

BLACKROCK LTD DURATION INCOME TRUST

Form N-2/A

April 30, 2014

As filed with the Securities and Exchange Commission on April 30 , 2014

Securities Act Registration No. 333- 194575

Investment Company Act Registration No. 811-21349

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

ý Registration Statement under the Securities Act of 1933

ý Pre-Effective Amendment No. 1

¨ Post-Effective Amendment No.

and/or

ý Registration Statement Under the Investment Company Act of 1940

ý Amendment No. 4

BlackRock Limited Duration Income Trust
(Exact Name of Registrant as Specified in Charter)

100 Bellevue Parkway
Wilmington, Delaware 19809
(Address of Principal Executive Offices)

(800) 882-0052
(Registrant's Telephone Number, Including Area Code)

John Perlowski, President
BlackRock Limited Duration Income Trust
55 East 52nd Street
New York, New York 10055
(Name and Address of Agent for Service)

Copies to:

Thomas A. DeCapo, Esq.
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500 Boylston Street
Boston, Massachusetts 02116

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BlackRock Advisors, LLC
55 East 52nd Street
New York, New York 10055

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

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415

under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box ý

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Shares, \$0.001 par value	3,750,000	\$17.11	\$64,162,500(1)	\$8,264.13(2)

- (1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the common shares on April 24, 2014 as reported on the New York Stock Exchange .
- (2) \$128.80 previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED APRIL 30 , 2014

3,750,000 Shares
BlackRock Limited Duration Income Trust
Common Shares

PART I

INFORMATION ABOUT BLACKROCK LIMITED DURATION INCOME TRUST

Item 1. Outside Front Cover

- 1.a. The registrant's name is BlackRock Limited Duration Income Trust (the "Fund").
- 1.b. The Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified, closed-end management investment company. The Fund's investment objective is to provide current income and capital appreciation. There can be no assurance that the Fund's investment objective will be achieved or that the Fund's investment program will be successful. The Fund's investment objective may be changed by the Fund's Board of Trustees (the "Board," and each member, a "Trustee") without prior shareholder approval.

The Fund pursues its objective by investing primarily in three distinct asset classes:

- intermediate duration, investment grade corporate bonds, mortgage related securities and asset-backed securities and U.S. Government and agency securities;
- senior, secured floating rate loans made to corporate and other business entities; and
- U.S. dollar-denominated securities of U.S. and non-U.S. issuers rated below investment grade and, to a limited extent, non-U.S. dollar denominated securities of non-U.S. issuers rated below investment grade. Debt securities rated below investment grade commonly are referred to as "junk bonds."

The Fund may invest directly in such securities or synthetically through the use of derivatives. There is no limit on the amount of credit derivative transactions that may be entered into by the Fund. BlackRock Advisors, LLC, the Fund's investment adviser (the "Investment Advisor"), and BlackRock Financial Management, Inc., the Fund's investment sub-adviser (the "Sub-Advisor" and, together with the Investment Advisor, the "Advisors"), have broad discretion to allocate the Fund's assets among these three principal asset classes.

- 1.c. The Fund is offering up to 3,750,000 common shares.
- 1.d. You should read this Prospectus, which concisely sets forth information about the Fund, before deciding whether to invest in the Fund's common shares and retain it for future reference. Additional information about the Fund and materials incorporated by reference have been filed with the Securities and Exchange Commission (the "SEC") and are available upon either written or oral request, free of charge, by calling 1-800-882-0052, by writing to the Fund, or may be found on the SEC's website at www.sec.gov. You may also

request a copy of this Prospectus, annual and semi-annual reports, other information about the Fund, and/or make investor inquiries by calling 1-800-882-0052, or by writing to the Fund. The Fund's annual and semi-annual reports are also available on the Fund's website at www.blackrock.com free of charge. This reference to BlackRock's website is intended to allow public access to information regarding the Fund and does not, and is not intended to, incorporate BlackRock's website into this Prospectus.

You should not construe the contents of this Prospectus as legal, tax or financial advice. You should consult with your own professional advisors as to the legal, tax, financial or other matters relevant to the suitability of an investment in the Fund.

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

1.e. This Prospectus is dated _____, 2014.

1.f. Not applicable.

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- 1.g. The Fund's common shares are listed on the New York Stock Exchange ("NYSE") under the symbol "BLW." Sales of the Fund's common shares, if any, under this Prospectus may be made in transactions that are deemed to be "at the market" as defined in Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), including sales made directly on the NYSE. The minimum price on any day at which Fund common shares may be sold will not be less than the current net asset value ("NAV") per share plus the per share amount of the commission to be paid to the Fund's distributor (the "Minimum Price"), BlackRock Investments, LLC (the "Distributor"). The Fund and the Distributor will determine whether any sales of the Fund's common shares will be authorized on a particular day; the Fund and the Distributor, however, will not authorize sales of the Fund's common shares if the per share price of the shares is less than the Minimum Price. The Fund and the Distributor may also not authorize sales of the Fund's common shares on a particular day even if the per share price of the shares is equal to or greater than the Minimum Price, or may only authorize a fixed number of shares to be sold on any particular day. The Fund and the Distributor will have full discretion regarding whether sales of Fund common shares will be authorized on a particular day and, if so, in what amounts. As of April 22, 2014, the last reported sale price for the Fund's common shares on the NYSE was \$ 17.23 per share.

The Distributor has entered into a dealer agreement, dated _____, 2014 (the "Dealer Agreement"), with UBS Securities LLC (the "Dealer") with respect to the Fund relating to the common shares offered by this Prospectus. In accordance with the terms of the Dealer Agreement, the Fund may offer and sell its common shares from time to time through the Dealer as sub-placement agent for the offer and sale of its common shares. The Fund will compensate the Distributor with respect to sales of common shares at a commission rate of 1.00 % of the gross proceeds of the sale of the Fund's common shares. Out of this commission, the Distributor will compensate broker-dealers at a rate of up to 0.80 % of the gross sales proceeds of the sale of the Fund's common shares sold by that broker-dealer.

