation and trading, and foreign taxation issues. See “—Investments in Foreign Securities” and “—Foreign Currency Risk.”

In addition, the Fund may enter into financial futures contracts or purchase or sell put and call options on futures contracts as a hedge against anticipated interest rate or debt market changes, to gain exposure to a market, for duration management or for risk management purposes. Futures contracts are generally bought and sold on the exchanges where they are listed with payment of initial and variation margin as described below. The purchase of a financial futures contract creates a firm obligation by the Fund, as purchaser, to take delivery from the seller the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures contracts and Eurodollar instruments, the net cash amount). The sale of a futures contract creates a firm obligation by the Fund, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures contracts and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract and obligates the seller to assume the opposite position.

**Futures Contracts Strategies.** When a significant market advance is anticipated, the purchase of a futures contract by the Fund affords a hedge against not participating in the advance at a time when the Fund is otherwise fully invested. Such purchase of a futures contract would serve as a temporary substitute for the purchase of individual securities, which may be purchased in an orderly fashion once the market has stabilized. As individual securities are purchased, an equivalent amount of futures contracts could be terminated by offsetting sales. The Fund may sell futures contracts in anticipation of or in a general market decline that may adversely affect the market value of the Fund’s securities. To the extent that the value of the Fund’s portfolio of securities changes in correlation with the value of the underlying security or index, the sale of futures contracts would substantially reduce the risk to the Fund of a market decline and, by so doing, provides an alternative to the liquidation of securities positions in the Fund. Ordinarily, transaction costs associated with futures contracts transactions are lower than transaction costs that would be incurred in the purchase and sale of the underlying securities.

Typically, maintaining a futures contract or selling an option on a futures contract requires the Fund to deposit with a financial intermediary as security for its obligations an amount of cash or other specified assets (initial margin), which initially is typically 1% to 10% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets (variation margin) may be required to be deposited thereafter on a daily basis as the market to market value of the contract fluctuates. The purchase of options on financial futures contracts involves payment of a premium for the option without any further obligation on the part of the Fund. If the Fund exercises an option on a futures contract it will be obligated to post initial margin (and potential subsequent variation margin) for the resulting futures contract position just as it would for any position. Futures contracts and options on futures contracts are generally settled by entering into an offsetting transaction but there can be no assurance that the position can be offset prior to settlement at an advantageous price nor that delivery will occur.

Because the initial margin required to maintain a futures contract is a fraction of the face value of the contract, the value of the contract can be much higher or lower than the value of the Fund’s assets used to take the position. The Fund may therefore use futures as form of leverage and may be exposed to the associated risks. See “—Leverage Risk” below.
There currently are limited futures markets for certain currencies of emerging market countries, securities and indexes and the nature of the strategies adopted by the Investment Manager and the extent to which those strategies are used will depend on the development of those markets. To the extent the Fund engages in transactions in options and futures, the Fund will normally transact in options and futures that are traded on a recognized securities or futures exchange, including non-U.S. exchanges. Moreover, when the Fund purchases a futures contract or a call option thereon or writes a put option thereon, an amount of cash or high quality, liquid securities, including U.S. government securities, will be designated on the Fund’s records or deposited in a segregated account with the Fund’s custodian so that the amount so designated or segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract.

**Structured Products.** The Fund may invest a portion of its assets in structured investments, structured notes and other types of similarly structured products consistent with the Fund’s investment objective and policies. Generally, structured investments are interests in entities organized and operated for the purpose of restructuring the investment characteristics of underlying investment interests or securities. These investment entities may be structured as trusts or other types of pooled investment vehicles. This type of structuring generally involves the deposit with or purchase by an entity of the underlying investments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying investments or referencing an indicator related to such investments. The cash flow or rate of return on the underlying investments may be apportioned among the newly issued securities to create different investment characteristics, such as varying maturities, credit quality, payment priorities and interest rate provisions.

Structured notes are derivative securities for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors may include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. In some cases, the effect of the movements of these factors may increase or decrease through the use of multipliers or deflators. The cash flow or rate of return on a structured investment may be determined by applying a multiplier to the rate of total return on the underlying investments or referenced indicator. Application of a multiplier is comparable to the use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss. As a result, a relatively small decline in the value of the underlying investments or referenced indicator could result in a relatively large loss in the value of a structured product.

**Swaps.** The Fund may enter into swap transactions, such as interest rate swaps, cross currency swaps, total return swaps, and options on swaps, caps, floors or collars. A swap is a derivative in the form of an agreement to exchange the return generated by one instrument for the return generated by another instrument. The payment streams are often calculated by reference to a specified index and agreed upon notional amount. The term “specified index” may include currencies, interest rates, prices, total return on interest rate indices, debt indices, stock indices and commodity indices (as well as amounts derived from arithmetic operations on these indices). For example, the Fund may agree to swap the return generated by a debt index for the return generated by a second debt index. Such swaps may involve initial and final exchanges that correspond to the agreed upon national amount.

The swaps in which the Fund may engage also include rate caps, floors, collars and other combinations of options, forwards, swaps and/or futures under which one party pays a single or periodic fixed amount(s) (or premium), and the other party pays periodic amounts based on the movement of a specified index. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, accordingly, they are less liquid than swaps.
The Fund will usually enter into swaps on a net basis, *i.e.*, the two payment streams are 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’s obligations under a swap agreement will generally be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap Counterparty will be covered by the designation of cash or liquid securities in an amount equal to the Fund’s net obligations under the swap. These transactions are not subject to the Fund’s borrowing restrictions. The Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.

The Fund will engage in any swap transactions in a manner consistent with its intention to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the “Code”).

*Options on Swaps.* The Fund may engage in options on swaps for hedging purposes to manage and mitigate the credit and interest rate risks. A swap option (sometimes called a “swaption”) is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement at some designated future time on specified terms. The Fund may write (sell) and purchase put and call swap options. The use of swap options involves risks, including, among others, that the changes in the market value of securities held by the Fund and in the swap options relating to those securities may not be proportionate, which could result in an imperfect hedge leaving the Fund economically over or under exposed to such securities, there may not be a liquid market to sell a swap option, which could result in difficulty closing a position, swap options can magnify the extent of losses incurred due to changes in the market value of the securities to which they relate, and counterparty risk.

*Credit Default Swaps.* The Fund may enter into credit default swap contracts for hedging purposes or to add investment exposure to certain securities or markets. As the seller in a credit default swap contract, the Fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as an emerging market corporate issuer, on the debt obligation. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its Total Managed Assets, the Fund would be subject to investment exposure to the reference instrument in the amount of the notional amount of the swap.

The Fund may also purchase credit default swap contracts in order to hedge against the risk of default of debt securities held in its portfolio, in which case the Fund would function as the counterparty referenced in the preceding paragraph. This would involve the risk that the investment may expire worthless and would generate income only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial instability). It would also involve credit risk that the seller may fail to satisfy its payment obligations to the Fund in the event of a default.

If the Fund sells credit protection through a credit default swap, although the Fund may not be required to pay the par (or other agreed upon) value of the referenced debt instrument absent a default of the underlying debt obligation, a credit downgrade or other indication of financial distress with respect to the reference issuer may cause the value of the credit default swap to decrease, causing a loss to the Fund, and may also require the Fund to deposit additional margin with the counterparty, possibly requiring it to sell other assets at disadvantageous times or prices.

The market for credit default swaps has become more volatile recently as the creditworthiness of certain counterparties has been questioned and/or downgraded. If a counterparty’s credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase
the risk that the Fund may not receive adequate collateral. As of the date of the prospectus, credit default swaps are not currently traded on any securities exchange; however, the CFTC has issued a proposed rule which would require certain credit default swaps to be cleared through swaps clearing houses. The Fund generally may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause the Fund to incur more losses.

**Credit Linked Notes.** The Fund may invest in credit-linked notes, which are types of derivative instruments. A credit linked note is a synthetic obligation between two or more parties where the payment of principal and/or interest is based on the performance of some obligation (a reference obligation, such as an underlying emerging market bond). The Fund will typically be a purchaser of credit linked notes, in that it will pay the counterparty a sum of money in exchange for the right to payments corresponding to interest and principal payments actually made by the issuer of the reference obligation. In addition to credit risk and other risks of the reference obligations and interest rate risk, a purchaser of a credit linked note is subject to counterparty risk.

**Use of Asset Segregation and Special Accounts.** Many derivative transactions, in addition to other requirements, require that the Fund designate or segregate cash and/or liquid securities at least equal to the Fund’s daily mark-to-market obligations under the transaction. Alternatively, the Fund may “cover” its obligations through ownership of the underlying security, financial instrument or currency, or through other offsetting transactions.

In the case of certain derivatives, the Fund must deposit initial margin and possibly daily variation margin in addition to segregating cash and/or liquid securities sufficient to meet its obligations under the derivatives. To the extent that the Fund segregates assets to cover the daily marked-to-market obligation rather than the notional value, the Fund will have the ability to employ leverage to a greater extent than if the Fund segregated assets equal to the full notional value of such contracts.

Although the Investment Manager will attempt to ensure that at all times the Fund has sufficient liquid assets to cover its obligations under its derivative contracts, these obligations will often be volatile and it is possible that the Fund’s liquid assets may be insufficient to support its obligations under its derivatives positions.

Derivative transactions may be covered by other means when consistent with applicable regulatory policies, such as by entering into offsetting positions. For example, the Fund could offset a put option sold by the Fund by purchasing a put option with the same or higher strike price. Moreover, instead of segregating cash and/or liquid securities with respect to a long position in a futures or forward contract, the Fund could purchase a put option on the same futures contract or forward contract with a strike price as high or higher than the price of the contract held. Derivative transactions may also be covered through a combination of offsetting transactions and the designation of liquid assets.

**Leverage.** The Fund currently intends to utilize leverage through Borrowings in an amount that, when combined with the liquidation value of Preferred Shares issued by the Fund, if any, does not exceed 33 1/3% of the Fund’s Total Managed Assets immediately after such transactions. The Fund may also engage in other transactions that result in leverage, such as credit default swaps and certain other derivatives transactions, but are not subject to this restriction. See “Use of Leverage” for more information.

**Zero Coupon Bonds.** Certain debt securities purchased by the Fund may take the form of zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be
required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its Common Shareholders.

**Yankee Dollar Obligations, Eurobonds, Global Bonds.** Certain debt securities purchased by the Fund may take the forms of Yankee dollar obligations, eurobonds or global bonds. Yankee dollar obligations are dollar-denominated obligations issued in the U.S. capital markets by foreign issuers, such as corporations and banks. A eurobond is a bond issued in a currency other than the currency of the country or market in which it is issued. Global bonds are bonds that can be offered within multiple markets simultaneously. Unlike eurobonds, global bonds can be issued in the local currency of the country of issuance.

**Brady Bonds.** The Fund may invest in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. Investments in Brady Bonds may be viewed as speculative. Brady Bonds acquired by the Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to realize a loss of interest or principal on any of its portfolio holdings.

**Repurchase Agreements.** The Fund may engage in repurchase agreements with broker-dealers, banks and other financial institutions to earn incremental income on temporarily available cash which would otherwise be uninvested. A repurchase agreement is a short-term investment in which the purchaser (i.e., the Fund) acquires ownership of a security and the seller agrees to repurchase the obligation at a future time and set price, thereby determining the yield during the holding period. Repurchase agreements involve risks in the event of default by the other party. The Fund may enter into repurchase agreements with broker-dealers, banks and other financial institutions deemed to be creditworthy by the Investment Manager. Repurchase agreements maturing in more than seven days may be considered illiquid.

Repurchase agreements are fully collateralized by the underlying securities. The Fund pays for such securities only upon physical delivery or evidence of book entry transfer to the account of a custodian or bank acting as agent. The seller under a repurchase agreement will be required to maintain the value of the underlying securities marked-to-market daily at not less than the repurchase price. The underlying securities (normally securities of emerging market countries, the U.S. government and their agencies or instrumentalities) may have maturity dates exceeding one year.

**Reverse Repurchase Agreements.** The Fund may generate leverage by entering into 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, which are in effect collateralized borrowings by the Fund, are considered to be senior securities under the 1940 Act unless the Fund designates on its books and records an amount of liquid assets equal to the amount of the Fund’s obligations under the reverse repurchase agreements or otherwise “covers” its obligations through other offsetting transactions.

**When-Issued and Delayed Delivery Securities.** The Fund may purchase and sell securities on a “when-issued” or “delayed delivery” basis whereby the Fund buys or sells a security with payment and delivery taking place in the future. The payment obligation and the interest rate are fixed at the time the Fund enters into the commitment. No income accrues to the Fund on securities in connection with such transactions prior to the date the Fund actually takes delivery of such securities. These transactions are subject to market risk as the value or yield of a security at delivery may be more or less than the purchase price or the yield generally available on securities when delivery occurs. In addition, the Fund is subject to counterparty risk because it relies on the buyer or seller, as the case may be, to consummate the transaction, and failure by the other party to complete the transaction may result in the Fund missing the opportunity of obtaining a price or yield considered to be advantageous. An increase in the percentage of the Fund’s assets committed to the purchase of securities on a when issued or delayed delivery basis may increase the volatility of the Fund’s NAV.
Asset-Backed Securities. Asset-backed securities are interests in pools of debt securities backed by various types of loans such as credit card, auto and home equity loans. Payment of principal and interest may be guaranteed up to certain amounts and for certain time periods by a letter of credit issued by a financial institution unaffiliated with the entities issuing the securities. These securities involve prepayment risk as well as risk that the underlying debt securities will default.

Private Placements and Restricted Securities. The Fund may invest in securities which are subject to restrictions on resale because they have not been registered under the Securities Act, or which are otherwise not readily marketable. These securities are generally referred to as private placements or restricted securities. Limitations on the resale of these securities may have an adverse effect on their marketability, and may prevent the Fund from disposing of them promptly at reasonable prices. The Fund may have to bear the expense of registering the securities for resale and the risk of substantial delays in effecting the registration.

Rule 144A permits the Fund to sell certain restricted securities to qualified institutional buyers without limitation. However, investing in Rule 144A securities could have the effect of increasing the level of Fund illiquidity to the extent the Fund, at a particular point in time, may be unable to find qualified institutional buyers interested in purchasing such securities.

Short Sales. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. The Fund may use short sales for investment purposes or for hedging and risk management purposes. The Fund may also take short positions with respect to the performance of securities, indexes, interest rates, currencies and other assets or markets through the use of derivative or forward instruments. When the Fund engages in a short sale of a security, it must borrow the security sold short and deliver it to the counterparty. The Fund may have to pay a fee to borrow particular securities and would often be obligated to pay over any payments received on such borrowed securities. The Fund’s obligation to replace the borrowed security will be secured by collateral deposited with the lender, which is usually a broker-dealer, and/or with the Fund’s custodian. The Fund may not receive any payments (including interest) on its collateral. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. The Fund may engage in so-called “naked” short sales when it does not own or have the immediate right to acquire the security sold short at no additional cost, in which case the Fund’s losses theoretically could be unlimited. If the price of the security sold short increases between the time of the short sale and the time that the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and securities being hedged if the short sale is being used for hedging purposes. The Fund may engage in short selling to the extent permitted by the 1940 Act and the rules and interpretations thereunder and other federal securities laws. If the Fund engages in short selling in foreign (non-U.S.) jurisdictions, the Fund will do so only to the extent permitted by the laws and regulations of such jurisdiction. The Fund will not make a short sale if, after giving effect to such sale, the market value of all securities sold short by the Fund exceeds 25% of the value of its Total Managed Assets.

Convertible Securities. The Fund may invest in convertible securities, which are debt or equity securities, such as convertible bonds or convertible preferred stock, that may be converted at either a stated price or stated rate into underlying shares of common stock or other securities.Convertible securities have general characteristics similar to both debt securities and equity securities. Stone Harbor will generally evaluate these instruments based primarily on their debt characteristics. The market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline, although to a lesser extent than non-convertible debt obligations. 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 shares or other securities and, therefore, also will react to variations in the general market for such underlying securities.

Convertible securities are investments that provide for a stable stream of income with generally higher yields than common shares or certain other securities. There can be no assurance of current income because the issuers of the convertible securities may default on their obligations. Convertible securities, however, generally offer lower interest or dividend yields than non-convertible securities of similar credit quality because of the potential for capital appreciation. A convertible security, in addition to providing current income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common shares or other securities.

The Fund may invest in synthetic convertible securities, which are created through a combination of separate securities that possess the two principal characteristics of a traditional convertible security, i.e., an income-producing security (“income-producing component”) and the right to acquire a different security (“convertible component”). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by purchasing warrants or options to buy common shares or other securities at a certain exercise price, or options on a stock index. The values of synthetic convertible securities will respond differently to market fluctuations than a traditional convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. Synthetic convertible securities are also subject to the risks associated with derivatives. See “—Derivatives Risk.” In addition, if the value of the underlying common shares or other securities or the level of the index involved in the convertible element falls below the strike price of the warrant or option, the warrant or option may lose all value.

Money Market Instruments. Money market instruments are high quality short-term debt securities. Money market instruments in which the Fund may invest may include obligations of governments, government agencies, banks, corporations and special purpose entities including time deposits and certificates of deposit, and repurchase agreements relating to these obligations. Certain money market instruments may be denominated in foreign currencies.

Common Stock. Common stock generally represents an ownership or equity interest in an issuer, without preference over any other class of securities, including such issuer’s debt securities, preferred stock and other senior equity securities. Common stocks are entitled to the income and increase in the value of the assets and business of the issuer after all 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. They may or may not pay dividends, as some issuers reinvest all of their profits back into their businesses, while others pay out some of their profits to stockholders as dividends.

Preferred Stock. Preferred stock, like common shares or other equity securities, represents an equity ownership in an issuer. Generally, preferred stock has a priority of claim over common shares or other equity securities in dividend payments and upon liquidation of the issuer. Unlike common shares or other equity securities, preferred stock does not usually have voting rights. Preferred stock in some instances is convertible into common shares or other equity securities.

Although they are equity securities, preferred stocks have characteristics of both debt and common shares or other equity securities. Like debt, their promised income is contractually fixed. Like common shares or other equity securities, they do not have rights to precipitate bankruptcy proceedings or collection activities in the event of missed payments. Other equity characteristics are their subordinated position in an issuer’s capital structure and that 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.
Distributions on preferred stock are declared by the board of directors of the issuer and may be subject to deferral, and thus may not be automatically payable. Income payments on preferred stocks may be cumulative, causing dividends and distributions to accrue even if not declared by the board or otherwise made payable, or non-cumulative, so that skipped dividends and distributions do not continue to accrue. There is no assurance that dividends on preferred stocks in which the Fund invests will be declared or otherwise made payable. The Fund is permitted to invest in non-cumulative preferred stock, although the Investment Manager will consider, among other factors, the non-cumulative nature in making any decision to purchase or sell such securities on behalf of the Fund.

**Inflation Linked Bonds.** Inflation linked bonds are government-issued debt securities that offer an investor inflationary protection, by linking yields to the inflation rate.