- 1.h. The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the SEC is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Neither the SEC 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.

- 1.i. The Fund's common shares have traded both at a premium and a discount to NAV. The Fund cannot predict whether its common shares will trade at a premium or discount to NAV in the future. The provisions of the 1940 Act generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common shares (calculated within 48 hours of pricing). The Fund's issuance of common shares may have an adverse effect on prices for the Fund's common shares in the secondary market by increasing the number of common shares available in the market, which may put downward pressure on the market price for the Fund's common shares. Common shares of closed-end investment companies frequently trade at a discount from NAV, which may increase investors' risk of loss.
- 1.j. Investing in the Fund's common shares involves certain risks that are described in Item 8.3 beginning on page I-23 of Part I of this Prospectus, and under Item 8 in Part II of this Prospectus under "Risk Factors," beginning on page II-31 of Part II. Certain of these risks are summarized in Item 3.2 beginning on page I-9 of Part I of this Prospectus.
- 1.k. Not applicable.

2. Not applicable.

Item 2. Cover Pages; Other Offering Information

1. Exchange listing: see Item 1.g.

2. Not applicable.

3. Not applicable.

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Item 3. Fee Table and Synopsis

1. Shareholder Transaction Expenses

Sales load paid by you (as a percentage of offering price)	1.00 %	(1)
Offering expenses borne by the Fund (as a percentage of offering price)	0.02 %	(2)
Dividend reinvestment plan fees	None	(3)

	Percentage of net assets attributable to common shares	
Annual Expenses		
Management fees(4)	0.80	%
Interest expense(5)	0.22	%
Other expenses(6)	0.10	%
Total annual expenses(7)	1.12	%

- (1) Represents the estimated commission with respect to the Fund's common shares being sold in this offering. There is no guarantee that there will be any sales of the Fund's common shares pursuant to this Prospectus. Actual sales of the Fund's common shares under this Prospectus, if any, may be less than as set forth under "Capitalization" below. In addition, the price per share of any such sale may be greater or less than the price set forth under "Capitalization" below, depending on market price of the Fund's common shares at the time of any such sale.
- (2) Based on Minimum Price as of April 22, 2014. Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Fund's registration statement (including this Prospectus), the preparation, review and filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of the Prospectus and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the offering.
- (3) The Reinvestment Plan Agent's (as defined under "Item 10—Dividend Reinvestment Plan" in Part II) fees for the handling of the reinvestment of dividends will be paid by the Fund. However, you will pay a \$0.02 per share fee incurred in connection with open-market purchases, which will be deducted from the value of the dividend. You will also be charged a \$2.50 sales fee and pay a \$0.15 per share fee if you direct the Reinvestment Plan Agent to sell your common shares held in a dividend reinvestment account. Per share fees include any applicable brokerage commissions the Reinvestment Plan Agent is required to pay.
- (4) The Fund currently pays BlackRock Advisors, LLC, its investment adviser, a contractual management fee at an annual rate of 0.55% based on an aggregate of (i) the Fund's average weekly net assets and (ii) the proceeds of any outstanding borrowings used for leverage ("average weekly Managed Assets"). The Fund uses leverage, in the form of reverse repurchase agreements, which as of August 31, 2013 amounted to approximately 30% of the Fund's Managed Assets (approximately 42% of the Fund's net assets). "Managed Assets" means the total assets of the Fund (including any assets attributable to money borrowed for investment purposes) minus the sum of the Fund's accrued liabilities (other than money borrowed for investment purposes). The Fund's net assets attributable to common shares are the Fund's Managed Assets minus the value of the Fund's assets attributable to money borrowed for investment purposes. Thus, when the Fund uses leverage, its net assets attributable to

common shares are less than its Managed Assets and its expenses (including the management fee) stated as a percentage of its net assets attributable to common shares are greater than they would be if stated as a percentage of its Managed Assets. This table reflects the fact that you, as a common shareholder, bear the expenses of the Fund's use of leverage in the form of higher fees as a percentage of the Fund's net assets attributable to common shares than if the Fund did not use leverage.

- (5) Reflects leverage, in the form of reverse repurchase agreements, in an amount equal to approximately 30% of the Fund's Managed Assets (approximately 42% of the Fund's net assets) as of August 31, 2013. The interest expense borne by the Fund will vary over time in accordance with the level of the Fund's use of leverage and variations in market interest rates. Interest expense is required to be treated as an expense of the Fund for accounting purposes.
- (6) Based on the fiscal year ended August 31, 2013.
- (7) Represents total annual expenses including interest expense. The total annual expense excluding interest expense is 0.90%.

The Investment Advisor voluntarily agreed to waive its investment advisory fees by the amount of investment advisory fees the Fund pays to the Investment Advisor indirectly through its investment in affiliated money market funds. However, the Investment Advisor does not waive its investment advisory fees by the amount of investment advisory fees paid in connection with the Fund's investment in other affiliated investment companies, if any. This waiver amounted to less than 0.01% of the Fund's net assets attributable to common shares for the fiscal year ended August 31, 2013. See Item 20, below.

The purpose of the foregoing table and the example below is to help you understand all fees and expenses that you, as a holder of common shares of the Fund, bear directly or indirectly. The foregoing table should not be considered a representation of the Fund's future expenses. Actual future expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this Prospectus contains a reference to fees or expenses paid by "you" or "us" or that "we" will pay fees or expenses, shareholders will indirectly bear such fees or expenses as investors in the Fund.