**Warrants.** Warrants give holders the right, but not the obligation, to buy common shares or other equity securities or fixed income securities of an issuer at a given price, usually higher than the market price at the time of issuance, during a specified period. Warrants are usually freely transferable. The risk of investing in a warrant is that the warrant may expire prior to the market value of the underlying security exceeding the price fixed by the warrant.

In particular, the Fund may seek to gain exposure to investments through warrants, the return on which is linked to one or more securities of issuers located in emerging market countries. Purchasing warrants would entitle the Fund, upon exercise of the warrant, to receive any appreciation in the market price of its securities over approximately the market price at the time of purchase. Warrants are exercisable over specified periods.

**Unrated Debt Securities.** The Fund may purchase unrated debt securities (which are not rated by an NRSRO) if the Investment Manager determines that the securities are of comparable quality to rated securities that the Fund may purchase. Unrated debt securities may be less liquid than comparable rated securities and involve the risk that the Investment Manager may not accurately evaluate the security’s comparative credit rating. Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher-quality debt obligations. The Fund’s success in achieving its investment objective may depend more heavily on the Investment Manager’s credit analysis to the extent that the Fund invests in below investment grade quality and unrated securities.

**Collateralized Debt Obligations.** The Fund may invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. CDOs may charge management fees and administrative expenses. For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the "equity" tranche which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically has higher ratings and lower yields than the underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults and aversion to CBO or CLO securities as a class. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus are not registered under the securities laws. In addition to the normal risks associated with fixed income securities discussed elsewhere in this prospectus and in the Statement of Additional Information (e.g., interest rate risk and default risk), CDOs carry additional risks including, but not limited to:
(i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the Fund may invest in CDO securities that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Commercial Paper. Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

U.S. Government Securities. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. The U.S. Government does not guarantee the NAV of the Fund's shares. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association, are supported by the full faith and credit of the United States; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the “U.S. Treasury”); others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. U.S. Government securities may include zero coupon securities, which do not distribute interest on a current basis and tend to be subject to greater risk than interest-paying securities of similar maturities.

Zero-Coupon Bonds, Step-Ups and Payment-In-Kind Securities. Certain debt securities purchased by the Fund may take the form of zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. Like zero-coupon bonds, “step up” bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (“PIKs”) are debt obligations that pay “interest” in the form of other debt obligations, instead of in cash. Each of these instruments is normally issued and traded at a deep discount from face value. Zero-coupon bonds, step-ups and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on these instruments as it accrues, even though the Fund will not receive the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

Inflation-Indexed Bonds. Inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) are fixed income securities the principal value of which is periodically adjusted according to the rate of inflation. If the index measuring inflation falls, the principal value of inflation-indexed bonds (other than municipal inflation-indexed bonds and certain corporate inflation-indexed bonds) will be adjusted downward, and consequently the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal. With regard to certain corporate inflation-indexed bonds, the inflation adjustment is reflected in the semi-annual coupon payment. As a result, the principal value of such corporate inflation-indexed bonds does not adjust according to the rate of inflation.

The value of inflation-indexed bonds is expected to change in response to changes in real interest rates. Real interest rates are tied to the relationship between nominal interest rates and the rate of
inflation. If nominal interest rates increase at a faster rate than inflation, real interest rates may rise, leading to a decrease in value of inflation-indexed bonds. Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity. See “U.S. Federal Income Tax Matters.”

**Variable- and Floating-Rate Securities.** Variable- and floating-rate instruments are instruments that pay interest at rates that adjust whenever a specified interest rate (the “reference rate”) changes and/or that reset on predetermined dates (such as the last day of a month or calendar quarter). In addition to floating-rate loans, variable- and floating-rate instruments may include, without limitation, instruments such as catastrophe and other event-linked bonds, bank capital securities, unsecured bank loans, corporate bonds, money market instruments and certain types of mortgage-backed and other asset-backed securities. Due to their variable- or floating-rate features, these instruments will generally pay higher levels of income in a rising interest rate environment and lower levels of income as interest rates decline. For the same reason, the market value of a variable- or floating-rate instrument is generally expected to have less sensitivity to fluctuations in market interest rates than a fixed-rate instrument, although the value of a variable- or floating-rate instrument may nonetheless decline as interest rates rise and due to other factors, such as changes in credit quality or because of an imperfect correlation between the securities interest rate adjustment mechanism and the level of interest rates generally.

The Fund also may engage in credit spread trades. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, in which the value of the investment position is determined by changes in the difference between the prices or interest rates, as the case may be, of the respective securities. The Fund may also invest in inverse floating-rate debt instruments (“inverse floaters”), which are floating rate instruments whose coupon rate moves in the opposite direction from the change in the reference rate. An inverse floater may exhibit greater price volatility than a fixed-rate obligation of similar credit quality.

**Hybrid Instruments.** A hybrid instrument is a type of potentially high-risk derivative that combines a traditional stock, bond or commodity with an option or forward contract. Generally, the principal amount, amount payable upon maturity or redemption, or interest rate of a hybrid is tied (positively or negatively) to the price of some commodity, currency or securities index or another interest rate or some other economic factor (each a “benchmark”). The interest rate or (unlike most fixed income securities) the principal amount payable at maturity of a hybrid security may be increased or decreased, depending on changes in the value of the benchmark. An example of a hybrid could be a bond issued by an oil company that pays a small base level of interest with additional interest that accrues in correlation to the extent to which oil prices exceed a certain predetermined level. Such a hybrid instrument would be a combination of a bond and a call option on oil.

Hybrids can be used as an efficient means of pursuing a variety of investment goals, including currency hedging, duration management and increased total return. Hybrids may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero. Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and pays a fixed rate, variable or floating rate of interest. The purchase of hybrids also exposes the Fund to the credit risk of the issuer of the hybrids. These risks may cause significant fluctuations in the NAV of the Fund’s Common Shares if the Fund invests in hybrid instruments.

Certain hybrid instruments may provide exposure to the commodities markets. These are derivative securities with one or more commodity-linked components that have payment features similar to commodity futures contracts, commodity options or similar instruments. Commodity-linked hybrid instruments may be either equity or debt securities, leveraged or unleveraged, and are considered
hybrid instruments because they have both security and commodity-like characteristics. A portion of the value of these instruments may be derived from the value of a commodity, futures contract, index or other economic variable.

Certain issuers of structured products such as hybrid instruments may be deemed to be investment companies as defined in the 1940 Act. As a result, the Fund’s investments in these products may be subject to limits applicable to investments in investment companies and may be subject to restrictions contained in the 1940 Act.

**Depositary Receipts.** The Fund may invest in American Depositary Receipts (“ADRs”), European Depositary Receipts (“EDRs”), Global Depositary Receipts (“GDRs”) and similar securities that represent interests in a company’s securities that have been deposited with a bank or trust and that trade on an exchange or over-the-counter. For example, ADRs represent interests in a non-U.S. company but trade on a U.S. exchange or over-the-counter and are denominated in U.S. dollars. These securities represent the right to receive securities of the foreign issuer deposited with the bank or trust. ADRs, EDRs and GDRs can be sponsored by the issuing bank or trust company or the issuer of the underlying securities. Although the issuing bank or trust company may impose charges for the collection of dividends and the conversion of such securities into the underlying securities, there are generally no fees imposed on the purchase or sale of these securities, other than transaction fees ordinarily involved with trading stock. Such securities may be less liquid or may trade at a lower price than the underlying securities of the issuer. Additionally, receipt of corporate information about the underlying issuer and proxy disclosure may be untimely.

**ETFs and Other Investment Companies.** The Fund may invest in securities of other open- or closed-end investment companies, including ETFs and investment companies organized under non-U.S. law, to the extent that such investments are consistent with the Fund’s investment objective, strategies and policies and permissible under the 1940 Act. The Fund may invest in other investment companies to gain broad market, sector or geographic exposure, including during periods when it has large amounts of uninvested cash or when Stone Harbor believes share prices of other investment companies offer attractive values. The Fund expects that its exposure to Emerging Market Equity will consist primarily of investments in single country and regional ETFs. The Fund may invest in investment companies that are advised by the Investment Manager or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. 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 management fees and other expenses with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. The securities of other investment companies may be leveraged, in which case the NAV and/or market value of the investment company’s shares will be more volatile than unleveraged investments. See “—Leverage Risk.”

The Fund investments in other investment companies may be limited by provisions of the 1940 Act that restrict the aggregate amount the Fund (and in some cases, its affiliated persons) can invest in any one investment company (an “Underlying Fund”) to 3% of such Underlying Fund’s total outstanding stock. As a result, the Fund may hold a smaller position in an Underlying Fund than if it were not subject to this restriction. In addition, in order to comply with provisions of the 1940 Act, on any matter upon which Underlying Fund stockholders are solicited to vote the Fund may be required to vote Underlying Fund shares in the same general proportion as shares held by other stockholders of the Underlying Fund, which would limit the Fund’s ability to affect the outcome of the vote. Although the 1940 Act would generally limit the Fund’s investments in other registered investment companies to no more than 10% of the Fund’s assets (with no more than 5% in any one Underlying Fund), the Fund may invest in certain Underlying Funds (including ETFs) beyond the statutory limitations (subject to the Fund’s 80% Policy and its 20% policy regarding Emerging Markets Equity) to the extent permitted by other provisions of the 1940 Act or SEC staff interpretations thereunder. In addition, the Fund may invest beyond the statutory limits in certain ETFs that have been granted exemptive relief by the SEC,
provided that the Fund complies with the terms and conditions of an agreement with the ETF and the conditions of the relief.

**Portfolio Turnover**

Although the Fund cannot accurately predict its portfolio turnover rate, it may exceed 150% in any given year. A high turnover rate (100% or more) generally results in greater expenses to the Fund and may result in realization of net short-term capital gains.

**Lending of Portfolio Securities**

The Fund may lend its portfolio securities to brokers, dealers, domestic and foreign banks and other institutional investors. By lending its portfolio securities, the Fund will attempt to earn incremental income on portfolio securities through the receipt of interest on the cash collateral with respect to the loan or fees received from the borrower in connection with the loan. Any gain or loss in the market price of the securities loaned that might occur during the term of the loan would be for the account of the Fund. The Fund may employ an agent to implement the securities lending program and the agent receives a fee from the Fund for its services. The Fund will not lend more than 33\(\frac{1}{3}\)% of the value of its Total Managed Assets. The Fund may lend its portfolio securities consistent with the Fund’s investment objective so long as the terms, structure and the aggregate amount of such loans are not inconsistent with the 1940 Act or the rules and regulations or interpretations of the SEC thereunder, which currently require that (i) the borrower pledge and maintain with the Fund collateral consisting of liquid, unencumbered assets having a value at all times not less than 100% of the value of the securities loaned; (ii) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the borrower “marks to market” on a daily basis); (iii) the loan be made subject to termination by the Fund at any time; and (iv) the Fund receive a reasonable return on the loan (which may include the Fund investing any cash collateral in interest bearing short-term investments), any distributions on the loaned securities and any increase in their market value. In addition, voting rights may pass with the loaned securities, but the Fund will retain the right to call any security in anticipation of a vote that the Investment Manager deems material to the security on loan.

**USE OF LEVERAGE**

The Fund currently intends to utilize leverage through Borrowings in an amount that, when combined with the liquidation value of Preferred Shares issued by the Fund, if any, does not exceed 33\(\frac{1}{3}\)% of the Fund’s Total Managed Assets immediately after such transactions. It is possible that following such Borrowings and/or issuances of Preferred Shares, the assets of the Fund will decline due to market conditions such that this 33\(\frac{1}{3}\)% limit will be exceeded. In that case, the leverage risk to Common Shareholders will increase. See “—Leverage Risk.” The Fund may also enter into other transactions that are not subject to this 33\(\frac{1}{3}\)% limit but that may give rise to a form of effective leverage including, among others, credit default swaps and certain other derivatives transactions, loans of portfolio securities and when-issued, delayed delivery or forward commitment transactions. At all times, however, the Fund’s use of these transactions will be limited by the Fund’s policies relating to asset segregation and “coverage” of these types of transactions.

There is no assurance that the Fund will use leverage. If used, there is no assurance that the Fund’s leveraging strategies will be successful. See “—Leverage Risk.” The amount and composition of leverage used may vary depending upon a number of factors, including economic and market conditions in the relevant emerging market countries, the availability of relatively attractive investment opportunities not requiring leverage and the costs and risks that the Fund would incur as a result of leverage.

Leveraging is a speculative technique and there are special risks and costs involved. The Fund cannot assure you that any use of Borrowings, issuance of Preferred shares or the use of other forms of effective leverage (such as the use of derivatives strategies) will result in a higher investment return on
your Common Shares, and it may result in losses. When leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See “—Leverage Risk.” In addition, fees and expenses of Borrowings, any future issuance of Preferred Shares, and other forms of leverage borne by the Fund are borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will reduce the investment return of the Common Shares. Unless the income and appreciation, if any, on assets acquired with leverage proceeds exceed the associated costs of such leverage (and other Fund expenses), the use of leverage will diminish the investment performance of the Fund’s Common Shares compared with what it would have been without leverage.

During periods in which the Fund is using leverage, the fees paid to the Investment Manager for investment advisory services and to the Administrator for administrative 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 Total Managed Assets, which may create an incentive for the Investment Manager to leverage the Fund or to leverage using strategies that increase the Investment Manager’s fee.

Borrowings and/or Preferred Shares may be subject to dividend or interest payments, which may exceed the income and appreciation on the assets purchased with the proceeds of such leverage. The issuance of Preferred Shares or entering into a borrowing program involves expenses and other costs and may limit the Fund’s freedom to pay dividends on Common Shares or to engage in other activities. Borrowings, obligations to derivatives counterparties and Preferred Shares will generally have priority over the Fund’s Common Shares. The use of leverage creates an opportunity for greater return per Common Share, but at the same time such leveraging is a speculative technique in that it will increase the Fund’s exposure to capital risk. Unless the income and appreciation, if any, on assets acquired with leverage proceeds exceed the associated costs of such Preferred Shares or Borrowings (and other Fund expenses), the use of leverage will diminish the investment performance of the Fund’s Common Shares compared with what it would have been without leverage. In addition, if an event of default were to occur with respect to a reference obligation on which the Fund had sold a credit default swap, the value of the reference obligation received by the Fund (if any), coupled with the periodic payments previously received from the counterparty, may be less than the full notional value the Fund pays to the buyer, in which case the investment performance of the Fund’s Common Shares will underperform as compared to what the performance would have been without the use of credit default swaps. See “—Leverage Risk” and “—Credit Default Swaps Risk.”

The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies that may issue ratings for any Preferred Shares issued by the Fund and by borrowing program covenants. These guidelines and covenants may impose asset coverage or Fund composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will significantly impede Stone Harbor from managing the Fund’s portfolio in accordance with the Fund’s investment objective and policies.

Under the 1940 Act, the Fund generally is not permitted to have outstanding senior securities representing indebtedness (including through the use of reverse repurchase agreements, futures contracts, loans of portfolio securities, swap contracts and other derivatives, as well as when-issued, delayed delivery or forward commitment transactions, but only to the extent that these instruments constitute senior securities) unless immediately after the financing giving rise to the indebtedness, the value of the Fund’s total assets less liabilities (other than such indebtedness) is at least 300% of the principal amount of such indebtedness (i.e., the principal amount may not exceed 33 1/3% of the Fund’s total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on Common Shares unless, at the time of such declaration, the value of the Fund’s total assets, less liabilities other than indebtedness, is at least 300% of the principal amount of indebtedness (excluding certain privately offered and temporary indebtedness). If the Fund enters into these transactions, it intends, to the extent possible, to prepay all or a portion of the principal amount due 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 holders of any senior securities of the Fund
to elect a majority of the trustees of the Fund. For the purposes of the restrictions imposed by the 1940
Act, derivative instruments and reverse repurchase agreements used by the Fund will not constitute
senior securities (and will not be considered indebtedness for purposes of the 300% asset coverage limit
described above) to the extent that the Fund segregates or designates liquid assets at least equal in
amount to its obligations under the instruments, or enters into offsetting transactions or owns positions
covering its obligations.

Also under the 1940 Act, the Fund is not permitted to issue Preferred Shares unless immediately
after such issuance the market value of the total assets of the Fund’s portfolio 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 average daily 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
Preferred Shares of the Fund have an asset coverage of at least 200% after deducting the amount of
such dividend or other distribution, as the case may be. Although the Fund does not currently intend to
issue Preferred Shares, if Preferred Shares are issued, the Fund intends, to the extent possible, to
purchase or redeem Preferred Shares, from time to time, to maintain coverage of any Preferred Shares
of at least 300%. If the Fund issues Preferred Shares, the holders of the Preferred Shares will elect two
of the trustees of the Fund. In the event the Fund failed to pay dividends on its Preferred Shares for
two years, holders of Preferred Shares would be entitled to elect a majority of the trustees until the
dividends are paid.

The Fund’s willingness to incur leverage for investment purposes, and the amount of leverage the
Fund may incur, will depend on many factors, the most important of which are market conditions and
the cost of such leverage.

Assuming the utilization of leverage through Borrowings in the amount of 33 1/3% of the Fund’s
Total Managed Assets, and an annual interest rate on Borrowings of 0.74% payable on such leverage,
the Fund must experience an annual return of 0.25% in order to cover interest payments on the
Borrowings. The Fund’s actual cost of leverage will be based on market rates at the time the Fund
undertakes a leveraging strategy, and such actual cost of leverage may be higher or lower than that
assumed in the previous example.

The following table is designed to illustrate the effect on the return to a Common Shareholder of
leverage through Borrowings in the amount of approximately 33 1/3% of the Fund’s Total Managed
Assets, assuming hypothetical annual returns of the Fund’s portfolio of minus 10% to plus 10%. As the
table shows, leverage generally increases the return to Common Shareholders when portfolio return is
positive and greater than the cost of leverage and decreases the return when the portfolio return is
negative or less than the cost of leverage. The figures appearing in the table are hypothetical and
actual returns may be greater or less than those appearing in the table.

<table>
<thead>
<tr>
<th>Assumed Return on Portfolio (net of expenses)</th>
<th>-10.00%</th>
<th>-5.00%</th>
<th>0.00%</th>
<th>5.00%</th>
<th>10.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corresponding Return to Common shareholder</td>
<td>-15.37%</td>
<td>-7.87%</td>
<td>-0.37%</td>
<td>7.13%</td>
<td>14.63%</td>
</tr>
</tbody>
</table>

In addition to Borrowings and issuing Preferred Shares, the Fund may use a variety of additional
strategies that would be viewed as potentially adding effective leverage to the portfolio, subject to
rating agency limitations. These include the use of credit default swaps and certain other derivative
instruments, loans of portfolio securities and when-issued, delayed delivery or forward commitment
transactions. By adding additional leverage, these strategies have the potential to increase returns to
Common Shareholders, but also involve additional risks. Additional leverage will increase the volatility
of the Fund’s investment portfolio and could result in larger losses than if the strategies were not used.
However, to the extent that the Fund enters into offsetting transactions or owns positions covering its
obligations, the leveraging effect is expected to be minimized or eliminated.