The following example illustrates the expenses (including the sales load of \$ 10 and offering costs of \$ 0.17 that you would pay on a \$1,000 investment in common shares, assuming (i) total annual expenses of 1.12% of net assets attributable to common shares in years 1 through 10, and (ii) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
Total expenses incurred	\$21	\$45	\$71	\$145

The example should not be considered a representation of future expenses. The example assumes that the "Other expenses" set forth in the Annual Expenses table are accurate 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% return shown in the example.

Capitalization

The Fund may offer and sell up to 3,750,000 common shares, \$0.001 par value per share, from time to time through the Dealer as sub-placement agent under this Prospectus. There is no guarantee that there will be any sales of the Fund's common shares pursuant to this Prospectus. The table below assumes that the Fund will sell 3,750,000 common shares at a price of \$ 18.31 per share (the Minimum Price – i.e., NAV plus sales load per share of the Fund's common shares – on April 22, 2014). Actual sales, if any, of the Fund's common shares under this Prospectus may be greater or less than \$ 18.31 per share, depending on the market price of the Fund's common shares at the time of any such sale and/or the Fund's NAV for purposes of calculating the Minimum Price. The Fund and the Distributor will determine whether any sales of the Fund's common shares will be authorized on a particular day; the Fund and the Distributor, however, will not authorize sales of the Fund's common shares if the per share price of the shares is less than the Minimum Price. The Fund and the Distributor may also not authorize sales of the Fund's common shares on a particular day even if the per share price of the shares is equal to or greater than the Minimum Price, or may only authorize a fixed number of shares to be sold on any particular day. The Fund and the Distributor will have full discretion regarding whether sales of Fund common shares will be authorized on a particular day and, if so, in what amounts.

The following table sets forth the Fund's capitalization (1) on a historical basis as of August 31, 2013 (audited); and (2) on a pro forma as adjusted basis to reflect the assumed sale of 3,750,000 common shares at \$ 18.31 per share (the Minimum Price – i.e., NAV plus sales load per share of the Fund's common shares – on April 22, 2014), in an offering under this Prospectus, after deducting the assumed commission of \$ 712,500 (representing an estimated commission to the Distributor of 1.00 % of the gross proceeds of the sale of Fund common shares, out of which the Distributor will compensate broker-dealers at a rate of up to 0.80 % of the gross sales proceeds of the sale of the Fund's common shares sold by that broker-dealer).

	As of August 31, 2013 (audited)	Pro Forma (unaudited) As adjusted
Common shares outstanding, \$0.001 par value per share	37,003,854	40,753,854
Paid-in capital	\$ 703,366,312	\$ 772,028,812
Undistributed net investment income	\$ 3,778,403	\$ 3,778,403
Accumulated net realized loss	\$ (58,230,901)	\$ (58,230,901)
Net unrealized appreciation (depreciation)	\$ 205,773	\$ 205,773
Net Assets	\$ 649,119,587	\$ 717,782,087
Net asset value per share	\$ 17.54	\$ 17.61

2. A summary of this Prospectus is set forth below. This is only a summary of certain information contained in this Prospectus relating to the Fund. This summary may not contain all of the information that you should consider

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before investing in the Fund's common shares. You should review the more detailed information contained in this Prospectus.

The Fund	BlackRock Limited Duration Income Trust is registered under the 1940 Act, as a diversified, closed-end management investment company and has been operational since 2003.
The Offering	<p>The Fund is offering up to 3,750,000 common shares in transactions that are deemed to be "at the market" as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE. The minimum price on any day at which Fund common shares may be sold will not be less than the current NAV per share plus the per share amount of the commission to be paid to the Distributor. The Fund and the Distributor will determine whether any sales of the Fund's common shares will be authorized on a particular day; the Fund and the Distributor, however, will not authorize sales of the Fund's common shares if the per share price of the shares is less than the Minimum Price. The Fund and the Distributor may also not authorize sales of the Fund's common shares on a particular day even if the per share price of the shares is equal to or greater than the Minimum Price, or may only authorize a fixed number of shares to be sold on any particular day. The Fund and the Distributor will have full discretion regarding whether sales of Fund common shares will be authorized on a particular day and, if so, in what amounts. As of April 22, 2014, the last reported sale price for the Fund's common shares on the NYSE was \$ 17.23 per share.</p> <p>The Distributor has entered into the Dealer Agreement with the Dealer with respect to the Fund relating to the common shares offered by this Prospectus. In accordance with the terms of the Dealer Agreement, the Fund may offer and sell its common shares from time to time through the Dealer as sub-placement agent for the offer and sale of its common shares. The Fund will compensate the Distributor with respect to sales of common shares at a commission rate of 1.00 % of the gross proceeds of the sale of the Fund's common shares. Out of this commission, the Distributor will compensate broker-dealers at a rate of up to 0.80 % of the gross sales proceeds of the sale of the Fund's common shares sold by that broker-dealer.</p> <p>The Fund's common shares have traded both at a premium and a discount to NAV. The Fund cannot predict whether its common shares will trade at a premium or discount to NAV in the future. The provisions of the 1940 Act generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common shares (calculated within 48 hours of pricing). The Fund's issuance of common shares may have an adverse effect on prices for the Fund's common shares in the secondary market by increasing the number of common shares available, which may put downward pressure on the market price for the Fund's common shares. Common shares of closed-end investment companies frequently trade at a discount from NAV, which may increase investors' risk of loss.</p>
Investment Objective	The Fund's investment objective is to provide current income and capital appreciation. There can be no assurance that the Fund's investment objective will be achieved or that the Fund's investment program will be successful. The Fund's investment objective may be changed by the Board without prior shareholder approval.
Investment Strategy	BlackRock Advisors, LLC is the Fund's investment adviser. BlackRock Financial Management, Inc., the Investment Advisor's affiliate, is the Fund's investment sub-adviser.

In selecting securities for the Fund, BlackRock will seek to identify issuers and industries that BlackRock believes are likely to experience stable or improving financial conditions. BlackRock's analysis will include:

- credit research on the issuers' financial strength;
- assessment of the issuers' ability to meet principal and interest payments;
- general industry trends;
- the issuers' managerial strength;
- changing financial conditions;
- borrowing requirements or debt maturity schedules; and
- the issuers' responsiveness to changes in business conditions and interest rates.

BlackRock will consider relative values among issuers based on anticipated cash flow, interest or dividend coverage, asset coverage and earnings prospects. Using these tools, BlackRock will seek to add consistent value and control performance volatility consistent with the Fund's investment objectives and policies. BlackRock believes this strategy should enhance the Fund's ability to achieve its investment objective. In managing the assets of the Fund, BlackRock will utilize an active management approach that stresses the flexibility to reallocate investments as appropriate. BlackRock will diversify the Fund's portfolio of assets in an effort to minimize exposure to individual securities, issuers and industries.

BlackRock's analysis continues on an ongoing basis for any securities in which the Fund has invested. Although BlackRock uses due care in making such analysis, there can be no assurance that such analysis will reveal factors that may impair the value of such securities.

Investment Policies

The Fund pursues its objective by investing primarily in three distinct asset classes:

- intermediate duration, investment grade corporate bonds, mortgage related securities and asset-backed securities and U.S. Government and agency securities;
- senior, secured floating rate loans made to corporate and other business entities; and
- U.S. dollar-denominated securities of U.S. and non-U.S. issuers rated below investment grade and, to a limited extent, non-U.S. dollar denominated securities of non-U.S. issuers rated below investment grade.

The Fund may invest directly in such securities or synthetically through the use of derivatives. The Advisors have broad discretion to allocate the Fund's assets among these three principal asset classes.

The Fund's portfolio normally has an average portfolio duration of less than five years (including the effect of anticipated leverage), although it may be longer from time to time depending on market conditions. In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Specifically, duration measures the anticipated percentage change in NAV that is expected for every percentage point change in interest rates. The two have an inverse relationship. Duration can be a useful tool to estimate anticipated price changes to a fixed pool of income securities associated with changes in interest rates. For example, a duration of five years means that a 1% decrease in interest rates will increase the net asset value of the portfolio by approximately 5%; if interest rates increase by 1%,

the net asset value will decrease by 5%. However, in a managed portfolio of fixed income securities having differing interest or dividend rates or payment schedules, maturities, redemption provisions, call or prepayment provisions and credit qualities, actual price changes in response to changes in interest rates may differ significantly from a duration-based estimate at any given time. Actual price movements experienced by a portfolio of fixed income securities will be affected by how interest rates move (i.e., changes in the relationship of long term interest rates to short term interest rates), the magnitude of any move in interest rates, actual and anticipated prepayments of principal through call or redemption features, the extension of maturities through restructuring, the sale of securities for portfolio management purposes, the reinvestment of proceeds from prepayments on and from sales of securities, and credit quality-related considerations whether associated with financing costs to lower credit quality borrowers or otherwise, as well as other factors. Accordingly, while duration maybe a useful tool to estimate potential price movements in relation to changes in interest rates, investors are cautioned that duration alone will not predict actual changes in the net asset or market value of the Fund's shares and that actual price movements in the Fund's portfolio may differ significantly from duration-based estimates. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in

addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

The Fund is intended to have a relatively low level of interest rate risk compared to investment portfolios of similar credit quality but with longer durations. Certain of the Fund's other strategies, however, may result in an above average amount of risk and volatility or loss of principal. Therefore, this type of investment may be inappropriate for your risk profile. There is no assurance that the Fund will achieve its investment objective. The Fund is not intended as a complete investment program.

The Fund anticipates that, under normal market conditions, a significant portion of its Managed Assets will be invested in securities rated below investment grade, such as those rated Ba or lower by Moody's Investor's Service, Inc. ("Moody's") and BB or lower by Standard & Poor's Corporation Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") or securities comparably rated by other rating agencies or in unrated securities determined by the Investment Advisor to be of comparable quality. High yield securities commonly are referred to as "junk" bonds. The Fund may invest in individual securities of any credit quality.

The Fund may also invest in investment grade securities, which are securities rated at least BBB— as determined by S&P, Baa3 as determined by Moody's or, if unrated, determined to be of comparable quality by the Investment Advisor. When Investment Advisor believes it to be in the best interests of the Fund's shareholders, the Fund will reduce its investment in lower grade securities and, in certain market conditions, the Fund may invest none of its assets in lower grade securities.

The Fund may invest without limitation in U.S. dollar denominated securities of non-U.S. issuers and, to a limited extent, non-U.S. dollar-denominated securities of non-U.S. issuers ("Foreign Securities"), including up to 20% of its Managed Assets in issuers located in emerging market countries. The Fund can hold no more than 10% of its Managed Assets in non-U.S. dollar-denominated Foreign Securities.

The Fund may invest in mortgage-related securities, which include collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits ("REMICs"), real estate investment trusts ("REITs"), including debt and preferred stock issued by REITs, as well as other real estate-related securities. The mortgage-related securities in which the Fund may invest include those with fixed, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Fund may invest in residential and commercial mortgage-related securities issued by governmental entities and private issuers, including subordinated mortgage-related securities. Although the Fund may invest in residential and commercial mortgage-related securities issued by governmental entities and private issuers, the Fund expects that most of such investments will be limited to commercial mortgage-related securities, in which the Fund will not invest more than 15% of its Managed Assets.

For a discussion of risk factors that may affect the Fund's ability to achieve its investment objective, see "Risk Factors" under Item 8 in Part II.