Unless and until the Fund makes Borrowings, issues Preferred Shares or enters into other
transactions that generate leverage, the Common Shares will not be leveraged, and the risks and special
considerations related to leverage described in this prospectus will not apply. It will not be possible to seek to achieve any potential returns from such leveraging of the Common Shares until the proceeds resulting from the use of leverage have been invested in accordance with the Fund’s investment objective and policies. There is no assurance that any leveraging strategy will be successful during any period in which such strategy is employed.

Credit Facility

In the event the Fund leverages through Borrowings, the Fund may enter into definitive agreements with respect to a credit facility. The Fund may negotiate with commercial banks to arrange a credit facility pursuant to which the Fund would expect to be entitled to borrow an amount equal to approximately 33⅓% of the Fund’s Total Managed Assets (including the amount borrowed), as of the closing of the offer and sale of the Common Shares offered hereby. Any such Borrowings would constitute financial leverage. Such a facility is not expected to be convertible into any other securities of the Fund. Outstanding amounts are expected to be prepayable by the Fund prior to final maturity without significant penalty and there are not expected to be any sinking fund or mandatory retirement provisions. Outstanding amounts would be payable at maturity or such earlier times as required by the agreement. The Fund may be required to prepay outstanding amounts under the facility or incur a penalty rate of interest in the event of the occurrence of certain events of default. The Fund would be expected to indemnify the lenders under the facility against liabilities they may incur in connection with the facility. The Fund may be required to pay commitment fees under the terms of any such facility.

In addition, the Fund expects that such a credit facility would contain covenants that, among other things, likely will limit the Fund’s ability to pay dividends in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and may require asset coverage ratios in addition to those required by the 1940 Act. The Fund may be required to pledge its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. The Fund expects that any credit facility would have customary covenant, negative covenant and default provisions. There can be no assurance that the Fund will enter into an agreement for a credit facility on terms and conditions representative of the foregoing, or that additional material terms will not apply. In addition, if entered into, any such credit facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of Preferred Shares or debt securities.

**PRINCIPAL RISK FACTORS**

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or even all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in the Fund’s Common Shares. The section below does not describe all risks associated with an investment in the Fund. Additional risks and uncertainties may also adversely affect and impair the Fund.

**Non-Diversified Status**

As a non-diversified investment company under the 1940 Act, the Fund is not limited in the proportion of its assets that may be invested in securities of a single issuer, and accordingly, the Fund may invest a greater portion of its assets in a more limited number of issuers than a diversified fund. Because the Fund, 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 may, under certain circumstances, present greater risk to an investor than an investment in a diversified investment company because changes in the financial condition or market assessment of a single issuer may cause greater fluctuations in the Fund’s NAV. Notwithstanding its status as a non-diversified investment company, the Fund intends to conduct its operations so as to meet the diversification requirements for qualification as a “regulated investment company”, which generally will relieve the Fund of any liability
for U.S. federal income tax to the extent its earnings are timely distributed to shareholders. See “U.S. Federal Income Tax Matters.”

No Operating History

The Fund is a newly organized, non-diversified, closed-end investment company with no history of operations and is subject to all of the business risks and uncertainties associated with any new business. An investment in the Fund’s Common Shares is subject to investment risk, including the possible loss of the entire amount that you invest. See also “—Investment and Market Risk.”

Management Risk

The Fund’s ability to identify and invest in attractive opportunities is dependent upon the Investment Manager. If one or more key individuals leave the Investment Manager, it may not be able to hire qualified replacements, or may require an extended time to do so, which may adversely affect the Fund’s ability to achieve its investment objective. Thomas Brock, the Investment Manager’s Chief Executive Officer, will retire on December 31, 2012. Mr. Brock does not serve as a portfolio manager of the Fund. Upon his retirement, his duties with the Investment Manager will be assumed by an executive management committee. Although the Investment Manager is the adviser to several registered open-end funds, the Fund is one of the first closed-end funds to be managed by the Investment Manager. In addition the Investment Manager does not have an established performance record investing in equity securities. As with any managed fund, the Investment Manager may not be successful in selecting the best-performing securities, leverage strategy or investment techniques, and the Fund’s performance may lag behind that of similar funds as a result.

Asset Allocation Risk

The Fund’s investment performance depends, in part, upon how its assets are allocated and reallocated by the Investment Manager. The investment performance of the Fund may be adversely affected if the Investment Manager allocates a significant portion of the Fund’s assets to a country, industry or sector, asset class or subset of an asset class that performs poorly, including relative to other asset classes or subsets of asset classes. In addition, the Investment Manager’s assessment of the relative value of a particular country, industry or sector, asset class or subset of an asset class may prove incorrect, resulting in the Fund’s experiencing losses or poor performance.

Investment and Market Risk

An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities and other financial assets owned by the Fund. Securities held by the Fund are generally traded in over-the-counter markets. The value of these securities and financial assets, like other market investments, may move up or down, sometimes rapidly and unpredictably. The Common Shares at any point in time may be worth less than their original cost, even after taking into account any reinvestment of dividends and distributions.

Further, the value of securities held by the Fund may decline in value due to factors affecting securities markets generally or particular industries. For example, governmental and non-governmental issuers (notably in Europe) have defaulted on, or been forced to restructure, their debts, and many other issuers have faced difficulties obtaining credit. These market conditions may continue, worsen or spread, including to or within the U.S., Europe and emerging markets. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets and asset valuations around the world.
Investments in Foreign Securities

Investing in foreign securities or issuers with significant exposure to foreign markets involves certain special considerations that are not typically associated with investments in the securities of U.S. issuers. Foreign issuers are not generally subject to uniform accounting, auditing and financial reporting standards and may have policies that are not comparable to those of domestic issuers. As a result, there may be less information available about foreign issuers than about domestic issuers. Securities of some foreign issuers may be less liquid and more volatile than securities of comparable domestic issuers. There is generally less government supervision and regulation of securities markets, brokers and issuers in non-U.S. countries than in the United States. In addition, with respect to certain foreign countries, there is a possibility of expropriation or confiscatory taxation, political, social and/or financial instability, or adverse diplomatic developments which could adversely affect the value of investments in those countries. The costs of investing in foreign countries frequently are higher than the costs of investing in the United States. Although the Investment Manager endeavors to achieve the most favorable execution costs in portfolio transactions, trading costs in non-U.S. securities markets are generally higher than trading costs in the United States.

Investments in securities of foreign issuers often will be denominated in foreign currencies. Accordingly, the value of the Fund's assets, as measured in U.S. dollars, may be affected favorably or unfavorably by changes in currency exchange rates and in exchange control regulations. The Fund may incur costs in connection with conversions between various currencies. See "—Foreign Currency Risk."

Certain foreign governments levy withholding or other taxes on dividend and interest income or on the sale or other disposition of foreign securities. Although in some countries a portion of these taxes are recoverable, the non-recovered portion of foreign withholding taxes will reduce the income received from investments in such countries.

From time to time, the Fund may invest in certain sovereign debt obligations that are issued by, or in certain companies that operate in or have dealings with, countries that thereafter become subject to sanctions or embargoes imposed by the U.S. government and the United Nations and/or that the U.S. government identifies as state sponsors of terrorism. Investments in such countries or companies may be adversely affected because, for example, the credit rating of the sovereign debt security may be lowered due to the country's instability or unreliability or the company may suffer damage to its reputation if it is identified as a company which operates in, or has dealings with, such countries. As an investor in such companies, the Fund will be indirectly subject to those risks and may be required to dispose of such investments at a time when it may not be advantageous to do so.

Investments in Emerging Market Countries

Investing in the securities of issuers located in emerging market countries involves special considerations not typically associated with investing in the securities of other foreign or U.S. issuers, including heightened risks of expropriation and/or nationalization, armed conflict, confiscatory taxation, restrictions on transfers of assets, lack of uniform accounting and auditing standards, less publicly available financial and other information and potential difficulties in enforcing contractual obligations.

The economies of individual emerging market countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position. Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest in the country.

Accordingly, government actions could have a significant effect on economic conditions in an emerging market country and on market conditions, prices and yields of securities in the Fund's portfolio. Moreover, the economies of developing countries generally are heavily dependent upon
international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. With respect to any emerging market country, there is the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, overburdened and obsolete or unseasoned financial systems, environmental problems, less developed legal systems, economic or social instability or diplomatic developments (including war) which could affect adversely the economies of such countries or the value of the Fund’s investments in those countries. It also may be difficult to obtain and to enforce a judgment in a court outside of the United States.

In addition, the interrelatedness of the economies in emerging market countries has deepened over the years, with the effect that economic difficulties in one country may spread throughout a region or even among all or most emerging market countries, an effect that may vitiate any attempt by the Fund to reduce risk through geographic diversification of its portfolio investments.

Investments in emerging market countries may entail purchasing securities issued by or on behalf of entities that are insolvent, bankrupt, in default or otherwise engaged in an attempt to reorganize or reschedule their obligations or in entities that have little or no proven credit rating or credit history. In any such case, the issuer’s poor or deteriorating financial condition may increase the likelihood that the Fund will experience losses or diminution in available gains due to bankruptcy, insolvency or fraud.

Investments in emerging market countries may also be exposed to an extra degree of custodial and/or market risk, especially where the securities purchased are not traded on an official exchange or where ownership records regarding the securities are maintained by an unregulated entity (or even the issuer itself).

**Investment and Repatriation Restrictions**

Foreign investment in emerging market country issuers, including sovereign debt obligations, is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain emerging country debt securities and increase the costs and expenses of the Fund. Certain emerging market countries require governmental approval prior to investments by foreign persons, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors. Certain emerging market countries may also restrict investment opportunities in issuers in industries deemed important to national interests.

Emerging market countries may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if an emerging market country’s balance of payments deteriorates, the country could impose temporary restrictions on foreign capital remittances. The Fund could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Fund of any restrictions on investments. Investing in local markets in emerging market countries may require the Fund to adopt special procedures, seek local government approvals or take other actions, each of which may involve additional costs to the Fund.

In some cases the restrictions and limitations discussed above may prompt the Fund to gain economic exposure to these securities through the use of derivatives, subjecting the Fund to the costs and risks of derivative investments.
Foreign Currency Risk

The Fund will invest in Emerging Markets Securities, which may include or be denominated in foreign currencies. The Fund is subject to the risk that those currencies will decline in value relative to the value of the U.S. dollar. The values of the currencies of the emerging market countries in which the Fund may invest may be subject to a high degree of fluctuation due to changes in interest rates, the effects of the monetary policies of the United States, foreign governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. Therefore, the Fund’s exposure to foreign currencies may result in losses to the Fund.

The Fund will compute, and expects to distribute, its income in U.S. dollars, and the computation of income is made on the date that the income is earned by the Fund at the foreign exchange rate in effect on that date. If the value of the foreign currencies in which the Fund receives its income falls relative to the U.S. dollar between the earning of the income and the time at which the Fund converts the foreign currencies to U.S. dollars, the Fund will realize foreign currency loss for U.S. federal income tax purposes. See “U.S. Federal Income Tax Matters.” The Fund may be required to liquidate securities in order to make distributions if the Fund has insufficient cash in U.S. dollars to meet distribution requirements. See “Distributions” and “Dividend Reinvestment Plan.” The liquidation of investments, if required, may have an adverse effect on the Fund’s performance.

Since the Fund may invest in securities denominated in foreign currencies, changes in foreign currency exchange rates will affect the value of securities in the Fund’s portfolio and the unrealized appreciation or depreciation of investments. In addition to changes in the value of the Fund’s portfolio investments resulting from currency fluctuations, the Fund may incur costs in connection with conversions between various currencies. Foreign exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund will conduct its foreign currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market or in the derivatives markets, including through entering into forward, futures or options contracts to purchase or sell foreign currencies.

Currency exchange rates may be negatively affected by rates of inflation, interest rate levels, balance of payments and governmental surpluses or deficits in the countries in which the Fund invests. The currencies of countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the Fund. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain countries. Governments that issue obligations may engage in certain techniques to control the value of their local currencies. Such techniques include central bank intervention, imposition of regulatory controls or the imposition of taxes that may affect the exchange rates of the local currencies in which the debt securities are denominated. Countries may also issue a new currency to replace an existing currency or may devalue their currencies. The liquidity and market values of the Fund’s investments may be affected by the actions of the governments of the countries in which the Fund invests. The Fund may be negatively affected by developments associated with the euro. See “—Redenomination Risk” below.

The Fund may, from time to time, seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in currency hedging transactions. Such transactions may include entering into forward currency exchange contracts, currency futures contracts and options on such futures contracts, the use of other derivatives, as well as purchasing put or call options on currencies, in U.S. or foreign markets. Currency hedging involves special risks, including possible default by the other party to the transaction, illiquidity and, to the extent the Investment Manager’s view as to certain market movements is incorrect, the risk that the use of hedging could result in losses.
greater than if they had not been used. In addition, in certain countries in which the Fund may invest, currency hedging opportunities may not be available.

**Sovereign Debt Obligations Risk**

Investments in countries’ government debt obligations involve special risks. Certain 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. The issuer or governmental authority that controls the repayment of a country’s debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A debtor’s willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation and, in the case of a government debtor, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the government debtor’s policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. Government debtors may default on their debt and may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a debtor’s implementation of economic reforms and/or economic performance and the timely service of such debtor’s obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties’ commitments to lend funds to the government debtor, which may further impair such debtor’s ability or willingness to service its debts on a timely basis. Holders of government debt, including the Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to government debtors.

As a result of the foregoing, a government obligor may default on its obligations. If such an event occurs, the Fund may have limited legal recourse against the issuer and/or guarantor. Remedies must, in some cases, be pursued in the courts of the defaulting party itself, and the ability of the holder of foreign government debt securities to obtain recourse may be subject to the political climate in the relevant country. In addition, no assurance can be given that the holders of more senior fixed income securities, such as commercial bank debt, will not contest payments to the holders of other foreign government debt securities in the event of default under their commercial bank loan agreements.

Government obligors in emerging market countries are among the world’s largest debtors to commercial banks, other governments, international financial organizations and other financial institutions. The issuers of the government debt securities in which the Fund may invest have in the past experienced substantial difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness. Restructuring arrangements have included, among other things, reducing and rescheduling interest and principal payments by negotiating new or amended credit agreements, and obtaining new credit to finance interest payments. Holders of certain foreign government debt securities may be requested to participate in the restructuring of such obligations and to extend further loans to their issuers. There can be no assurance that the foreign government debt securities in which the Fund may invest will not be subject to similar restructuring arrangements or to requests for new credit which may adversely affect the Fund’s holdings. Furthermore, certain participants in the secondary market for such debt may be directly involved in negotiating the terms of these arrangements and may therefore have access to information not available to other market participants.

Investments in emerging market countries’ government debt securities involve currency risk. See “—Foreign Currency Risk.”

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Corporate Debt Risks

Like all debt securities, corporate debt securities generally represent an issuer’s obligation to repay to the investor (or lender) the amount borrowed plus interest over a specified time period. A typical corporate bond specifies a fixed date when the amount borrowed (principal) is due in full, known as the maturity date, and specifies dates when periodic interest (coupon) payments will be made over the life of the security.

Corporate debt securities come in many varieties and may differ in the way that interest is calculated, the amount and frequency of payments, the type of collateral, if any, and the presence of special features (e.g., conversion rights). The Fund’s investments in corporate debt securities may include, but are not limited to, senior, junior, secured and unsecured bonds, convertible securities, notes and other debt securities, and may be fixed rate, floating rate, zero coupon and inflation linked, among other things.

Prices of corporate debt securities fluctuate and, in particular, are subject to several key risks including, but not limited to, interest rate risk, credit risk, prepayment risk and spread risk. The market value of a corporate bond may be affected by the credit rating of the issuer, the issuer’s performance, perceptions of the market place, management performance, financial leverage and reduced demand for the issuer’s goods and services. There is a risk that the issuers of the corporate debt securities in which the Fund may invest may not be able to meet their obligations on interest or principal payments at the time called for by such securities.

Interest Rate Risk

Interest rate risk is the risk that investments, will decline in value because of changes in market interest rates. When interest rates rise the market value of fixed income securities generally will fall, and when interest rates fall the market value of such securities generally rise. The Fund’s investment in such securities means that the NAV and market price of the Common Shares may decline if market interest rates rise. This risk may be particularly acute because market interest rates are currently at historically low levels. During periods of declining interest rates, an issuer of fixed income securities may exercise its option to redeem or prepay securities prior to maturity, which could result in the Fund’s having to reinvest in lower yielding fixed income securities or other types of securities. This is known as call or prepayment risk. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected payments. This may lock in a below market yield, increase the security’s duration, and reduce the value of the security. This is known as extension risk. Investments in debt securities with long-term maturities may experience significant price declines if long-term interest rates increase. This is known as maturity risk. The value of the Fund’s investments in common shares or other equity securities may also be influenced by changes in interest rates.

Investments in variable rate debt instruments, although generally less sensitive to interest rate changes than longer duration fixed rate instruments, may nevertheless decline in value in response to rising interest rates if, for example, the rates at which they pay interest do not rise as much, or as quickly, as market interest rates in general. Conversely, variable rate instruments will not generally increase in value if interest rates decline. Synthetic variable rate debt instruments include the additional risk that the derivatives transactions used to convert a fixed interest rate into a variable interest rate may not work as effectively as intended, such that the Fund is worse off than if it had invested directly in variable rate debt instruments. Inverse variable rate debt securities may also exhibit greater price volatility than a fixed-rate debt obligation with similar credit quality. To the extent the Fund holds variable rate instruments, a decrease (or, in the case of inverse variable rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the net asset value of the Common Shares.
Credit Risk

Credit risk is the risk that an issuer of, for example, a fixed income security or preferred stock, or the counterparty to a derivatives contract, will be unable to make interest, principal, dividend, or other payments when due. In general, lower rated securities carry a greater degree of credit risk. If rating agencies lower their ratings of securities in the Fund’s portfolio, the value of those obligations could decline. In addition, the underlying revenue source for a fixed income security, a preferred stock or a derivatives contract may be insufficient to pay dividends, interest, principal or other required payments in a timely manner. Because a significant primary source of income for the Fund is the dividend, interest, principal and other payments on the fixed income securities, preferred stocks and derivatives in which it invests, any default by an issuer of such an instrument could have a negative effect on the Fund’s ability to pay dividends on Common Shares and/or cause a decline in the value of Fund assets. Even if the issuer does not actually default, adverse changes in the issuer’s financial condition may negatively affect its credit rating or presumed creditworthiness. These developments would adversely affect the market value of the issuer’s obligations or the value of credit derivatives if the Fund has sold credit protection.

Non-Investment Grade Securities Risk

The Fund’s investments in fixed-income securities and preferred stocks of below investment grade quality (commonly referred to as “high yield” or “junk bonds”), if any, are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, such below investment grade securities entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of below investment grade quality securities are more likely to default on their payments of interest and principal owed to the Fund, and such defaults will reduce the Fund’s NAV and income distributions. The prices of these lower quality securities are more sensitive to negative developments than higher rated securities. Adverse business conditions, such as a decline in the issuer’s revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, such a security may lose significant value before a default occurs as the market adjusts to expected higher non-payment rates. The Fund may invest without limit in securities rated below investment grade. See “—Credit Risk.”

Equity Securities and Related Market Risk

The market price of common stocks and other equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting equity securities markets generally, particular industries represented in those markets, or the issuer itself. See “—Issuer Risk.” The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They also may decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than bonds and other debt securities.

Issuer Risk

The value of securities may decline for a number of reasons that directly relate to the issuer, such as its financial strength, management performance, financial leverage and reduced demand for the issuer’s goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets.
Preferred Securities Risk

Investments in preferred securities are subject to many of the risks associated with both fixed income securities and common shares or other equity securities. Preferred securities may also contain provisions that allow an issuer, under certain conditions, to skip or defer dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred stock in some instances is convertible into common shares or other securities. See “—Convertible Securities Risk.”

Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable or favorable rates of return.

Preferred securities typically do not provide any voting rights, except in cases in which dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are generally subordinated to bonds and other debt instruments in a company’s capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities.

ETFs and Other Investment Companies Risk

As an investor in an ETF or other investment company, the Fund will be subject to the risks of the underlying securities in which the other investment company invests. In addition, as a shareholder in an ETF or other investment company, the Fund will bear its ratable share of that investment company’s expenses, and would remain subject to payment of the Fund’s investment management fees with respect to the assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, these other investment companies may use leverage, in which case an investment would subject the Fund to additional risks associated with leverage. See “—Leverage Risk.” The Fund may invest in other investment companies for which the Investment Manager or an affiliate serves as investment manager or with which the Investment Manager is otherwise affiliated. The relationship between the Investment Manager and any such other investment company could create a conflict of interest between the Investment Manager and the Fund.

In addition to the risks related to investing in investment companies generally, investments in ETFs involve the risk that the ETF’s performance may not track the performance of the index or markets the ETF is designed to track. Unlike the index, an ETF incurs administrative expenses and transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF’s performance to deviate from the index (which remains “fully invested” at all times). Performance of an ETF and the index it is designed to track also may diverge because the composition of the index and the securities held by the ETF may occasionally differ. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed above. See “—Derivatives Risk.”

Smaller Company Risk

The Fund may invest in small or medium capitalization issuers. The general risks associated with debt instruments or equity securities are particularly pronounced for securities issued by companies with small market capitalizations. Small capitalization companies involve certain special risks. They are more likely than larger companies to have limited product lines, markets or financial resources, or to depend on a small, inexperienced management group. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities and their values may fluctuate more sharply than other securities. They also may have limited liquidity. These securities may therefore be
more vulnerable to adverse developments than securities of larger companies, and the Fund may have difficulty purchasing or selling securities positions in smaller companies at prevailing market prices. Also, there may be less publicly available information about smaller companies or less market interest in their securities as compared to larger companies. Companies with medium-sized market capitalizations may have risks similar to those of smaller companies.

Derivatives Risk

Generally, a derivative is a financial contract the value of which depends upon, or is derived from, the value of an underlying asset, reference rate, or index, and may relate to individual debt or equity instruments, interest rates, currencies or currency exchange rates, commodities, related indexes, and other assets. The Fund may use derivatives to a significant extent for hedging, investment, interest rate or duration management or leverage purposes. Derivative transactions (such as swaps, options and futures contracts and options thereon) may subject the Fund to increased risk of principal loss due to imperfect correlation between the values of the derivatives and the underlying securities or unexpected price or interest rate movements. Some derivatives may be subject to central clearing, while others may not. If a derivative is centrally cleared, a central clearing entity stands between the two parties to the trade as counterparty to each. The Fund will be subject to credit risk with respect to the counterparties to the derivatives contracts (whether a clearing corporation in the case of a cleared derivative instrument or another third party in the case of an uncleared derivative instrument) purchased and sold by the Fund, in addition to the risks associated with direct investments in the underlying reference securities, currencies or other instruments. 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 a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy or other analogous reorganization proceeding. In addition, in the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. To the extent the Fund’s claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances see “Counterparty Risk.” The Fund’s use of derivatives can affect the amount, timing and character of distributions to shareholders; the extent to which the Fund invests in derivatives may be limited by tax considerations (see discussion in “U.S. Federal Income Tax Matters”). The use of derivatives involves costs which are ultimately borne by the Fund and reduce returns. Derivatives involve exposure that may exceed the original cost, and a small use of derivatives could result in a potentially unlimited loss to the Fund under certain circumstances.

The use of certain derivatives may expose the Fund to leverage risk. See “—Leverage Risk.”

It is possible that government regulation of various types of derivative instruments, including interest rate swaps, interest rate options, credit linked notes, foreign currency forward contracts, credit default swaps and total return swaps on individual securities and groups or indices of securities may limit or prevent the Fund from using such instruments as part of its investment strategy, which could negatively affect the Fund’s performance. For example, the U.S. Government recently enacted legislation that provides for new regulation of certain portions of the derivatives market, including clearing, margin, reporting, recordkeeping, and registration requirements. Although the CFTC has released final rules relating to reporting, recordkeeping and registration requirements, many of the provisions contained in the Dodd-Frank Act are subject to further final rule making and thus its ultimate impact remains unclear. New regulations could, among other things, restrict the Fund’s ability to engage in derivatives transactions (for example, by making certain types of derivatives transactions no longer available to the Fund) and/or increase the costs of such derivatives transactions (for example, by increasing margin or capital requirements), and the Fund may be unable to execute its investment strategy as a result. It is unclear how the regulatory changes will affect counterparty risk.
Leverage Risk

Although the Fund presently intends to utilize leverage, there can be no assurance that the Fund will do so, or that, if utilized, it will be successful during any period in which leverage is employed. The use of leverage by the Fund would result in more risk to the Fund’s shareholders than if leverage had not been used and can magnify the effect of any losses. If the income and gains earned on securities to which the Fund has exposure through the use of leverage are greater than the costs of Borrowings, the costs of derivatives transactions used to generate leverage and the dividend payable on any outstanding Preferred Shares, the Fund’s returns will be greater than if leverage had not been used. Conversely, if the income and gains from those securities do not cover the payments due in connection with the leverage used, the return will be less than if the economic leverage had not been used. In addition, if an event of default were to occur with respect to a reference obligation on which the Fund had sold a credit default swap, the value of the reference obligation received by the Fund (if any), coupled with the periodic payments previously received from the counterparty, may be less than the full notional value the Fund pays to the buyer, in which case the investment performance of the Fund’s Common Shares will underperform as compared to what the performance would have been had the Fund not written any credit default swaps. See “—Credit Default Swaps Risk” for further information on the risks associated with credit default swaps. The Investment Manager nevertheless may determine to continue to use leverage if it believes that the benefits to the Fund will in the long-term outweigh the potential risk of a reduced return. The expenses associated with Borrowings, sales of credit default swaps, derivatives transactions and issuances of Preferred Shares will be borne by Common Shareholders and, consequently, will result in a reduction of the NAV of the Common Shares. During periods in which the Fund is using leverage in the form of Borrowings or Preferred Shares, the fees paid by the Fund for investment advisory and administrative services will be higher than if the Fund did not use such leverage, as such fees will be calculated on the basis of the Fund’s Total Managed Assets, which includes assets attributable to any Borrowings and to any Preferred Shares. In this regard, holders of debt or Preferred Shares do not bear such fees. Rather, Common Shareholders bear the portion of such fees attributable to the assets purchased with the proceeds of such leverage or the investment exposure obtained through such leverage, which means that Common Shareholders effectively bear the entirety of advisory and administrative fees. Leverage involves risks and special considerations that Common Shareholders should consider, including:

- the likelihood of greater volatility of NAV, market price and yield of the Common Shares than a comparable portfolio without leverage;
- the use of leverage may increase operating costs, which may reduce the Fund’s total return; and
- the effects of leverage in a declining market, which is likely to cause greater decline in the NAV of the Common Shares than if the Fund were not leveraged. This may result in a decline in the market price of the Common Shares.

The Investment Manager, in its discretion, will continue the Fund’s use of leverage when it believes that the benefits of maintaining the leveraged position will outweigh any current reduced return to Common Shareholders.

While the Fund may consider reducing leverage in response to actual or anticipated changes in interest rates in an effort to mitigate the increased volatility of current income and NAV associated with leverage, there can be no assurance that the Fund will actually reduce leverage in the future or that a reduction, if any, will benefit the Common Shareholders. Changes in the future direction of interest rates are very difficult to predict accurately. If the Fund were to reduce leverage based on a prediction about future changes to interest rates, and that prediction turned out to be incorrect, the reduction in leverage would likely reduce the income and/or total returns to Common Shareholders as compared to a situation in which the Fund had not reduced leverage. The Fund may decide that this risk outweighs the likelihood of achieving the desired reduction to volatility in income and share price if the prediction turned out to be correct and determine not to reduce leverage.
Short Sales Risk

To the extent the Fund makes use of short sales for investment and/or risk management purposes, the Fund may be subject to certain risks associated with selling short. Short sales are transactions in which the Fund sells securities or other instruments that the Fund does not own. Short sales expose the Fund to the risk that it will be required to cover its short position at a time when the securities have appreciated in value, thus resulting in a loss to the Fund. The Fund may engage in short sales when it does not own or have the right to acquire the security sold short at no additional cost. The Fund’s loss on a short sale theoretically could be unlimited in a case in which the Fund is unable, for whatever reason, to close out its short position. In addition, the Fund’s short selling strategies may limit its ability to benefit from increases in the markets. If the Fund engages in short sales, it will segregate liquid assets, enter into offsetting transactions or own positions covering its obligations; however, such segregation and cover requirements will not limit or offset losses on related positions. Short selling may also involve a form of financial leverage that may exaggerate any losses realized by the Fund. Also, there is the risk that the counterparty to a short sale may fail to honor its contractual terms, causing a loss to the Fund.

Risks of Short Economic Exposure Through Derivatives

The use by the Fund of derivatives such as options, forwards or futures contracts for investment and/or risk management purposes may subject the Fund to risks associated with short economic exposure. Taking a short economic position through derivatives exposes the Fund to the risk that it will be obligated to make payments to its counterparty if the underlying asset appreciates in value, resulting in a loss to the Fund. The Fund’s loss on a short position using derivatives theoretically could be unlimited.

Credit Default Swaps Risk

Credit default swaps involve greater risks than investing in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk, counterparty risk and credit risk. A buyer will lose its investment and recover nothing should no event of default occur. If an event of default were to occur, the value of the reference obligation received by the seller (if any), coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the seller. When the Fund acts as a seller of a credit default swap, it is exposed to many of the same risks of leverage described herein since if an event of default occurs the seller must pay the buyer the full notional value of the reference obligation.

Although the Fund will seek to realize gains by writing credit default swaps that increase in value, to realize gains on writing credit default swaps, an active secondary market for such instruments must exist or the Fund must otherwise be able to close out these transactions at advantageous times. If no such secondary market exists or the Fund is otherwise unable to close out these transactions at advantageous times, writing credit default swaps may not be profitable for the Fund.

The market for credit default swaps has become more volatile in recent years as the creditworthiness of certain counterparties has been questioned and/or downgraded. The Fund will be subject to credit risk with respect to the counterparties to the derivative contract (whether a clearing corporation in the case of a cleared credit default swap or another third party in the case of an uncleared credit default swap). If a counterparty’s credit becomes significantly impaired, multiple requests for collateral posting in a short period of time could increase the risk that the Fund may not receive adequate collateral. As of the date of this prospectus, credit default swaps are not currently traded on any securities exchange; however, the CFTC has issued a proposed rule which would require certain credit default swaps to be cleared through swaps clearing houses. The Fund may exit its obligations under a credit default swap only by terminating the contract and paying applicable breakage fees, or by entering into an offsetting credit default swap position, which may cause the Fund to incur more losses.
Redenomination Risk

Continuing uncertainty as to the status of the euro and the EMU has created significant volatility in currency and financial markets generally. Any partial or complete dissolution of the EMU could have significant adverse effects on currency and financial markets, and on the values of the Fund’s portfolio investments, especially any investments denominated in euros. As a result, the value of those investments could decline significantly and unpredictably. In addition, securities or other investments that are redenominated may be subject to foreign currency risk, liquidity risk and valuation risk to a greater extent than similar investments currently denominated in euros. See “—Foreign Currency Risk,” “—Liquidity Risk,” and “—Valuation Risk.” To the extent a currency used for redenomination purposes is not specified in respect of certain euro-related investments, or should the euro cease to be used entirely, the currency in which such investments are denominated may be unclear, making such investments particularly difficult to value or dispose of. The Fund may incur additional expenses to the extent it is required to seek judicial or other clarification of the denomination or value of such securities.

Debt Securities Risk

In addition to the other risks described herein, debt securities are also subject to the following general risks:

- **Redemption Risk**—Debt securities sometimes contain provisions that allow for prepayments, redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return.

- **Limited Voting Rights**—Debt securities typically do not provide any voting rights, except in cases when interest payments have not been made and the issuer is in default.

- **Liquidity**—Certain debt securities may be substantially less liquid than many other securities, such as U.S. government securities or common stocks.

- **Spread Risk**—Wider credit spreads and decreasing market values typically represent a deterioration of the debt security’s credit soundness and a perceived greater likelihood or risk of default by the issuer. Fixed income securities generally compensate for greater credit risk by paying interest at a higher rate. The difference (or “spread”) between the yield of a security and the yield of a benchmark, such as a U.S. Treasury security with a comparable maturity, measures the additional interest paid for credit risk. As the spread on a security widens (or increases), the price (or value) of the security generally falls. Spread widening may occur, among other reasons, as a result of market concerns over the stability of the market, excess supply, general credit concerns in other markets, security- or market-specific credit concerns or general reductions in risk tolerance.

Credit Ratings Risk

Rating agencies are private services that provide ratings of the credit quality of debt obligations. Appendix A to the Statement of Additional Information describes the various ratings assigned to debt obligations by Moody’s, S&P and Fitch. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer’s current financial condition may be better or worse than a rating indicates. The Fund will not necessarily sell a security when its rating is reduced below its rating at the time of purchase. Although the Investment Manager may take into account credit ratings, it develops its own analysis of issuer credit quality. The ratings of a debt security may change over time. Moody’s, S&P and Fitch monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, debt instruments held by the Fund could receive a higher rating (which would tend to increase their value).
or a lower rating (which would tend to decrease their value) during the period in which they are held by the Fund.

Reinvestment Risk

Income from the Fund’s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio’s current earnings rate. For instance, during periods of declining interest rates, an issuer of debt obligations may exercise an option to redeem securities prior to maturity, forcing the Fund to reinvest the proceeds in lower-yielding securities. A decline in income received by the Fund from its investments is likely to have a negative effect on the market price, net asset value and/or overall return of the Common Shares.

Hedging Strategy Risk

Certain of the investment techniques that the Fund may employ for hedging will expose the Fund to additional or increased risks.

There may be an imperfect correlation between changes in the value of the Fund’s portfolio holdings and hedging positions entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. In addition, the Fund’s success in using hedge instruments is subject to the Investment Manager’s ability to predict correctly changes in the relationships of such hedge instruments to the Fund’s portfolio holdings, and there can be no assurance that the Investment Manager’s judgment in this respect will be accurate. Consequently, the use of hedging transactions might result in a poorer overall performance for the Fund, whether or not adjusted for risk, than if the Fund had not hedged its portfolio holdings.

The Investment Manager is under no obligation to engage in any hedging strategies, and may, in its discretion, choose not to. Even if the Investment Manager desires to hedge some of the Fund’s risks, suitable hedging transactions may not be available or, if available, attractive. A failure to hedge may result in losses to the value of the Fund’s investments.

Counterparty Risk

The Fund is subject to credit risk with respect to the counterparties to the derivative contracts (whether a clearing corporation in the case of cleared instruments or another third party in the case of uncleared instruments) and other instruments entered into by the Fund or held by special purpose or structured vehicles in which the Fund invests. In the event that the Fund enters into a derivative transaction with a counterparty that subsequently becomes insolvent or becomes the subject of a bankruptcy case, the derivative transaction may be terminated in accordance with its terms and the Fund’s ability to realize its rights under the derivative instrument and its ability to distribute the proceeds could be adversely affected. To the extent the Fund’s claim is unsecured, the Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. 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 a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy or analogous proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. Some, but not all, derivative transactions may be cleared, in which case a central clearing counterparty stands between the direct parties to the derivative transaction and effectively guarantees performance of each contract, to the extent of its available resources for such purpose. Uncleared derivative transactions have no such protection; each party bears the risk that its direct counterparty will default and therefore these transactions often involve collateral posting or other credit support. Counterparty risk with respect to
certain exchange-trade and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation. See “Derivatives Risk” above for more information.

**Distressed and Defaulted Securities Risk**

Distressed and defaulted securities generally present the same risks as investment in below investment grade securities. See “—Non-Investment Grade Securities Risk.” However, in most cases, these risks are of a greater magnitude because of the uncertainties of investing in an issuer undergoing financial distress. An issuer of distressed securities may be in bankruptcy or undergoing some other form of financial restructuring. Interest and/or principal payments on distressed securities may be in default. Distressed securities present a risk of loss of principal value, including potentially a total loss. Distressed securities may be highly illiquid and the prices at which distressed securities may be sold may represent a substantial discount to what the Investment Manager believes to be the ultimate value of such obligations.

**Loan Participations and Assignments Risk**

The Fund may invest in fixed, variable and floating rate loans arranged through private negotiations between an issuer and one or more financial institutions. The Fund’s investments in loans in most instances will be in the form of involvement in the primary syndicate for a loan, participations in loans or assignments of all or a portion of loans from third parties. In connection with purchasing loan participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Fund may not directly benefit from any collateral supporting the loan in which it has purchased the loan participation. As a result, the Fund may be subject to the credit risk of both the borrower and the lender that is selling the participation. In the event of the insolvency of the lender selling a participation, the Fund may be treated as a general creditor of the lender and may not benefit from any set-off between the lender and the borrower. Certain loan participations may be structured in a manner designed to prevent purchasers of participations from being subject to the credit risk of the lender with respect to the participation, but even under such a structure, in the event of the lender’s insolvency, the lender’s servicing of the participation may be delayed and the assignability of the participation impaired. The Fund will acquire loan participations only if the lender interpositioned between the Fund and the borrower is determined by the Investment Manager to be creditworthy.

The Fund may have difficulty disposing of loans and loan participations because to do so it will have to assign such instruments to a third party. Because there is no liquid market for many such instruments, the Fund anticipates that such instruments could be sold only to a limited number of institutional investors. The lack of a liquid secondary market may have an adverse effect on the value of such instruments and the Fund’s ability to dispose of particular loans and loan participations when necessary to meet the Fund’s liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the borrower. The lack of a liquid secondary market for loans and loan participations also may make it more difficult for the Fund to assign a value to these instruments for purposes of valuing the Fund’s portfolio and calculating its NAV.