Leverage

The Fund currently utilizes leverage for investment purposes in the form of reverse repurchase agreements. As of August 31, 2013, this leverage represented approximately 30% of the Fund's Managed Assets (approximately 42% of the Fund's net assets). The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques as the Advisors may from time to time determine. Of these investment techniques, the Fund expects primarily to use reverse repurchase agreements and dollar rolls. The Fund has the ability to utilize leverage through borrowings in an amount up to 33 1/3% of the value of its Managed Assets (which includes the amount obtained from such borrowings).

The Fund also has the ability to utilize leverage through the issuance of preferred shares in an amount up to 50% of the value of its Managed Assets (which includes the amount obtained from such issuance). The Fund does not currently anticipate issuing any preferred shares; thus, the Fund will limit its borrowing to 33 1/3% of the Fund's Managed Assets. If preferred shares are issued, however, the Fund's borrowing limit will be proportionately reduced so that the Fund's aggregate leverage will not exceed 33 1/3% of the Fund's Managed Assets.

See "Leverage" under Item 8 in Part II and the discussion of the Fund's capital structure under Item 10 in Part II.

The use of leverage is subject to numerous risks. When leverage is employed, the NAV and market price of the common shares and the yield to holders of common shares will be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Fund's NAV to decline more than if the Fund had not used leverage. A reduction in the Fund's NAV may cause a reduction in the market price of its common shares. The Fund cannot assure you that the use of leverage will result in a higher yield on the common shares. When the Fund uses leverage, the management fee and sub-advisory fees payable to the Advisors will be higher than if the Fund did not use leverage because these fees are calculated on the basis of the Fund's Managed Assets, which include the proceeds of leverage. The Fund's leveraging strategy may not be successful.

See "Risk Factors—Leverage Risk" under Item 8 in Part II.

Investment Advisor and Sub-Advisor

BlackRock Advisors, LLC is the Fund's investment adviser. BlackRock Financial Management, Inc., the Investment Advisor's affiliate, is the Fund's investment sub-adviser. The Investment Advisor will receive an annual fee, payable monthly, in an amount equal to 0.55% of the average weekly value of the Fund's Managed Assets. From the management fees, the Investment Advisor (and not the Fund) has agreed to pay an annual sub-advisory fee to the Sub-Advisor equal to 38% of the monthly management fee received by the Investment Advisor with respect to the assets of the Fund allocated to the Sub-Advisor.

Distributions

The Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to holders of the Fund's common shares. The Fund intends to pay any capital gains distributions at least annually. A return of capital distribution may involve a return of the shareholder's original investment. Though not currently taxable, such a distribution may lower a shareholder's basis in the Fund, thus potentially subjecting the shareholder to future tax

consequences in connection with the sale of Fund shares, even if sold at a loss to the shareholder's original investment. When total distributions exceed total return performance for the period, the difference will reduce the Fund's total assets and NAV and, therefore, could have the effect of increasing the Fund's expense ratio and reducing the amount of assets the Fund has available for long term investment.

Shareholders will automatically have all dividends and distributions reinvested in common shares of the Fund in accordance with the Fund's dividend reinvestment plan, unless an election is made to receive cash by contacting the Reinvestment Plan Agent (as defined herein), at (800) 699-1236. See "Dividend Reinvestment Plan" under Item 10 in Part II.

The Fund reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time and may do so without prior notice to common shareholders. See Item 10.1 in Part I and "Distributions" under Item 10 in Part II.

Listing	The Fund's common shares are listed on the NYSE under the symbol "BLW."
Custodian and Transfer Agent	State Street Bank and Trust Company serves as the Fund's custodian, and Computershare Trust Company, N.A. serves as the Fund's transfer agent.
Administrator	State Street Bank and Trust Company serves as the Fund's administrator and fund accountant.
Market Price of Shares	Common shares of closed-end investment companies frequently trade at prices lower than their NAV. The Fund cannot assure you that its common shares will trade at a price higher than or equal to NAV. The Fund's common shares trade in the open market at market prices that are a function of several factors, including dividend levels (which are in turn affected by expenses), NAV, call protection for portfolio securities, portfolio credit quality, liquidity, dividend stability, relative demand for and supply of the common shares in the market, general market and economic conditions and other factors. The Fund's common shares are designed primarily for long-term investors and you should not purchase common shares of the Fund if you intend to sell them shortly after purchase. The issuance of additional common shares pursuant to this Prospectus may also have an adverse effect on prices for the Fund's common shares in the secondary market by increasing the supply of common shares available for sale.
Special Risk Considerations	An investment in the Fund's common shares involves risk. You should consider carefully the risks identified below, which are described in detail under "Risk Factors" beginning on page II-31 of Part II of this Prospectus.

Principal risks of investing in the Fund include:

- Interest Rate Risk. Interest rate risk is the risk that prices of bonds and other fixed-income securities will increase as interest rates fall and decrease as interest rates rise.
- Issuer Risk. The value of fixed income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer's goods and services, historical and prospective earnings of the issuer and the value of the assets of the issuer.
- Credit Risk. Credit risk is the risk that one or more fixed income securities in the Fund's portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status.
- Prepayment Risk. During periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled.
- Reinvestment Risk. Reinvestment risk is the risk that income from the Fund's portfolio will decline if the Fund invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Fund portfolio's current earnings rate.
- Duration and Maturity Risk. The Fund may incur costs in seeking to adjust the portfolio average duration or maturity. There can be no assurance that the Advisors' assessment of current and projected market conditions will be correct or that any strategy to adjust the portfolio's duration or maturity will be successful at any given time.
- Corporate Bonds Risk. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The market value of intermediate and longer-term corporate

bonds is generally more sensitive to changes in interest rates than is the market value of shorter-term corporate bonds. The market value of a corporate bond also may be affected by factors directly related to the issuer, such as investors' perceptions of the creditworthiness of the issuer, the issuer's financial performance, perceptions of the issuer in the market place, performance of management of the issuer, the issuer's capital structure and use of financial leverage and demand for the issuer's goods and services.