**Tax Risk**

The Fund intends to elect to be treated, and intends to qualify and be treated each year, as a “regulated investment company” under the Code. In order for the Fund to qualify as a regulated investment company in any taxable year, the Fund must meet certain asset diversification tests and at least 90% of its gross income for such year must consist of certain types of qualifying income. Operating as a non-diversified investment company for purposes of the 1940 Act, and therefore investing in a relatively small number of individual issuers, may make it difficult for the Fund to meet the diversification requirement for qualification as a regulated investment company. Further, although foreign currency gains will generally be treated as qualifying income for purposes of the 90% gross
income requirement under current law, the U.S. Treasury Department has authority to issue regulations in the future that could treat some or all of the Fund's foreign currency gains as non-qualifying income, thereby jeopardizing the Fund's status as a regulated investment company for all years to which such regulations are applicable. So long as the Fund qualifies as a regulated investment company, it generally will not be subject to U.S. federal income tax on its income, including net capital gain, distributed to shareholders, provided that, for each taxable year, the Fund distributes to its shareholders an amount equal to or exceeding 90% of the sum of its “investment company taxable income” as that term is defined in the Code (which includes, among other things, dividends, taxable interest and the excess of any net short-term capital gains over net long-term capital losses, as reduced by certain deductible expenses) and its net tax-exempt income, if any. The Fund intends to distribute all or substantially all of its investment company taxable income and net capital gain each year. If Congress, the U.S. Treasury Department or the Internal Revenue Service were to take any action that altered the Fund's current understanding of these requirements, certain types of income representing a significant portion of the Fund's gross income may not constitute qualifying income or the Fund may not be adequately diversified. In that case, the Fund could be forced to change the manner in which it pursues its investment strategy or, if the Fund were ineligible to or otherwise did not “cure” its failure to meet such requirements, the Fund could cease to qualify for the special U.S. federal income tax treatment accorded regulated investment companies. If for any taxable year the Fund did not qualify as a regulated investment company, it would be treated as a corporation subject to U.S. federal income tax, thereby subjecting any income earned by the Fund to tax at the corporate level (currently at a 35% U.S. federal tax rate) and, when such income is distributed, to a further tax at the shareholder level to the extent of the Fund's current or accumulated earnings and profits. See “U.S. Federal Income Tax Matters.”

**Net Asset Value Discount Risk**

Frequently, shares of closed-end investment companies, such as the Fund, trade at a price below their NAV, commonly referred to as a “discount” The Fund cannot predict whether, or to what extent, its Common Shares will trade at a discount to their NAV. Immediately following this offering, the NAV of the Fund’s Common Shares will be reduced by offering costs paid by the Fund, creating an increased risk that the Common Shares will trade at a discount to their NAV for a period following the offering. Therefore, there is an added risk to investors who may sell their shares shortly after the offering. Before making an investment decision, a prospective investor should consider the suitability of this investment with respect to the investor’s investment objectives and personal situation. See “Description of Shares.”

**Structured Products Risk**

The Fund may invest in structured investments, structured notes and other similar products consistent with the Fund’s investment objective and policies. Generally, structured investments are interests in entities organized and operated for the purpose of restructuring the investment characteristics of underlying investment interests or securities. These investment entities may be structured as trusts or other types of pooled investment vehicles. This type of restructuring generally involves the deposit with or purchase by an entity of the underlying investments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying investments or referencing an indicator related to such investments. The cash flow or rate of return on the underlying investments may be apportioned among the newly issued securities to create different investment characteristics, such as varying maturities, credit quality, payment priorities and interest rate provisions.

Structured notes are derivative securities for which the amount of principal repayment and/or interest payments is based on the movement of one or more “factors.” These factors may include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR),
referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. In some cases, the effect of the movements of these factors may increase or decrease through the use of multipliers or deflators.

The cash flow or rate of return on a structured investment may be determined by applying a multiplier to the rate of total return on the underlying investments or referenced indicator. Application of a multiplier is comparable to the use of financial leverage, a speculative technique. Leverage magnifies the potential for gain and the risk of loss. As a result, a relatively small decline in the value of the underlying investments or referenced indicator could result in a relatively large loss in the value of a structured product.

Holders of structured products indirectly bear risks associated with the underlying investments, index or reference obligation, and are subject to counterparty risk. The Fund generally has the right to receive payments to which it is entitled only from the structured product, and generally does not have direct rights against the issuer. While certain structured investment vehicles enable the investor to acquire interests in a pool of securities without the brokerage and other expenses associated with directly holding the same securities, investors in structured vehicles generally pay their share of the investment vehicle’s administrative and other expenses. Certain structured products may be thinly traded or have a limited trading market and may have the effect of increasing the Fund’s illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

Structured products are generally privately offered and sold, and thus, are not registered under the securities laws. Certain structured products may be thinly traded or have a limited trading market and may have the effect of increasing the Fund’s illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities. In addition to the general risks associated with fixed income securities discussed herein, structured products carry additional risks including, but not limited to:

- the possibility that distributions from underlying investments will not be adequate to make interest or other payments;
- the quality of the underlying investments may decline in value or default;
- the possibility that the security may be subordinate to other classes; and
- the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Investments in structured notes involve risks including interest rate risk, credit risk and market risk. When the Fund’s investments in structured notes are based upon the movement of one or more factors, depending on the factor used and the use of multipliers or deflators, changes in interest rates and movement of the factor may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the interest rate on the structured note to be reduced to zero and any further changes in the reference instrument may then reduce the principal amount payable on maturity.

Warrants Risk

The Fund may invest in warrants. While the market value of a warrant tends to be more volatile than that of the securities underlying the warrant, the market value of a warrant may not necessarily change with that of the underlying security. A warrant ceases to have value if it is not exercised prior to any expiration date to which the warrant is subject. The purchase of warrants involves a risk that the Fund could lose the purchase value of a warrant if the right to subscribe to additional shares is not exercised prior to the warrant’s expiration. Also, the purchase of warrants involves the risk that the effective price paid for the warrant added to the subscription price of the related security may exceed
the value of the subscribed security’s market price, such as when there is no movement in the level of the underlying security.

**Inflation/Deflation Risk**

Inflation risk is the risk that the value of assets or income from the Fund’s investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of the Fund’s portfolio could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund’s portfolio and Common Shares.

**Common Stock Risk**

In general, stock values fluctuate in response to activities specific to the company as well as general market, economic and political conditions. Stock prices can fluctuate widely in response to these factors.

**Liquidity Risk**

Certain of the Fund’s investments may be illiquid (i.e., securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose readily of illiquid securities when that would be beneficial at a favorable time or price or at prices approximating those at which the Fund then values them. Further, the lack of an established secondary market for illiquid securities may make it more difficult to value such securities, which may negatively affect the price the Fund would receive upon disposition of such securities. See “—Valuation Risk.”

**Convertible Securities Risk**

Convertible securities are debt or equity securities, such as convertible bonds or convertible preferred stock, that may be converted either at a stated price or at a stated rate within a specified period of time into a specified number of shares of common shares or other securities. The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying security). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined principally by the market price and volatility of the underlying security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common shares or other securities approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common shares or other securities while holding an income-producing income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common shares or other securities or sell it to a third party. Any of these actions could have an adverse effect on the Fund’s ability to achieve its investment objective or on its NAV. Synthetic convertible securities are subject to these risks generally but are also subject to derivatives-related risks associated with the underlying convertible component.
Repurchase Agreements Risk

While repurchase agreements involve certain risks not associated with direct investments in debt securities, the Fund follows procedures that are designed to minimize such risks. These procedures include effecting repurchase transactions only with large, well-capitalized and well-established financial institutions whose financial condition will be continually monitored by the Investment Manager. In addition, the value of the collateral underlying the repurchase agreement will be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, the Fund will seek to liquidate such collateral. However, the exercising of the Fund’s right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Fund could suffer a loss. The Fund does not bear the risk of a decline in the value of the underlying security unless the seller defaults under its repurchase obligation. In the event of the bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying securities and losses, including (a) possible decline in the value of the underlying security during the period while the Fund seeks to enforce its rights thereto; (b) possible lack of access to income on the underlying security during this period; and (c) expenses of enforcing its rights.

Reverse Repurchase Agreements Risk

The Fund’s use of reverse repurchase agreements involve many of the same risks involved in the Fund’s use of leverage, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is also the risk that the market value of the securities acquired in the reverse repurchase agreement may decline below the price of the securities that the Fund has sold but remains obligated to repurchase. In addition, there is a risk that the market value of the securities retained by the Fund may decline. Further, there is a risk that the buyer of the securities sold by the Fund may not deliver them at the time that the Fund seeks to repurchase. In addition, if the buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, the Fund may be adversely affected.

Securities Lending Risk

There may be risks of delay and costs involved in recovery of securities or even loss of rights in the collateral should the borrower of the securities fail financially. These delays and costs could be greater with respect to foreign securities. However, loans will be made only to borrowers deemed by the Investment Manager to be creditworthy and when, in the judgment of the Investment Manager, the income that can be earned from such securities loans justifies the attendant risk. The Investment Manager will consider all relevant facts and circumstances, including the creditworthiness of the broker, dealer, bank or institution, in making decisions with respect to the lending of securities, subject to review by the Board. The Fund also bears the risk that the reinvestment of collateral will result in a principal loss. Finally, there is the risk that the price of the securities will increase while they are on loan and the collateral will not be adequate to cover their value.

Zero Coupon Securities Risk

Certain debt securities purchased by the Fund may take the form of zero coupon securities. The interest earned on such securities is, implicitly, automatically compounded and paid out at maturity. While such compounding at a constant rate eliminates the risk of receiving lower yields upon reinvestment of interest if prevailing interest rates decline, the owner of a zero coupon security will be unable to participate in higher yields upon reinvestment of interest received if prevailing interest rates rise. For this reason, zero coupon securities are subject to substantially greater market price fluctuations during periods of changing prevailing interest rates than are comparable debt securities which make current distributions of interest. Current U.S. federal income tax law requires that a holder (such as the Fund) of a zero coupon security accrue a portion of the discount at which the security was
purchased as income each year even though the Fund receives no interest payments in cash on the security during the year. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

**Inflation Linked Bonds Risk**

While these bonds provide protection against inflation, these bonds generally offer a lower yield than non-inflation linked bonds. Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity. See “U.S. Federal Income Tax Matters.”

**Yankee Dollar Obligations, Eurobonds and Global Bonds Risk**

Yankee dollar obligations, eurobonds and global bonds are subject to the same risks as other debt issues, such as credit risk, market risk, currency and liquidity risk. To a limited extent, they may also be subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of the currency in which the securities are denominated, from flowing across its borders. Other risks include adverse political and economic developments; the extent and quality of government regulations of financial markets and institutions; the imposition of foreign withholding taxes; and the expropriation or nationalization of foreign issuers. See “—Sovereign Debt Obligations Risk” and “—Investments in Foreign Securities.”

**Valuation Risk**

When market quotations are not readily available or are deemed to be unreliable, the Fund values its investments at fair value as determined in good faith pursuant to policies and procedures approved by the Board. See “Net Asset Value.” Fair value pricing may require subjective determinations about the value of a security or other asset. As a result, there can be no assurance that fair value pricing will result in adjustments to the prices of securities or other assets, or that fair value pricing will reflect actual market value, and it is possible that the fair value determined for a security or other asset will be materially different from quoted or published prices, from the prices used by others for the same security or other asset and/or from the value that actually could be or is realized upon the sale of that security or other asset.

**Legal and Regulatory Risk**

Legal, tax and regulatory changes could occur and may adversely affect the Fund and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or revised) laws or regulations may be imposed by the CFTC, the SEC, the U.S. Federal Reserve or other banking regulators, other governmental regulatory authorities or self-regulatory organizations that supervise the financial markets that could adversely affect the Fund. In particular, these agencies are empowered to promulgate a variety of new rules pursuant to recently enacted financial reform legislation in the United States. The Fund also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by these governmental regulatory authorities or self-regulatory organizations.

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Act. The Dodd-Frank Act, among other things, grants regulatory authorities, such as the CFTC and the SEC, broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rulemaking, supervisory or enforcement actions (in addition to those that have been proposed or taken thus far) that would adversely affect the Fund or investments made by the Fund. Possible regulatory actions taken under these revised and expanded powers may include actions related to, among others, financial consumer protection, proprietary trading and derivatives. There can be no
assurance that future regulatory actions authorized by the Dodd-Frank Act will not adversely affect the Fund’s performance and/or yield, perhaps to a significant extent. For example, the implementation of the Dodd-Frank Act could adversely affect the Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase the Fund’s and the Investment Manager’s exposure to potential liabilities or restrictions. Increased regulatory oversight can also impose administrative burdens on the Fund and the Investment Manager including, without limitation, making them subject to examinations or investigations and requiring them to implement new policies and procedures.

In connection with an ongoing review by the SEC and its staff of the regulation of investment companies’ use of derivatives, on August 31, 2011, the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of the Fund’s use of derivatives, which could have an adverse impact on the Fund. The Investment Manager cannot predict the effects of these regulations on the Fund’s portfolio.

Market Disruption and Geopolitical Risk

The wars with Iraq and Afghanistan and similar conflicts and geopolitical developments, their aftermath and substantial military presence in Afghanistan are likely to have a substantial effect on the U.S. and world economies and securities markets. The nature, scope and duration of the wars and the potential costs of rebuilding infrastructure cannot be predicted with any certainty. Terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 closed some of the U.S. securities markets for a four-day period and similar future events cannot be ruled out. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, if repeated, could be highly disruptive to economies and markets. Those events as well as other changes in foreign and domestic economic and political conditions also could have an acute effect on individual issuers or related groups of issuers. These risks also could adversely affect individual issuers and securities markets, interest rates, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the Fund’s investments and the market value and net asset value of the Fund’s Common Shares.

Income Risk

The income Common Shareholders receive from the Fund is based primarily on the dividends and interest it earns from its investments, which can vary widely over the short and long term. If prevailing market interest rates drop, distribution rates of the Fund’s fixed income holdings and Common Shareholder’s income distributions from the Fund could drop as well. The Fund’s income also would likely be affected adversely when prevailing short-term interest rates increase and the Fund is utilizing leverage.

Portfolio Turnover Risk

The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. The Fund cannot accurately predict its securities portfolio turnover rate, but anticipates that its annual portfolio turnover rate will not exceed 150% under normal market conditions, although it could be materially higher under certain conditions. Higher portfolio turnover rates result in corresponding increases in brokerage commissions and other trading costs and generate short-term capital gains taxable as ordinary income.
Anti-Takeover Provisions

The Fund’s Declaration of Trust includes provisions that could have the effect of inhibiting the Fund’s possible conversion to open-end status and limiting the ability of other entities or persons to acquire control of the Fund or the Board. In certain circumstances, these provisions might also inhibit the ability of Common Shareholders to sell their shares at a premium over prevailing market prices. See “Anti-Takeover Provisions in the Declaration of Trust.”

Temporary Defensive Strategies Risk

If the Investment Manager believes that economic or market conditions are unfavorable to investors, the Investment Manager may temporarily invest up to 100% of the Fund’s assets in certain defensive strategies, including holding a substantial portion of the Fund’s assets in cash, cash equivalents or other highly rated short-term securities, including securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. In addition, when the Investment Manager anticipates unusual market or other conditions, the Fund may temporarily depart from its principal investment strategies as a defensive measure. To the extent that the Fund invests defensively, it likely will not achieve its investment objective.

MANAGEMENT OF THE FUND

Trustees and Officers

The Board is responsible for the overall management of the Fund, including supervision of the duties performed by the Investment Manager. There are currently four trustees of the Fund. One of the trustees is an “interested person” (as defined in the 1940 Act) of the Fund. The Board oversees the management and operations of the Fund’s affairs. The role of the Board and of any individual Trustee is one of oversight and not of management of the day-to-day affairs of the Fund and its oversight role does not make the Board a guarantor of the Fund’s investments, operations or activities. Like most registered investment companies, the day-to-day management and operation of the Fund is performed by various service providers to the Fund, such as the Investment Manager, Administrator, custodian and transfer agent, each of which is discussed in greater detail in this prospectus or in the Statement of Additional Information. The names and business addresses of the trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under “Trustees and Officers” in the Statement of Additional Information.

Investment Manager

Stone Harbor is the Fund’s investment manager. Subject to the general supervision of the Board, the Investment Manager is responsible for making investment decisions for the Fund. The Investment Manager was established in 2006 and provides investment advisory services to clients located throughout the world. The Investment Manager’s principal address is 31 West 52nd Street, 16th Floor, New York, New York 10019. As of September 30, 2012, the Investment Manager had approximately $58.1 billion in assets under management. Stone Harbor is 100% employee owned.

Subject to the general supervision of the Board, the Investment Manager is responsible for making investment decisions for the Fund and for the overall management of the Fund’s business affairs. For these services the Investment Manager will receive an annual fee, payable monthly, in an amount equal to 1.00% of the Fund’s average daily Total Managed Assets. With respect to any reverse repurchase agreements, “Total Managed Assets” also includes the value as of the relevant measuring date of the underlying assets sold to the counterparty.

As of the date of this prospectus, the Investment Manager owns 100% of the Fund’s voting securities and is therefore a controlling person of the Fund.
**Portfolio Managers**

The portfolio managers are primarily responsible for making day-to-day investment decisions for the Fund. Each of the persons listed below will serve as a portfolio manager beginning with the Fund’s inception. Although each of the portfolio managers reports to Peter J. Wilby, each manager shares equal portfolio management responsibility for the Fund. More information about each manager’s compensation, other accounts managed by each manager, and each manager’s ownership of securities in the Fund is included in the Statement of Additional Information.

<table>
<thead>
<tr>
<th>Portfolio Manager, Title</th>
<th>Length Of Service</th>
<th>Past 5 Years' Business Experience</th>
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<tbody>
<tr>
<td>Peter J. Wilby, CFA</td>
<td>*</td>
<td>Co-portfolio manager of Fund; Since April 2006, Chief Investment Officer of Stone Harbor; Prior to April 2006, Chief Investment Officer—North American Fixed Income and senior portfolio manager responsible for directing investment policy and strategy for all emerging markets and high yield fixed income portfolios at Citigroup Asset Management; Joined Citigroup or its predecessor firms in 1989. 31 years of industry experience.</td>
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<tr>
<td>Chief Investment Officer</td>
<td></td>
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</tr>
<tr>
<td>Pablo Cisilino</td>
<td>*</td>
<td>Co-portfolio manager of Fund; Since July 2006, Portfolio Manager of Stone Harbor; From June 1, 2004 to July 2006, Executive Director for Sales and Trading in Emerging Markets at Morgan Stanley Inc; Prior to June 1, 2004, Vice President for local markets and FX sales and trading, Goldman Sachs; Joined Goldman Sachs in 1994. 22 years of industry experience.</td>
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<tr>
<td>Portfolio Manager</td>
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<td></td>
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<tr>
<td>James E. Craige, CFA</td>
<td>*</td>
<td>Co-portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Senior Portfolio Manager for emerging markets debt portfolios at Salomon Brothers Asset Management Inc.; Joined Salomon Brothers Asset Management Inc. in 1992. 22 years of industry experience.</td>
</tr>
<tr>
<td>Portfolio Manager</td>
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<tr>
<td>David Griffiths</td>
<td>*</td>
<td>Co-portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Senior Portfolio Manager and economist responsible for market opportunity analysis, hedging and alternative asset allocation strategies; Joined Salomon Brothers Asset Management Limited in 1993. 24 years of industry experience.</td>
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<tr>
<td>Portfolio Manager</td>
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<tr>
<td>Portfolio Manager, Title</td>
<td>Length Of Service</td>
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<tr>
<td>Agnus Halkett, CFA</td>
<td>&quot;</td>
<td>Co-portfolio manager of Fund; Since June 2011, Portfolio Manager of Stone Harbor; Prior to joining Stone Harbor, Director at Deutsche Bank responsible for Central Europe rates trading and EMEA Local Markets Strategy; Assistant Fund Manager and Quantitative Analyst in Emerging Markets Fixed Income at F&amp;C Asset Management. 11 years of industry experience.</td>
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<tr>
<td>Portfolio Manager</td>
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<tr>
<td>David A. Oliver, CFA</td>
<td>&quot;</td>
<td>Co-portfolio manager of Fund; Since June 2008, Portfolio Manager of Stone Harbor; Prior to June 2008, Managing Director in emerging market sales and trading at Citigroup; Joined Citigroup in 1986. 24 years of industry experience.</td>
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<tr>
<td>Portfolio Manager</td>
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<tr>
<td>William Perry</td>
<td>&quot;</td>
<td>Co-portfolio manager of Fund; Since September 2012, Portfolio Manager of Stone Harbor; From August 2010 to August 2012, Emerging Markets Corporate Portfolio Manager at Morgan Stanley Investment Management; Prior to 2010, Managing Director/Portfolio Manager in the Global Special Opportunities Group for Latin American Special Situations at JPMorgan/Chase. 28 years of industry experience.</td>
</tr>
<tr>
<td>Portfolio Manager</td>
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<tr>
<td>David Scott</td>
<td>&quot;</td>
<td>Co-portfolio manager of Fund; Since April 2006, Portfolio Manager of Stone Harbor; Prior to April 2006, Managing Director and Head of Traditional Investment Group responsible for the global bond portfolios at Salomon Brothers Asset Management Limited; Joined Salomon Brothers Asset Management Limited in 1994. 28 years of industry experience.</td>
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<td>Portfolio Manager</td>
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<td>Portfolio Manager</td>
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* As of the date of this prospectus, the Fund has not commenced operations.
Administrator

ALPS Fund Services, Inc. is the Fund's administrator. Pursuant to the Administration Agreement with the Fund, ALPS, with principal offices at 1290 Broadway, Suite 1100, Denver, Colorado 80203, serves as administrator to the Fund and pays expenses incurred in connection with its administrative activities. As Administrator, ALPS provides certain services, including: assisting in maintaining the Fund's office; furnishing the Fund with clerical and certain other services required by it; compiling data for and preparing notices and shareholder reports to the SEC; calculating the Fund's daily NAV; preparing any reports that are required by the securities, investment, tax or other laws and regulations of the United States; preparing filings with state securities commissions; coordinating federal and state tax returns; monitoring the Fund's expense accruals; monitoring compliance with the Fund's investment policies and limitations; and generally assisting in the Fund's operations.

For these services the Administrator will receive an annual fee, payable monthly, in an amount equal to 0.15% of the Fund's average daily Total Managed Assets, plus out-of-pocket expenses. With respect to any reverse repurchase agreements, “Total Managed Assets” also includes the value as of the relevant measuring date of the underlying assets sold to the counterparty.

Expenses

The Investment Manager and the Administrator are each obligated to pay expenses associated with providing the services contemplated by the agreements to which they are parties, including compensation of and office space for their respective officers and employees connected with investment and economic research, trading and investment management and administration of the Fund. Stone Harbor will pay the fees of any trustee of the Fund who is an officer or employee of Stone Harbor. In addition to the fees of the Investment Manager and the Administrator, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with the Investment Manager), custodial expenses, shareholder servicing expenses, transfer agency, sub-transfer agency and dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of preparing, printing and distributing prospectuses, shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

Offering expenses relating to the Fund’s Common Shares (other than the sales load) that do not exceed $0.05 per Common Share will be payable by the Fund upon completion of the offering of Common Shares, will be charged to capital upon the commencement of investment operations of the Fund and will be attributable to the Common Shares. To the extent the Fund has not otherwise paid offering expenses that exceed $0.05 per Common Share, the Fund will pay up to 0.10% of the total public offering price (inclusive of the over-allotment option) to ALPS Distributors Inc. as payment for its distribution assistance, as well as reasonable out of pocket expenses related to the Fund’s road show. The reduction of capital described above is limited to $0.05 per Common Share (0.20% of the offering price). The Investment Manager will pay any offering fees and expenses, including the distribution assistance payment to ALPS Distributors, Inc. that exceed $0.05 per Common Share. Certain of such fees and expenses constitute underwriting compensation and are a component of the total compensation to underwriters. See “Underwriters.”

The Management Contract authorizes Stone Harbor to select brokers or dealers (including affiliates) to arrange for the purchase and sale of portfolio securities, including principal transactions. Any commission, fee or other remuneration paid to an affiliated broker or dealer is paid in compliance with the Fund’s procedures adopted in accordance with Rule 17e-1 under the 1940 Act.
The Board has approved procedures to be used to value the Fund's securities for the purposes of determining the Fund's NAV. The valuation of the securities of the Fund is determined in good faith by or under the direction of the Board. The Board has delegated certain valuation functions for the Fund to the Administrator. Different methods may be used to value different types of securities, as discussed below, depending upon the particular securities held by the Fund. The Fund's valuation policies are subject to change by the Board.

The Fund generally values its securities, currencies and other assets based on market prices determined as of the close of regular trading on the NYSE (normally, 4 p.m. Eastern time) on each business day (Monday through Friday). The Fund will not value its securities on any day that the NYSE or the principal bond markets in the United States (as recommended by the Securities Industry and Financial Markets Association (SIFMA)) are closed, including, but not limited to, the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day and Christmas Day and, generally, the preceding Friday or subsequent Monday when one of those holidays falls on a Saturday or Sunday, respectively. For equity securities that are traded on an exchange, the market price is usually the closing sale or official closing price on that exchange. Publicly traded foreign government and corporate debt securities are typically traded internationally in the over-the-counter market, and are generally valued at the mean between the bid and asked prices as of the close of business of that market. In the case of other securities not traded on an exchange, or if closing prices are not otherwise available, the market price is typically determined by independent third party pricing sources approved by the Fund's Board using a variety of pricing techniques and methodologies. Other than with respect to certain foreign government and corporate debt securities discussed above, the market price for debt obligations is generally the price supplied by an independent third party pricing service approved by the Fund's Board, which may use a matrix, formula or other method that takes into consideration market indices, yield curves and other specific adjustments. Short-term debt obligations that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. If pricing sources are unable to supply a price, or if the price supplied is deemed to be unreliable, the market price may be determined using quotations received from one or more brokers/dealers that make a market in the security. Available cash is generally invested into a money market fund by the Fund's custodian, and is valued at the latest net asset value per share as reported by such fund.

When the price quotations described above are not available, or when the Investment Manager believes that they are unreliable, securities may be priced using fair value procedures approved by the Board. Because the Fund invests in securities that may be thinly traded or for which the price quotations described above may not be readily available or may be unreliable—such as securities of small capitalization companies, securities of issuers located in emerging market countries or high yield securities—the Fund may use fair valuation procedures more frequently than funds that invest primarily in securities that are more liquid—such as equity securities of large capitalization domestic issuers. The Fund may also use fair value procedures if the Investment Manager determines that a significant event has occurred between the time at which a market price is determined and the time at which the Fund's NAV is calculated. In particular, the value of non-U.S. securities may be materially affected by events occurring after the close of the market on which they are traded, but before the Fund values its securities.

The fair value procedures described above may use information provided by pricing services and other third-party vendors, which may recommend fair value prices or adjustments with reference to other securities, indices or assets. In considering whether market quotations are available and in determining fair values, the Fund may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the
close of the relevant market and before the Fund values its securities. In addition, the Fund may utilize modeling tools provided by third-party vendors to determine values of non-U.S. securities.

Valuing securities at fair value involves greater reliance on judgment than valuation of securities based on readily available market quotations. A fund that uses fair value to price securities may value those securities higher or lower than another fund using market quotations or its own fair value methodologies to price the same securities. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were to sell the security at approximately the time at which the Fund determines its NAV.

The Fund invests in securities that are traded on foreign exchanges or markets, which may be open when the NYSE or the principal bond markets in the United States are closed. As a result, the value of your investment in the Fund may change on days when you are unable to purchase or sell shares on the NYSE.

**DISTRIBUTIONS**

The Fund intends to make a level dividend distribution each month to Common Shareholders. The level dividend rate may be modified by the Board from time to time, and will be based upon the past and projected performance and expenses (including expenses associated with leveraging or interest expenses) of the Fund. The Fund will also make a distribution during or with respect to each calendar year (which may be combined with a regular monthly distribution), which will generally include any net investment income and net realized capital gain for the year not otherwise distributed.

If the total distributions made in any calendar year exceed the Fund’s current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, such excess distributed amount would be a tax-free return of capital to the extent of the adjusted tax basis in the Common Shares. After such adjusted tax basis is reduced to zero, the distribution would constitute capital gain (assuming the shares are held as capital assets). In general terms, a return of capital would involve a situation in which a Fund distribution (or a portion thereof) represents a return of a portion of the Common Shareholder’s investment, rather than net income or capital gains generated from his or her investment during a particular period. Although return of capital distributions may not be taxable, such distributions would reduce the basis of a shareholder’s Common Shares and therefore may increase a shareholder’s tax liability for capital gains upon a sale of Common Shares. See “U.S. Federal Income Tax Matters.” The Fund’s distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital resulting in less of a shareholder’s assets being invested in the Fund and, over time, increase the Fund’s expense ratio. The distribution policy also may cause the Fund to sell a security at a time it would not otherwise do so in order to manage the distribution of income and gain.

The Fund’s initial distribution is expected to be declared approximately 45 days after the completion of this offering and paid approximately 60 days after the completion of the offering, depending on market conditions. The initial distributions may consist primarily of a return of capital if the Fund is delayed in investing the proceeds of this offering.

Stone Harbor has received an order from the SEC granting an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder to permit certain closed-end funds managed by Stone Harbor to include realized long-term capital gains as a part of their regular distributions to common shareholders more frequently than would otherwise be permitted by the 1940 Act (generally once per taxable year). Stone Harbor expects the exemptive order to apply to the Fund.

The level dividend distribution described above is intended to result in the payment of approximately the same amount or percentage to Common Shareholders each month. Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide a written statement accompanying
any such payment that adequately discloses its source or sources. Thus, if the source of the dividend or other distribution were the original capital contribution of the Common Shareholder, and the payment amounted to a return of capital, the Fund would be required to provide written disclosure to that effect. Nevertheless, persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Common Shareholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net income or net profit. In addition, in cases in which the Fund would return capital to Common Shareholders, such distribution may bear on the Fund’s ability to maintain its asset coverage requirements and to pay the dividends on any Preferred Shares that the Fund may issue.

DIVIDEND REINVESTMENT PLAN

Unless the registered owner of Common Shares elects to receive cash by contacting Computershare (the “Plan Administrator”), all dividends declared on Common Shares will be automatically reinvested by the Plan Administrator for shareholders in the Plan, in additional Common Shares. Common 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 Common Shares are held in street or other nominee name, then to such nominee) by the Plan Administrator as dividend disbursing agent. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Such notice will be effective with respect to a particular dividend or other distribution (together, a “Dividend”). Some brokers may automatically elect to receive cash on behalf of Common Shareholders and may reinvest that cash in additional Common Shares through purchases of the Fund’s shares on the open market (“Open-Market Purchases”) rather than participating in the Plan.

The Plan Administrator will open an account for each Common Shareholder under the Plan in the same name in which such Common Shareholder’s Common Shares are registered. Whenever the Fund declares a dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Administrator for the participants’ accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Common Shares from the Fund (“Newly Issued Common Shares”) or (ii) by purchase of outstanding Common Shares in Open-Market Purchases on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per Common Share is equal to or greater than the NAV per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant’s account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus estimated brokerage commissions, the Plan Administrator will invest the Dividend amount in Common Shares acquired on behalf of the participants in Open-Market Purchases.

In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Shares trade on an “ex-dividend” basis or 30 days after the payment date for such Dividend, whichever is sooner (the “Last Purchase Date”), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly Dividends. If, before the Plan
Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per Common Share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date for purposes of determining the number of shares issuable under the Plan.

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

In the case of Common Shareholders such as banks, brokers or other financial institutions (collectively, a “nominee”) which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder’s name and held for the account of beneficial owners who participate in the Plan. If your Common Shares are held through a nominee who has elected not to participate in the Plan and are not registered with the Plan Administrator, the nominee may reinvest all dividends and distributions received on your behalf from the Fund in Common Shares through Open-Market Purchases at a price per share that may be higher or lower than the Fund’s NAV per share. Please contact your financial institution for details.

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

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

All correspondence or questions concerning the Plan should be directed to the Plan Administrator by calling (866)-390-3910 (toll free) or by writing to the Plan Administrator, P.O. Box 358035, Pittsburgh, PA 15252-8035.
U.S. FEDERAL INCOME TAX MATTERS

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a Common Shareholder that acquires, holds and/or disposes of Common Shares of the Fund, and reflects provisions of the Code, existing Treasury regulations, rulings published by the Internal Revenue Service (“IRS”), and other applicable authority, as of the date of this prospectus. These authorities are subject to change by legislative or administrative action, possibly with retroactive effect. The following discussion is only a summary of some of the important tax considerations generally applicable to investments in the Fund. For more detailed information regarding tax considerations, see the Statement of Additional Information. There may be other tax considerations applicable to particular investors, including foreign shareholders (as defined below). In addition, income earned through an investment in the Fund may be subject to state, local and foreign taxes. Common Shareholders should consult their own tax advisers regarding their particular situation and the possible application of U.S. federal, state, local, foreign or other tax laws.

The Fund intends to elect to be treated as a regulated investment company (“RIC”) under Subchapter M of the Code and intends each year to qualify and be eligible to be treated as such. In order for the Fund to qualify as a RIC, it must meet an income and asset diversification test each year. If the Fund so qualifies and satisfies certain distribution requirements, the Fund (but not its shareholders) will not be subject to U.S. federal income tax to the extent it distributes its investment company taxable income (as that term is defined in the Code, but without regard to the deduction for dividends paid) and net capital gain (the excess of net long-term capital gain over net short-term capital loss in each case determined with reference to any capital loss carryforwards) in a timely manner to its shareholders in the form of dividends or capital gain distributions. The Fund intends to distribute substantially all of such income and gain each year.

If the Fund does retain any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it will also be subject to tax at regular corporate rates on the amount retained, but may designate the retained amount as undistributed capital gain in a notice to its shareholders who would then (i) be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) be entitled to credit their proportionate shares of the tax paid by the Fund on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds on a properly filed U.S. tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of Common Shares owned by a shareholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the shareholder’s gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Fund is not required to, and there can be no assurance that the Fund will, make this designation if it retains all or a portion of its net capital gain in a taxable year.

A nondeductible excise tax at the rate of 4% will be imposed on the excess, if any, of the Fund’s “required distribution” over its actual distributions in any calendar year. Generally, the required distribution is 98% of the Fund’s ordinary income for the calendar year plus 98.2% of its capital gain net income recognized during the one-year period ending on October 31 plus undistributed amounts from prior years. For purposes of the required excise tax distribution, a RIC’s ordinary gains and losses from the sale, exchange, or other taxable disposition of property that would otherwise be taken into account after October 31 generally are treated as arising on January 1 of the following calendar year. For purposes of the excise tax, the Fund will be treated as having distributed any amount for which it is subject to corporate income tax for the taxable year ending within the calendar year. The Fund intends to make distributions sufficient to avoid imposition of the excise tax, although there can be no assurance that it will be able to do so. The Fund may determine to pay the excise tax in a year to the extent it is deemed to be in the best interest of the Fund (e.g., if the excise tax is de minimis).
The Fund’s intention to qualify for treatment as a RIC may negatively affect the Fund’s return to Common Shareholders by limiting its ability to acquire or continue to hold positions that would otherwise be consistent with its investment strategy or by requiring it to engage in transactions it would otherwise not engage in, resulting in additional transaction costs. Operating as a non-diversified investment company for purposes of the 1940 Act, and therefore investing in a relatively small number of individual issuers, may make it difficult for the Fund to meet the income or diversification test for RIC qualification. If the Fund were to fail to meet the income or diversification test described above, the Fund could in some cases cure such failure, including by paying a fund-level tax and, in the case of diversification failures, disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to Common Shareholders as dividend income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment.

The Fund intends to make monthly distributions of net investment income. Unless a shareholder elects otherwise, all distributions will be automatically reinvested in additional Common Shares of the Fund pursuant to the Plan. For U.S. federal income tax purposes, all dividends are generally taxable in the same manner, whether a shareholder takes them in cash or they are reinvested pursuant to the Plan in additional shares of the Fund. A shareholder whose distributions are reinvested in Common Shares under the Plan generally will be treated as having received a dividend equal to either (i) if Newly Issued Common Shares are issued under the Plan, the fair market value of the Newly Issued Common Shares issued to the shareholder or (ii) if reinvestment is made through Open-Market Purchases under the Plan, the amount of cash allocated to the shareholder for the purchase of Common Shares on its behalf in the open market. See “Dividend Reinvestment Plan” above.

For U.S. federal income tax purposes, distributions of investment income are generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund owned the investments that generated them, rather than how long a shareholder has owned his or her Common Shares. In general, the Fund will recognize long-term capital gain or loss on investments it has owned for more than one year, and short-term capital gain or loss on investments it has owned for one year or less. Tax rules can alter the Fund’s holding period in investments and thereby affect the tax treatment of gain or loss on such investments. Distributions of net capital gain that are properly reported by the Fund as capital gain dividends (“Capital Gain Dividends”) will be taxable to shareholders as long-term capital gains. Distributions from capital gains are generally made after applying any available capital loss carryovers. Long-term capital gain rates applicable to individuals have been temporarily reduced for taxable years beginning before January 1, 2013. Distributions of net short-term capital gain (as reduced by any net long-term capital loss for the taxable year) will be taxable to shareholders as ordinary income. For taxable years beginning before January 1, 2013, the Fund may report certain dividends as derived from “qualified dividend income,” which, when received by an individual, will be taxed at the rates applicable to long-term capital gain, provided holding period and other requirements are met at both the shareholder and Fund levels. The reduction in capital gain rates and special treatment of qualified dividend income will expire for taxable years beginning on or after January 1, 2013, unless Congress enacts legislation providing otherwise.