- **Mortgage Related Securities Risks.** The risks associated with MBS include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution (including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the issuing vehicle and the return to investors in such MBS); whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the MBS) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such MBS; risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the MBS; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral.

- **Below Investment Grade Securities Risk.** The Fund may invest in securities that are rated, at the time of investment, below investment grade quality (rated Ba/BB or below, or unrated but judged to be of comparable quality by the Advisors), which are commonly referred to 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. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments.

- **Senior Loans Risk.** Senior loans typically hold the most senior position in the capital structure of the issuing entity, are typically secured with specific collateral and typically have a claim on the assets and/or stock of the borrower that is senior to that held by subordinated debt holders and stockholders of the borrower. The Fund's investments in senior loans are typically below investment grade and are considered speculative because of the credit risk of their issuer.

Additional risks of investing in the Fund include:

- Offering Risk
- Investment and Market Discount Risk
- Second Lien Loans Risk
- Mezzanine Investment Risk
- Risks of Loan Assignments and Participations
- Bank Loans Risk
- Distressed and Defaulted Securities Risk
- Yield and Ratings Risk
- Unrated Securities Risk
- Debtor-In-Possession (DIP) Financing Risk
- ABS Risk
- CDO Risks

- REITs Risk
- U.S. Government Securities Risk
- Zero Coupon Securities Risk
- PIK Bonds Risks
- Insolvency Considerations with Respect to Issuers of Indebtedness
- Equity Securities Risk
- Warrants Risks
- Rights Risks
- Preferred Securities Risks, including Deferral, Subordination, Limited Voting Rights, Special Redemption Right, risks associated with Trust Preferred Securities and risk associated with New Types of Securities
- Convertible Securities Risk
- Restricted and Illiquid Securities Risk
- Municipal Securities Risk
- Non-U.S. Securities Risk
- Emerging Markets Risk
- Foreign Currency Risk
- Sovereign Government and Supranational Debt Risk
- LIBOR Risk
- Leverage Risk
- Event Risk
- Inverse Floater and Related Securities Risk
- Inflation-Indexed Bonds Risk
- Defensive Investing Risk
- Structured Investments Risks, including Structured Notes Risk, Event-Linked Securities Risk, Equity-Linked Notes Risk and Credit-Linked Securities Risk
- Investment Companies Risk
- Repurchase Agreements Risk
- Reverse Repurchase Agreements Risk
- Dollar Roll Transactions Risk
- When-Issued, Forward Commitment and Delayed Delivery Transactions Risk
- Strategic Transactions and Derivatives Risks, including Credit Risk, Currency Risk, Leverage Risk, Liquidity Risk, Correlation Risk, Index Risk and Volatility Risk, Counterparty Risk, Swaps Risk, Options Risk, Futures Transactions and Options Risk, General Risk Factors in Hedging Foreign Currency, Foreign Currency Forwards Risk, Currency Futures Risk, Currency Options Risk, Currency Swaps Risk, Over-the-Counter Trading Risk, Clearing Broker and Central Clearing Counterparty Risks, Dodd-Frank Act Risk and Legal and Regulatory Risk
- Securities Lending Risk
- Short Selling Risk
- Inflation Risk
- Deflation Risk
- Risks Associated with Recent Market Events
- EMU and Redenomination Risk
- Market Disruption and Geopolitical Risk
- Regulation and Government Intervention Risk
- Legal, Tax and Regulatory Risks
- 1940 Act Regulation
- Legislation Risk
- Potential Conflicts of Interest of the Advisors and Others

- Decision-Making Authority Risk
- Management Risk

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- Market and Selection Risk
- Allocation Risk
- Reliance on the Advisors
- Reliance on Service Providers
- Information Technology Systems
- Misconduct of Employees and of Service Providers
- Portfolio Turnover Risk
- Anti-Takeover Provisions Risk

3. Not applicable.

Item 4. Financial Highlights

1. The following table includes selected data for a common share outstanding throughout the period and other performance information derived from the Fund's financial statements. It should be read in conjunction with the Fund's financial statements and notes thereto, which are incorporated by reference into this Prospectus . The following information with respect to the fiscal years ended August 31, 2009, August 31, 2010, August 31, 2011, August 31, 2012 and August 31, 2013 has been audited by Deloitte & Touche LLP , independent registered public accountants, whose report thereon is incorporated by reference into this Prospectus . See Item 24.

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	Year Ended August 31,					Period November 1, 2007 to August 31, 2008 (unaudited)	Year Ended October 31,				
	2013 ¹	2012 ¹	2011	2010	2009		2007 (unaudited)	2006 (unaudited)	2005 (unaudited)	2004 (unaudited)	
Per Share Operating Performance											
Net asset value, beginning of period	\$17.38	\$16.52	\$16.79	\$14.95	\$16.71	\$18.52	\$19.01	\$19.17	\$20.13	\$19.74	
Net investment income	1.30 ²	1.31 ²	1.34 ²	1.12 ²	1.01 ²	1.14 ²	1.50	1.35	1.46	1.46	
Net realized and unrealized gain (loss)	0.25	0.88	(0.37)	1.62	(1.61)	(1.76)	(0.49)	0.03	(0.94)	0.43	
Net increase (decrease) from investment operations	1.55	2.19	0.97	2.74	(0.60)	(0.62)	1.01	1.38	0.52	1.89	
Dividends and distributions from: ³											
Net investment income	(1.39)	(1.33)	(1.24)	(0.90)	(1.16)	(1.19)	(1.41)	(1.52)	(1.33)	(1.49)	
Net realized gain	---	---	---	---	---	---	(0.06)	---	(0.15)	(0.01)	
Tax return of capital	---	---	---	---	---	---	(0.03)	(0.02)	---	---	
Total dividends and distributions	(1.39)	(1.33)	(1.24)	(0.90)	(1.16)	(1.19)	(1.50)	(1.54)	(1.48)	(1.50)	
Net asset value, end of period	\$17.54	\$17.38	\$16.52	\$16.79	\$14.95	\$16.71	\$18.52	\$19.01	\$19.17	\$20.13	
Market price, end of period	\$16.89	\$18.00	\$16.01	\$16.76	\$14.09	\$14.57	\$16.68	\$18.85	\$17.48	\$19.95	
Total Investment Return⁴	9.13 %	13.86 %	5.85 %	19.00 %	(1.57) %	(2.60) %⁵	5.66 %	7.85 %	2.93 %	10.17 %	