If the Fund receives dividends from an ETF or other investment company that qualifies as a RIC, and the investment company reports such dividends as qualified dividend income, then the Fund is permitted in turn to report a portion of its distributions as qualified dividend income, provided the Fund meets holding period and other requirements with respect to shares of the investment company.

Equity investments by the Fund in certain “passive foreign investment companies” (“PFICs”) could potentially subject the Fund to a U.S. federal income tax (including interest charges) on distributions
received from the PFIC or on proceeds received from the disposition of shares in the PFIC. This tax
cannot be eliminated by making distributions to Fund shareholders. The Fund may make certain
elections to avoid the imposition of that tax, but making such elections may accelerate the recognition
of income (without the receipt of cash) and increase the amount required to be distributed by the Fund
to avoid taxation. Making either of these elections therefore may require the Fund to liquidate other
investments (including when it is not advantageous to do so) to meet its distribution requirement.
Because it is not always possible to identify a foreign corporation as a PFIC, the Fund may incur the
tax and interest charges described above in some instances.

Effective for taxable years beginning on or after January 1, 2013, a 3.8% Medicare contribution tax
will be imposed on the “net investment income” of individuals, estates and trusts whose income
exceeds certain threshold amounts. Net investment income generally includes for this purpose dividends
paid by the Fund, including any Capital Gain Dividends, and net capital gains recognized on the sale,
redemption or exchange of Fund shares. Shareholders are advised to consult their tax advisors
regarding the possible implications of this additional tax on their investment in the Fund.

If the Fund makes a distribution in excess of its current and accumulated “earnings and profits” in
any taxable year, the excess distribution will be treated as a return of capital to the extent of a
shareholder’s tax basis in his or her Common Shares, and thereafter as capital gain. A return of capital
is not taxable, but it reduces a shareholder’s basis in his or her shares, thus reducing any loss or
increasing any gain on a subsequent taxable disposition by the shareholder of such shares.

The determination of the character for U.S. federal income tax purposes of any distribution from
the Fund (i.e. ordinary income dividends, capital gains dividends, qualified dividends, or return of
capital distributions) will be made as of the end of the Fund’s taxable year. Generally, the Fund will
provide shareholders with a written statement reporting the amount of any capital gain distributions or
other distributions.

Dividends and distributions on the Common Shares are generally subject to federal income tax as
described herein to the extent they do not exceed the Fund’s realized income and gains, even though
such dividends and distributions may economically represent a return of a particular shareholder’s
investment. Such distributions are likely to occur in respect of Common Shares purchased at a time
when the Fund’s net asset value reflects unrealized gains or income or gains that are realized but not
yet distributed. Such realized income and gains may be required to be distributed even when the Fund’s
net asset value also reflects unrealized losses.

Common Shareholders who sell or exchange their Common Shares will generally recognize gain or
loss in an amount equal to the difference between the Common Shareholder’s adjusted tax basis in the
Common Shares sold or exchanged and the amount received. If the Common Shares are held as a
capital asset, any gain or loss realized upon a taxable disposition of the Common Shares will be treated
as long-term capital gain or loss if the shares have been held for more than 12 months. Otherwise, the
gain or loss on the taxable disposition of Common Shares will be treated as short-term capital gain or
loss. However, any loss realized upon a taxable disposition of Common Shares held by a shareholder
for six months or less will be treated as long-term, rather than short-term, to the extent of Capital Gain
Dividends received (or deemed received) by the shareholder with respect to the shares. For purposes of
determining whether Common Shares have been held for six months or less, the holding period is
suspended for any periods during which the Common Shareholder’s risk of loss is diminished as a
result of holding one or more other positions in substantially similar or related property, or through
certain options or short sales. Any loss realized on a sale or exchange of Common Shares will be
disallowed to the extent those Common Shares are replaced by other substantially identical shares
within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of
the Common Shares (whether through the reinvestment of distributions, which could occur, for
example, if the Common Shareholder is a participant in the Plan or otherwise). In that event, the basis of the replacement shares will be adjusted to reflect the disallowed loss.

The Fund may be liable to foreign governments for taxes relating primarily to investment income or the sale or other disposition of foreign securities in the Fund's portfolio. If at the close of its taxable year, more than 50% of the value of the Fund's total assets consists of securities of foreign corporations (including foreign governments), the Fund will be permitted to make an election under the Code that would allow Common Shareholders who are U.S. citizens or U.S. corporations to claim a foreign tax credit or deduction (but not both) on their income tax returns for their pro rata portion of qualified taxes paid by the Fund to foreign countries in respect of foreign securities that the Fund held for at least the minimum period specified in the Code. In such a case, Common Shareholders will include in gross income from foreign sources their pro rata shares of such taxes paid by the Fund. A Common Shareholder's ability to claim an offsetting foreign tax credit or deduction in respect of foreign taxes paid by the Fund is subject to certain limitations imposed by the Code, which may result in the shareholder's not receiving a full credit or deduction (if any) for the amount of such taxes. Shareholders who do not itemize deductions on their U.S. federal income tax returns may claim a credit (but not a deduction) for such foreign taxes. Even if the Fund were eligible to make such an election for a given year, it might determine not to do so. Shareholders that are not subject to U.S. federal income tax, and those who invest in the Fund through tax-advantaged accounts (including those who invest through individual retirement accounts or other tax-advantaged retirement plans), generally will receive no benefit from any tax credit or deduction passed through by the Fund.

Any transaction by the Fund in foreign currencies, foreign-currency denominated debt obligations or certain foreign currency options, futures contracts, or forward contracts (or similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. Such ordinary income treatment may accelerate Fund distributions to Common Shareholders and increase the distributions taxed to Common Shareholders as ordinary income. Any net losses so created cannot be carried forward by the Fund to offset income or gains earned in subsequent taxable years. Foreign currency gains are generally treated as qualifying income for purposes of the 90% gross income test described above, in the absence of regulations (that have yet to be issued). There is a possibility that the Secretary of the Treasury will issue contrary tax regulations with respect to foreign currency gains that are not directly related to a RIC's principal business of investing in stocks or securities (or options or futures with respect to stocks or securities), and such regulations could apply retroactively.

The Fund’s transactions in derivative instruments (e.g., options, futures, forward contracts, structured notes and swap agreements), as well as any of its other hedging, short sale, securities loan or similar transactions, may be subject to uncertainty with respect to their tax treatment, and may be subject to one or more special tax rules (e.g., notional principal contract, straddle, constructive sale, wash sale, and short sale rules). These rules may affect whether gains and losses recognized by the Fund are treated as ordinary or capital or as short-term or long-term, accelerate the recognition of income or gains to the Fund, defer losses to the Fund, and cause adjustments in the holding periods of the Fund’s securities. These rules could therefore affect the amount, timing and/or character of distributions to Common Shareholders. Because the tax treatment and the tax rules applicable to these types of transactions are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules or treatment (which determination or guidance could be retroactive) may affect whether the Fund has made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain its qualification as a RIC and avoid a Fund-level tax.

Certain of the Fund’s use of derivatives and foreign currency-denominated instruments, and any of the Fund’s transactions in foreign currencies and hedging activities, are likely to produce a difference between its book income and its taxable income. If such a difference arises, and the Fund’s book income is less than the sum of its taxable income and net tax-exempt income, the Fund could be
required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment and to avoid an entity-level tax. In the alternative, if the Fund’s book income exceeds its taxable income (including realized capital gains), the distribution (if any) of such excess generally will be treated as (i) a dividend to the extent of the Fund’s remaining earnings and profits, (ii) thereafter, as a return of capital to the extent of the recipient’s basis in its Common Shares, and (iii) thereafter as gain from the sale or exchange of a capital asset.

From time to time, a substantial portion of the Fund’s investments in loans and other debt obligations could be treated as having “market discount” and/or “original issue discount” (“OID”) for U.S. federal income tax purposes, which, in some cases, could be significant and could cause the Fund to recognize income in respect of these investments before or without receiving cash representing such income. The Fund’s investment in inflation-indexed bonds could similarly result in the Fund recognizing income without a corresponding receipt of cash. In either case, the Fund could be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest the Fund actually received. As a result, the Fund could be required at times to, among other things, liquidate other investments (including at potentially disadvantageous times or prices) in order to satisfy its distribution requirements and to avoid incurring Fund-level U.S. federal income or excise taxes. If the Fund liquidates portfolio securities to raise cash, the Fund may realize gain or loss on such liquidations; in the event the Fund realizes net long-term or short-term capital gains from such liquidation transactions, its shareholders may receive larger capital gain or ordinary dividends, respectively, than they would in the absence of such transactions.

Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation; when the Fund may cease to accrue interest, OID or market discount; when and to what extent the Fund may take deductions for bad debts or worthless securities; and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund when, as, and if it invests in such securities in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and avoid becoming subject to U.S. federal income or excise tax.

The Fund’s investments in shares of an ETF or other investment company that qualifies as a RIC can cause the Fund to be required to distribute greater amounts of net investment income or net capital gain than the Fund would have distributed had it invested directly in the securities held by the investment company, rather than in shares of the investment company. Further, the amount or timing of distributions from the Fund qualifying for particular treatment (e.g., as long-term capital gain) will not necessarily be the same as it would have been had the Fund invested directly in the securities held by the investment company.

Backup withholding is generally required with respect to taxable distributions paid to any individual shareholder who fails to properly furnish a correct taxpayer identification number, who has under-reported dividend or interest income, or who fails to certify that he or she is not subject to such withholding. The backup withholding rate is 28% for amounts paid through 2012. This rate will expire and the backup withholding rate will be 31% for amounts paid after December 31, 2012, unless Congress enacts legislation providing otherwise. Amounts withheld as a result of backup withholding are remitted to the U.S. Treasury but do not constitute an additional tax imposed on the shareholder; such amounts may be claimed as a credit on the shareholder’s U.S. federal income tax return, provided the appropriate information is furnished to the IRS.

In general, dividends other than Capital Gain Dividends paid to a shareholder that is not a “U.S. person” within the meaning of the Code (a “foreign shareholder”) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate). Capital Gain Dividends paid to foreign shareholders are generally not subject to withholding. Effective for taxable years of a RIC
beginning before January 1, 2012, the RIC was not required to withhold any amounts with respect to
distributions of (i) U.S.-source interest income that would not have been subject to U.S. federal income
tax if earned directly by an individual foreign shareholder, and (ii) net short-term capital gains in excess
of net long-term capital losses, in each case to the extent the RIC properly reported such distributions
to shareholders. It is currently unclear whether Congress will extend these exemptions from withholding
for distributions with respect to taxable years of a RIC beginning on or after January 1, 2012, or what
the terms of such an extension would be, including whether such extension would have retroactive
effect.

The Foreign Account Tax Compliance Act (FATCA) generally imposes a new reporting and 30%
withholding tax regime with respect to certain U.S.-source income, including dividends and interest, and
gross proceeds from the sale or other disposal of property that can produce U.S.-source interest or
dividends. Very generally, subject to future guidance and to a phase in beginning January 1, 2014, it is
possible that distributions to a Common Shareholder by the Fund will be subject to the new 30%
withholding requirements, unless the Common Shareholder provides such certifications, waivers or
other documentation as the Fund requires to comply with these rules. For more information, see the
Statement of Additional Information.

Special tax rules apply to investments through defined contribution plans and other tax-qualified
plans. Common Shareholders should consult their tax advisors to determine the suitability of Common
Shares as an investment through such plans and the precise effect of an investment on their particular
tax situation.

The foregoing discussion relates solely to U.S. federal income tax laws. Dividends and distributions
also may be subject to state and local taxes. Common Shareholders are urged to consult their tax
advisors regarding specific questions as to federal, state, local, and, where applicable, foreign taxes.
Foreign investors should consult their tax advisors concerning the tax consequences of ownership of
Common Shares.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and
related regulations currently in effect. For more detailed information, see the Statement of Additional
Information. For the complete provisions, reference should be made to the pertinent Code sections and
regulations. The Code and regulations are subject to change by legislative or administrative actions.

DESCRIPTION OF SHARES

The Fund was organized as a Massachusetts business trust on May 25, 2012, pursuant to the
Declaration of Trust. The Fund’s Declaration of Trust provides that the Trustees of the Fund may
authorize separate classes of shares of beneficial interest. The Trustees have authorized an unlimited
number of Common Shares. The Fund intends to hold annual meetings of Common Shareholders in
compliance with the requirements of the NYSE.

Common Shares

The following is a brief description of the capital structure of the Fund. This description does not
purport to be complete and is subject to and qualified in its entirety by reference to the Declaration of
Trust and the Fund’s Bylaws, as amended and restated through the date hereof (the “Bylaws”). The
Declaration of Trust and Bylaws are each exhibits to the registration statement of which this prospectus
is a part.

The Fund is an unincorporated voluntary association with transferable shares of beneficial interest
(commonly referred to as a “Massachusetts business trust”) established under the laws of The
Commonwealth of Massachusetts by the Declaration of Trust. The Declaration of Trust provides that
the Trustees of the Fund may authorize separate classes of shares of beneficial interest. Preferred
Shares may be issued in one or more series, with such par value and with such rights as determined by the Board, by action of the Board without the approval of the Common Shareholders. The following table shows, for each class of authorized securities of the Fund, the amount of (i) shares authorized and (ii) shares outstanding, each as of September 21, 2012.

<table>
<thead>
<tr>
<th>Title of Class</th>
<th>Amount Authorized</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Shares</td>
<td>Unlimited</td>
<td>4,188</td>
</tr>
</tbody>
</table>

Common Shareholders are entitled to share equally in dividends declared by the Board and in the net assets of the Fund available for distribution to Common Shareholders after payment of the preferential amounts payable to any outstanding Preferred Shares. Common Shareholders have no preemptive or conversion rights and have no right to cause the Fund to redeem their shares. Upon liquidation of the Fund, after paying or adequately providing for the payment of all liabilities of the Fund and the liquidation preference with respect to any outstanding Preferred Shares, and upon receipt of such releases, indemnities and refunding agreements as they deem necessary for their protection, the trustees may distribute the remaining assets of the Fund among the Fund's Common Shareholders.

Common Shareholders are entitled to one vote for each common share held.

The Fund will send unaudited reports at least semiannually and audited financial statements annually to all of its Common Shareholders.

**ANTI-TAKEOVER PROVISIONS IN THE DECLARATION OF TRUST**

The Declaration of Trust and the Bylaws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. The Fund’s trustees are divided into three classes. At each annual meeting of shareholders, the term of one class expires and each trustee elected to that class holds office for a term of three years. The classification of the Board in this manner could delay for an additional year the replacement of a majority of the Board. In addition, the Declaration of Trust provides that a trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such trustee, or (ii) by at least seventy-five percent (75%) of the remaining trustees.

As described below, the Declaration of Trust grants special approval rights with respect to certain matters to members of the Board who qualify as “Continuing Trustees,” which term means trustees who either (i) have been members of the Board for a period of at least thirty-six months (or since the commencement of the Fund's operations, if less than thirty-six months) or (ii) were nominated to serve as members of the Board by a majority of the Continuing Trustees then members of the Board.

The Declaration of Trust requires the affirmative vote or consent of at least seventy-five percent (75%) of the trustees and holders of at least seventy-five percent (75%) of the Fund’s Common Shares to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation, issuance or transfer by the Fund of the Fund’s shares (except as may be pursuant to a public offering, the Fund’s dividend reinvestment plan or upon exercise of any stock subscription rights), a sale, transfer or other disposition of Fund assets, or any shareholder proposal regarding specific investment decisions, unless the transaction is authorized by both a majority of the trustees and seventy-five percent (75%) of the Continuing Trustees (in which case no shareholder authorization would be required by the Declaration of Trust, but may be required in certain cases under the 1940 Act). The Declaration of Trust also requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of the Fund’s Common Shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the trustees and seventy-five percent (75%) of the Continuing Trustees.
(in which case shareholders would have only the minimum voting rights required by the 1940 Act with respect to the conversion). Also, the Declaration of Trust provides that the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%) of the Fund’s shares or, alternatively, by vote or consent of both a majority of the trustees and seventy-five percent (75%) of the Continuing Trustees. See “Other Information—Anti-Takeover Provisions” in the Statement of Additional Information for a more detailed summary of these provisions.

The trustees may from time to time grant other voting rights to shareholders with respect to these and other matters in the Bylaws, certain of which are required by the 1940 Act.

The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. These provisions also provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund’s investment objective and policies. The provisions of the Declaration of Trust and Bylaws described above could have the effect of discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The Board has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration of Trust and the Bylaws, both of which are on file with the SEC.

Under Massachusetts law, shareholders could, in certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the trustees. The Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

REPURCHASE OF COMMON SHARES

The Fund is a closed-end investment company and as such Common Shareholders do not have the right to cause the Fund to redeem their Common Shares. Instead, the Common Shares trade in the open market at a price that is a function of several factors, including dividend levels, NAV, call protection, portfolio credit quality, relative demand for and supply of such shares in the market, general market and economic conditions, conditions affecting individual issuers and other factors. Shares of a closed-end investment company may frequently trade at prices lower than NAV. To the extent permitted under applicable law, the Board reserves the right to purchase its Common Shares on the open market at any time. For example, the Board regularly monitors the relationship between the market price and NAV of the Common Shares. If the Common Shares were to trade at a substantial discount to NAV for an extended period of time, the Board may consider the repurchase of its Common Shares on the open market or in private transactions, the making of a tender offer for such shares, or the conversion of the Fund to an open-end investment company. The Fund cannot assure you that the Board will decide to take or propose any of these actions, or that share repurchases or tender offers will actually reduce market discount.
CONVERSION TO OPEN-END FUND

If the Fund were to convert to an open-end company, it would be required to redeem all Preferred Shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the Common Shares would no longer be listed on the NYSE. In addition, the Fund may have to close out any credit default swaps that it had written. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV, less any redemption charge that is in effect at the time of redemption. In addition, if the Fund were to convert to an open-end company, it would not be able to invest more than 15% of its net assets in illiquid securities, which may necessitate a substantial repositioning of the Fund’s investment portfolio, which may in turn generate substantial transaction costs, which would be borne by Common Shareholders, and may adversely affect Fund performance and common share dividends.