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Based on net
asset value

Based on

market price 1.47 % 21.68% 2.77 % 26.04% 6.40 % (5.70)%5 (4.03)% 17.31% (5.30)% 14.64%

Ratios to Average Net Assets

Total
expenses 1.12 % 1.05 % 1.01 % 0.82 % 0.72 % 1.39 %6 2.16 % 2.20 % 1.71 % 1.26 %

Total
expenses
after fees
waived and
before fees
paid

indirectly 1.12 % 1.05 % 1.00 % 0.81 % 0.71 % 1.39 % 2.16 % 2.20 % 1.71 % 1.25 %

Total
expenses
after fees
waived and
paid

indirectly 1.12 % 1.05 % 1.00 % 0.81 % 0.71 % 1.38 %6 2.14 % 2.19 % 1.71 % 1.25 %

	Year Ended August 31,										Period November 1, 2007 to August 31, 2008 (unaudited)		Year Ended Oct	
	2013 ¹	2012 ¹	2011	2010	2009	2008	2007	2006	2005	2004	2007 (unaudited)	2006 (unaudited)	2005	2004
Total expenses after fees waived and paid indirectly and excluding interest expense and income tax	0.90	% 0.89	% 0.87	% 0.73	% 0.69	% 0.76	%6	0.83	% 0.91	% 0				
Net investment income	7.34	% 7.82	% 7.75	% 6.90	% 7.42	% 7.84	%6	7.92	% 7.10	% 7				
Supplemental Data														
Net assets, end of period (000)	\$649,120	\$642,391	\$609,818	\$619,381	\$551,505	\$616,393	\$638,109	\$699,206	\$					
Borrowings outstanding, end of period (000)	\$273,347	\$296,476	\$244,120	\$123,233	---	\$64,538	\$109,287	\$220,000	\$					
Average borrowings outstanding, during the period (000)	\$301,214	\$242,396	\$191,303	\$44,160	\$11,705	\$120,295	\$172,040	\$179,366	\$					
Portfolio turnover	71	% 54	% 106	%7	248	%8	287	%9	191	%10	65	% 132	% 7	
Asset coverage, end of period per \$1,000	\$3,375	\$3,167	\$3,498	\$6,026	---	\$10,551	\$7,251	\$4,178	\$					

1 Consolidated Financial Highlights.

2 Based on average shares outstanding.

3 Determined in accordance with federal income tax regulations.

4

Total investment returns based on market price, which can be significantly greater or less than the net asset value, may result in substantially different returns. Where applicable, excludes the effects of any sales charges and assumes the reinvestment of dividends and distributions.

- 5 Aggregate total investment return.
 - 6 Annualized.
 - 7 Includes mortgage dollar roll and to-be-announced ("TBA") transactions. Excluding these transactions, the portfolio turnover would have been 87%.
 - 8 Includes mortgage dollar roll transactions. Excluding these transactions, the portfolio turnover would have been 113%.
 - 9 Includes mortgage dollar roll transactions. Excluding these transactions, the portfolio turnover would have been 79%.
 - 10 Includes TBA transactions. Excluding these transactions, the portfolio turnover would have been 24%.
2. Not applicable.

3. See Item 4.1., above.

Item 5. Plan of Distribution

1. The Distributor has agreed to underwrite up to 3,750,000 Fund common shares on a reasonable efforts basis. See Item 5 in Part II for additional information regarding the Distributor.
2. The Fund's common shares will only be sold on such days as shall be agreed to by the Fund and the Distributor. The Fund's common shares will be sold at market prices, which shall be determined with reference to trades on the NYSE, subject to the Minimum Price. See Item 1.1.g., above.
3. See Item 1.1.g., above, and Item 5 in Part II.
4. See Item 5 in Part II.
5. Not applicable.
6. See Item 5 in Part II.
7. Not applicable.
8. Not applicable.
9. Not applicable.
10. See Item 5 in Part II.

Item 6. Selling Shareholders

Not applicable.

Item 7. Use of Proceeds

The net proceeds from the issuance of common shares hereunder will be invested in accordance with the Fund's investment objectives and policies as set forth in this Prospectus. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in accordance with the Fund's investment objectives and policies within three months from the date on which the proceeds from an offering are received by the Fund. Such investments may be delayed if suitable investments are unavailable at the time or for other reasons, such as market volatility and lack of liquidity in the markets of suitable investments. Pending such investment, it is anticipated that the proceeds will be invested in short-term or long-term securities issued by the U.S. Government and its agencies or instrumentalities or in high quality, short-term money market instruments.

Item 8. Description of the Fund

1. The Fund was organized as a Delaware statutory trust on May 16, 2003, pursuant to an Agreement and Declaration of Trust, as subsequently amended and restated, governed by the laws of the State of Delaware, and commenced operations on July 30, 2003. The Fund is registered under the 1940 Act as a diversified, closed-end management investment company. The Fund's principal office is located at 100 Bellevue Parkway, Wilmington,

Delaware 19809, and its telephone number is (800) 882-0052.