Before deciding whether to take any action to convert the Fund to an open-end investment company, the Board would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund’s portfolio, the effect of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund’s Common Shares should trade at a discount, the Board may determine that, in the interest of the Fund and its shareholders, no action should be taken. See “Other Information—Repurchase of Common Shares; Conversion to Open-End Fund” in the Statement of Additional Information for a further discussion of possible action to reduce or to eliminate such discount to NAV.
UNDERWRITERS

Under the terms and subject to the conditions contained in the underwriting agreement dated the date of this prospectus, the Underwriters named below, for whom Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and UBS Securities LLC are acting as representatives (collectively, the “Representatives”), have severally agreed to purchase, and the Fund has agreed to sell to them, the number of Common Shares indicated below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Common Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley &amp; Co. LLC</td>
<td>3,740,000</td>
</tr>
<tr>
<td>Citigroup Global Markets Inc.</td>
<td>2,190,000</td>
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<tr>
<td>UBS Securities LLC</td>
<td>1,795,000</td>
</tr>
<tr>
<td>RBC Capital Markets, LLC</td>
<td>970,000</td>
</tr>
<tr>
<td>Chardan Capital Markets LLC</td>
<td>121,000</td>
</tr>
<tr>
<td>Henley &amp; Company LLC</td>
<td>76,000</td>
</tr>
<tr>
<td>J.J.B. Hilliard, W.L. Lyons, LLC</td>
<td>42,000</td>
</tr>
<tr>
<td>Janney Montgomery Scott LLC</td>
<td>87,000</td>
</tr>
<tr>
<td>Ladenburg Thalmann &amp; Co. Inc.</td>
<td>143,000</td>
</tr>
<tr>
<td>Maxim Group LLC</td>
<td>15,000</td>
</tr>
<tr>
<td>Wedbush Securities Inc.</td>
<td>116,000</td>
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<tr>
<td>Wunderlich Securities, Inc.</td>
<td>13,500</td>
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<tr>
<td>BB&amp;T Capital Markets, a division of Scott &amp; Stringfellow, LLC</td>
<td>57,000</td>
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<tr>
<td>Brean Capital, LLC</td>
<td>4,500</td>
</tr>
<tr>
<td>Capitol Securities Management Incorporated</td>
<td>1,800</td>
</tr>
<tr>
<td>Direct Access Partners LLC</td>
<td>31,300</td>
</tr>
<tr>
<td>Dominick &amp; Dominick LLC</td>
<td>12,000</td>
</tr>
<tr>
<td>E*Trade Securities LLC</td>
<td>22,000</td>
</tr>
<tr>
<td>Geoffrey Richards Securities Corp.</td>
<td>33,000</td>
</tr>
<tr>
<td>Huntleigh Securities Corporation</td>
<td>900</td>
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<tr>
<td>J. P. Turner &amp; Company, L.L.C.</td>
<td>28,000</td>
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<tr>
<td>Muriel Siebert &amp; Co., Inc.</td>
<td>20,000</td>
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<tr>
<td>National Securities Corporation</td>
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<tr>
<td>Regal Securities, Inc.</td>
<td>11,000</td>
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<tr>
<td>Revere Securities Corp.</td>
<td>6,300</td>
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<tr>
<td>Southwest Securities, Inc.</td>
<td>9,000</td>
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<tr>
<td>Summit Brokerage Services, Inc.</td>
<td>20,000</td>
</tr>
<tr>
<td>The Investment Center, Inc.</td>
<td>8,400</td>
</tr>
<tr>
<td>Wayne Hummer Investments L.L.C.</td>
<td>4,300</td>
</tr>
<tr>
<td>TOTAL</td>
<td>9,600,000</td>
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</tbody>
</table>

The Underwriters are offering the Common Shares subject to their acceptance of the Common Shares from the Fund and subject to prior sale. The underwriting agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Common Shares offered by this prospectus are subject to the approval of legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the Common Shares offered by this prospectus if any such Common Shares are taken. However, the Underwriters are not required to take or pay for the Common Shares covered by the Underwriters’ over-allotment option described below.

The Underwriters initially propose to offer part of the Common Shares directly to the public at the initial offering price listed on the cover page of this prospectus and part to certain dealers at a
price that represents a concession not in excess of $0.75 per Common Share under the initial offering price. The underwriting discounts and commissions (sales load) of $1.125 per Common Share are equal to 4.50% of the initial offering price. Investors must pay for any Common Shares purchased on or before October 30, 2012.

The Fund has granted to the Underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to an aggregate of 1,440,000 Common Shares at the initial public offering price per share listed on the cover page of this prospectus, less underwriting discounts and commissions. The Underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the Common Shares offered by this prospectus. To the extent the option is exercised, each Underwriter will become obligated, subject to limited conditions, to purchase approximately the same percentage of the additional Common Shares as the number listed next to the Underwriter’s name in the preceding table bears to the total number of Common Shares listed next to the names of all Underwriters in the preceding table. If the Underwriters’ over-allotment option is exercised in full, the total public offering price would be $276,000,000, the total Underwriters’ discounts and commissions (sales load) would be $12,420,000, the total estimated offering expenses borne by the Fund would be $552,000, and the total proceeds, after expenses, to the Fund would be $263,028,000.

The following table summarizes the estimated expenses and compensation that the Fund will pay:

<table>
<thead>
<tr>
<th>Per Common Share</th>
<th>Without Over-allotment</th>
<th>With Over-allotment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public offering price</td>
<td>$25.00</td>
<td>$25.00</td>
<td>$240,000,000</td>
</tr>
<tr>
<td>Sales load</td>
<td>$1.125</td>
<td>$1.125</td>
<td>$10,800,000</td>
</tr>
<tr>
<td>Estimated offering expenses</td>
<td>$0.05</td>
<td>$0.05</td>
<td>$480,000</td>
</tr>
<tr>
<td>Proceeds, after expenses, to the Fund</td>
<td>$23.825</td>
<td>$23.825</td>
<td>$228,720,000</td>
</tr>
</tbody>
</table>

The fees to certain Underwriters described below under “—Additional Compensation to Be Paid by the Investment Manager” are not reimbursable to the Investment Manager by the Fund, and are therefore not reflected in expenses payable by the Fund in the table above. However, “Estimated offering expenses” in the table above include the payment of a distribution assistance fee by the Fund to ALPS Distributors, Inc.

Offering expenses paid by the Fund (other than sales load, but inclusive of the distribution assistance payment to ALPS Distributors, Inc.) will not exceed $0.05 per Common Share sold by the Fund in this offering. If the offering expenses referred to in the preceding sentence exceed this amount, the Investment Manager will pay the excess. The aggregate offering expenses (excluding sales load, but inclusive of the distribution assistance payment to ALPS Distributors, Inc.) are estimated to be $1,119,000 in total, $480,000 of which will be borne by the Fund (or $552,000 if the Underwriters exercise their over-allotment option in full).

The Underwriters have informed the Fund that they do not intend sales to discretionary accounts to exceed five percent of the total number of Common Shares offered by them.

In order to meet requirements for listing the Common Shares on the NYSE, the Underwriters have undertaken to sell lots of 100 or more shares to a minimum of 400 beneficial owners. The minimum investment requirement is 100 Common Shares ($2,000).

The Fund’s Common Shares have been approved for listing on the NYSE, subject to notice of issuance, under the symbol “EDI.”

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At the Fund's request, the Underwriters have agreed to reserve less than 1% of the Common Shares for sale in this offering to certain Trustees, portfolio managers and other officers and employees of the Investment Manager and its affiliates and their relatives (the “affiliated purchasers”), at the offering price of $25.00 per Common Share.

The Fund has agreed, and, subject to certain exceptions, certain affiliated purchasers purchasing Common Shares in this offering have agreed, that, without the prior written consent of the Representatives on behalf of the Underwriters, it will not, during the period ending 180 days after the date of this prospectus, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Shares or any securities convertible into or exercisable or exchangeable for Common Shares, or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Shares, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Shares or such other securities, in cash or otherwise, or (3) file any registration statement with the SEC relating to the offering of any Common Shares or any securities convertible into or exercisable for Common Shares. In the event that either (x) during the last 17 days of the 180-day period referred to above, the Fund issues an earnings release or material news or a material event relating to the Fund occurs or (y) prior to the expiration of such 180-day period, the Fund announces that it will release earnings results during the 16-day period beginning on the last day of such 180-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the date of the earnings release or the occurrence of the material news or material event, as applicable. These lock-up agreements will not apply to the Common Shares to be sold pursuant to the underwriting agreement or any Common Shares issued pursuant to the Plan or any Preferred Share issuance.

In order to facilitate the offering of the Common Shares, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Shares. The Underwriters currently expect to sell more Common Shares than they are obligated to purchase under the underwriting agreement, creating a short position in the Common Shares for their own account. A short sale is covered if the short position is no greater than the number of Common Shares available for purchase by the Underwriters under the over-allotment option (exercisable for 45 days from the date of this prospectus). The Underwriters can close out a covered short sale by exercising the over-allotment option or purchasing Common Shares in the open market. In determining the source of Common Shares to close out a covered short sale, the Underwriters will consider, among other things, the open market price of the Common Shares compared to the price available under the over-allotment option. The Underwriters may also sell Common Shares in excess of the over-allotment option, creating a naked short position. The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market after pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, the Underwriters may bid for, and purchase, Common Shares in the open market to stabilize the price of the Common Shares. Finally, the underwriting syndicate may also reclaim selling concessions allowed to an Underwriter or a dealer for distributing the Common Shares in the offering. Any of these activities may raise or maintain the market price of the Common Shares above independent market levels or prevent, limit or slow a decline in the market price of the Common Shares. The Underwriters are not required to engage in these activities, and may end any of these activities at any time.

Prior to this offering, there has been no public or private market for the Common Shares or any other securities of the Fund. Consequently, the offering price for the Common Shares was determined by negotiation among the Fund, the Investment Manager and the Representatives. There can be no
assurance, however, that the price at which the Common Shares trade after this offering will not be lower than the price at which they are sold by the Underwriters or that an active trading market in the Common Shares will develop and continue after this offering.

The Fund anticipates that the Representatives and certain other Underwriters may from time to time act as brokers and dealers in connection with the execution of its portfolio transactions after they have ceased to be Underwriters and, subject to certain restrictions, may act as such brokers while they are Underwriters.

In connection with this offering, certain of the Underwriters or selected dealers may distribute prospectuses electronically. The Fund, the Investment Manager and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters or their respective affiliates from time to time have provided in the past, and may provide in the future, investment banking, securities trading, hedging, brokerage activities, commercial lending and financial advisory services to the Fund, certain of its executive officers and affiliates and the Investment Manager and its affiliates in the ordinary course of business, for which they have received, and may receive, customary fees and expenses.

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of the Common Shares, or the possession, circulation or distribution of this prospectus or any other material relating to the Fund or the Common Shares, in any jurisdiction where action for that purpose is required. Accordingly, the Common Shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the Common Shares may be distributed or published, in or from any country or jurisdiction except in compliance with the applicable rules and regulations of any such country or jurisdiction.

**Additional Compensation to be Paid by the Investment Manager**

The Investment Manager (and not the Fund) has agreed to pay certain Underwriters compensation in addition to the sales load compensation that the Underwriters will receive from the Fund. The Investment Manager (and not the Fund) has agreed to pay Morgan Stanley & Co. LLC from its own assets, structuring and syndication fees in the amount of $2,626,192 for advice relating to the design and structuring of the Fund, including without limitation, views from an investor market, distribution and syndication perspective on (i) diversification, proportion and concentration approaches for the Fund’s investments in light of current market conditions, (ii) marketing issues with respect to the Fund’s investment policies and proposed investments, (iii) the allocation of the Fund’s assets among its various investments, (iv) the overall marketing and positioning thesis for the offering of the Common Shares, (v) securing participants in the Fund’s initial public offering, (vi) preparation of marketing and diligence materials for Underwriters, (vii) conveying information and market updates to the Underwriters, and (viii) coordinating syndicate orders in this offering. The structuring and syndication fees paid to Morgan Stanley & Co. LLC will not exceed 1.09% of the total public offering price of the Common Shares. These services provided by Morgan Stanley & Co. LLC to the Investment Manager are unrelated to the Investment Manager’s function of advising the Fund as to its investments in securities or use of investment strategies and investment techniques.

The Investment Manager (and not the Fund) has agreed to pay each of Citigroup Global Markets Inc., UBS Securities LLC and RBC Capital Markets, LLC from its own assets, a structuring fee for advice relating to the structure, design and organization of the Fund as well as services related to the sale and distribution of the Common Shares in the amount of $828,316, $675,959 and $339,063, respectively. The structuring fee paid to each of Citigroup Global Markets Inc., UBS Securities LLC
and RBC Capital Markets, LLC will not exceed 0.35%, 0.28% and 0.14%, respectively, of the total public offering price of the Common Shares. These services provided by Citigroup Global Markets Inc., UBS Securities LLC and RBC Capital Markets, LLC to the Investment Manager are unrelated to the Investment Manager’s function of advising the Fund as to its investments in securities or use of investment strategies and investment techniques.

The amount of these structuring and syndication fees are calculated based on the total respective sales of Common Shares by these Underwriters, including those Common Shares included in the Underwriters’ over-allotment option, and will be paid regardless of whether some or all of the over-allotment option is exercised.

ALPS Distributors, Inc. will provide services associated with the initial promotion and distribution of the Common Shares, including without limitation, national road show promotion by ALPS Distributors’ sales team, assistance in writing and developing sales and marketing materials, design and coordination of production and printing of marketing materials, execution of a top-down marketing campaign at wire houses, and road show and syndicate coordination. The Fund has agreed to pay a distribution assistance fee of $0.025 per Common Share (or $240,000, assuming no exercise of the Underwriters’ over-allotment option) to ALPS Distributors, Inc. for these services. This fee will not exceed 0.10% of the total public offering price of the Common Shares.

Total underwriting compensation determined in accordance with Financial Industry Regulatory Authority, Inc. (“FINRA”) rules is summarized as follows. The sales load the Fund will pay of $1.125 per share is equal to 4.50% of the total public offering price of the Common Shares. The Fund has agreed to reimburse the Underwriters for the reasonable fees and disbursements of counsel to the Underwriters in connection with the review by FINRA of the terms of the sale of the Common Shares in an amount not to exceed $30,000 in the aggregate, which amount will not exceed 0.01% of the total public offering price of the Common Shares, and to reimburse ALPS Distributors, Inc. for the transportation and other expenses incurred in connection with presentations to prospective purchasers of the Common Stock in an amount not to exceed $225,000 in the aggregate, which amount will not exceed 0.09% of the total public offer price of the Common Shares. The sum total of all compensation to the Underwriters and ALPS Distributors, Inc. in connection with this public offering of the Common Shares, including sales load, expense reimbursement and all forms of syndication fee, structuring fee and distribution assistance fee payments to the Underwriters and ALPS Distributors, Inc. will not exceed 6.6% of the total public offering price of the Common Shares.

The Investment Manager has purchased Common Shares from the Fund in an amount satisfying the net worth requirements of Section 14(a) of the 1940 Act.


CUSTODIAN AND TRANSFER AGENT

BNYM is the custodian and foreign custody manager of the Fund and will maintain or arrange for the custody of the securities and cash of the Fund. The principal address of BNYM is One Wall Street, New York, New York 10286.

Computershare serves as the transfer agent of the Fund. The principal address of Computershare is 480 Washington Blvd, Jersey City, New Jersey 07310.
LEGAL MATTERS

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

REPORTS TO SHAREHOLDERS

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP is the independent registered public accounting firm for the Fund providing audit services, tax return preparation, and assistance and consultation with respect to the preparation of filings with the SEC.

ADDITIONAL INFORMATION

This prospectus and the Statement of Additional Information do not contain all of the information set forth in the Registration Statement that the Fund has filed with the SEC. You may request a free copy of the Statement of Additional Information by calling 1-877-206-0791 (toll-free) or by writing to ALPS Fund Services, Inc., 1290 Broadway, Suite 1100, Denver, Colorado 80203 or obtain the complete Registration Statement from the SEC’s website (http://www.sec.gov) or from the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. To obtain annual and semi-annual shareholder reports electronically (when available), please visit the Fund's web site (www.www.shiplpcef.com/edi), which also provides a link to the SEC’s website where the Fund’s Statement of Additional Information can be obtained, or call 1-877-206-0791 (toll-free). You may also call this number to request additional information or to make other inquiries pertaining to the Fund.

Statements contained in this prospectus as to the contents of any contract or other documents referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which this prospectus forms a part, each such statement being qualified in all respects by such reference.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
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STONE HARBOR INVESTMENT FUNDS  
STONE HARBOR CLOSED-END FUNDS  
PRIVACY POLICY AND PROCEDURES

Stone Harbor Investment Partners LP (“Stone Harbor” or the “Adviser”)-managed U.S. registered open-end investment companies (the “Stone Harbor Investment Funds”) and Stone Harbor-managed U.S. registered closed-end investment companies (the “Stone Harbor Closed-End Funds,” together with the Stone Harbor Investment Funds, the “Funds”) have adopted the following privacy policies in order to safeguard the personal information of the Funds’ customers and consumers in accordance with Regulation S-P as promulgated by the U.S. Securities and Exchange Commission.

Fund officers are responsible for ensuring that the following policies and procedures are implemented:

1. The Funds are committed to protecting the confidentiality and security of the information they collect and will handle personal customer and consumer information only in accordance with Regulation S-P and any other applicable laws, rules and regulations. Each Fund will ensure:
   (a) the security and confidentiality of customer records and information; (b) that customer records and information are protected from any anticipated threats and hazards; and (c) that customer records and information are protected from unauthorized access or use.

2. Each Fund conducts its business affairs through its trustees, officers and third parties that provide services pursuant to agreements with the Funds. No Fund has any employees. It is anticipated that the trustees and officers of a Fund who are not employees of service providers will not have access to customer records and information in the performance of their normal responsibilities for the Funds.

3. Each Fund may share customer information with its affiliates, subject to the customers’ right to prohibit such sharing.

4. Each Fund may share customer information with unaffiliated third parties only in accordance with the requirements of Regulation S-P. Pursuant to this policy, a Fund will not share customer information with unaffiliated third parties other than as permitted by law, unless authorized to do so by the customer.

Consistent with these policies, the Funds adopt the following procedures:

1. Each Fund will determine that the policies and procedures of its affiliates and Service Providers are reasonably designed to safeguard customer information and only permit appropriate and authorized access to and use of customer information through the application of appropriate administrative, technical and physical protections.

2. Each Fund will direct each of its Service Providers to adhere to the privacy policy of the Funds and to their respective privacy policies with respect to each Fund’s customer information and to take all action reasonably necessary so that the Funds are in compliance with the provisions of Regulation S-P, including, as applicable, the development and delivery of privacy notices and the maintenance of appropriate and adequate records.

3. Each Service Provider is required to promptly report to the officers of the Funds any material changes to its privacy policy before, or promptly after, the adoption of such changes.

(1) Generally, the Funds have institutional clients which are not considered “customers” for purposes of Regulation S-P.
9,600,000 Shares

Stone Harbor Emerging Markets Total Income Fund

Common Shares

$25.00 per Share

PROSPECTUS
October 25, 2012

Morgan Stanley
Citigroup
UBS Investment Bank
RBC Capital Markets
Chardan Capital Markets, LLC
Henley & Company LLC
J.J.B. Hilliard, W.L. Lyons, LLC
Janney Montgomery Scott
Ladenburg Thalmann & Co. Inc.
Maxim Group LLC
Wedbush Securities Inc.
Wunderlich Securities

Until November 19, 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade the Common Shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.