2. Investment Objectives and Principal Investment Policies:

Investment Objective. The Fund's investment objective is to provide current income and capital appreciation. The Fund pursues its objective by investing primarily in three distinct asset classes:

- intermediate duration, investment grade corporate bonds, mortgage related securities and asset-backed securities and U.S. Government and agency securities;
- senior, secured floating rate loans made to corporate and other business entities; and
- U.S. dollar-denominated securities of U.S. and non-U.S. issuers rated below investment grade and, to a limited extent, non-U.S. dollar denominated securities of non-U.S. issuers rated below investment grade.

The Fund may invest directly in such securities or synthetically through the use of derivatives. The Advisors have broad discretion to allocate the Fund's assets among these three principal asset classes.

There can be no assurance that the Fund's investment objective will be achieved or that the Fund's investment program will be successful. The Fund's investment objective may be changed by the Board without prior shareholder approval.

Duration. The Fund's portfolio normally has an average portfolio duration of less than five years (including the effect of anticipated leverage), although it may be longer from time to time depending on market conditions. In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Specifically, duration measures the anticipated percentage change in NAV that is expected for every percentage point change in interest rates. The two have an inverse relationship. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

The Fund is intended to have a relatively low level of interest rate risk compared to investment portfolios of similar credit quality but with longer durations. Certain of the Fund's other strategies, however, may result in an above average amount of risk and volatility or loss of principal. Therefore, this type of investment may be inappropriate for your risk profile. There is no assurance that the Fund will achieve its investment objective. The Fund is not intended as a complete investment program.

Corporate Bonds. The Fund may invest in corporate bonds.

High Yield Securities. The Fund anticipates that, under normal market conditions, a significant portion of its Managed Assets will be invested in securities rated below investment grade, such as those rated Ba or lower by Moody's and BB or lower by S&P or securities comparably rated by other rating agencies or in unrated securities determined by the Investment Advisor to be of comparable quality. High yield securities commonly are referred to as "junk" bonds. The Fund may invest in individual securities of any credit quality.

The Fund may also invest in investment grade securities, which are securities rated at least BBB— as determined by S&P, Baa3 as determined by Moody's or, if unrated, determined to be of comparable quality by the Investment Advisor. When Investment Advisor believes it to be in the best interests of the Fund's shareholders, the Fund will reduce its investment in lower grade securities and, in certain market conditions, the Fund may invest none of its assets in lower grade securities.

See "Appendix A—Ratings of Securities" for information concerning rating categories.

Foreign Securities. The Fund may invest without limitation in U.S. dollar denominated securities of non-U.S. issuers and, to a limited extent, non-U.S. dollar-denominated securities of non-U.S. issuers, including up to 20% of its

Managed Assets in issuers located in emerging market countries. The Fund can hold no more than 10% of its Managed Assets in non-U.S. dollar-denominated Foreign Securities.

Foreign Securities may include debt securities issued by foreign governments and other sovereign entities and debt securities issued by foreign corporations or supranational entities and securities denominated in U.S. dollars or, to a limited extent (as described above), in foreign currencies or multinational currency units. The Fund may invest in Brady Bonds and other sovereign debt of countries that have restructured or are in the process of restructuring their debt pursuant to the Brady Plan, which are viewed as speculative investments. The Fund may also purchase debt

securities of supranational organizations such as the European Coal and Steel Community, the European Economic Community and the World Bank, which are chartered to promote economic development.

U.S. Government Securities. The Fund may invest in debt securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities including but not limited to: (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuance, such as U.S. Treasury bills (maturity of one year or less), U.S. Treasury notes (maturity of one to ten years), and U.S. Treasury bonds (generally maturities of greater than ten years), including the principal components or the interest components issued by the U.S. Government under the separate trading of registered interest and principal securities program (i.e., "STRIPS"), all of which are backed by the full faith and credit of the United States; and (2) obligations issued or guaranteed by U.S. Government agencies or instrumentalities, including government guaranteed mortgage-related securities, some of which are backed by the full faith and credit of the U.S. Treasury, some of which are supported by the right of the issuer to borrow from the U.S. Government and some of which are backed only by the credit of the issuer itself.

Mortgage-Related Securities. The Fund may invest in mortgage-related securities, which include collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits, real estate investment trusts, including debt and preferred stock issued by REITs, as well as other real estate-related securities. The mortgage-related securities in which the Fund may invest include those with fixed, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Fund may invest in residential and commercial mortgage-related securities issued by governmental entities and private issuers, including subordinated mortgage-related securities. Although the Fund may invest in residential and commercial mortgage-related securities issued by governmental entities and private issuers, the Fund expects that most of such investments will be limited to commercial mortgage-related securities, in which the Fund will not invest more than 15% of its Managed Assets.

Asset-Backed Securities. Asset-backed securities are a form of structured debt obligations. The securitization techniques used for asset-backed securities are similar to those used for mortgage-related securities. The collateral for these securities may include home equity loans, automobile and credit card receivables, boat loans, computer leases, airplane leases, mobile home loans, recreational vehicle loans and hospital account receivables. The Fund may invest in these and other types of asset-backed securities that may be developed in the future.

Senior Loans. In addition to senior, secured floating rate loans made to corporate and other business entities, the Fund may also purchase unsecured loans, other floating rate debt securities, and credit-linked notes.

A senior loan is typically originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the "Agent") for a group of loan investors ("Loan Investors"). The Fund may purchase "Assignments" from the Agent or other Loan Investors. The Fund also may invest in "Participations." Participations by the Fund in a Loan Investor's portion of a senior loan typically will result in the Fund having a contractual relationship only with such Loan Investor, not with the borrower, whereas the Fund, as a purchaser of an Assignment, would typically succeed to all the rights and obligations under the loan agreement of the assigning Loan Investor and become a Loan Investor under the loan agreement with the same rights and obligations as the assigning Loan Investor. The Fund will only acquire Participations if the Loan Investor selling the Participation, and any other persons interpositioned between the Fund and the Loan Investor, are believed by the Investment Advisor to be creditworthy at the time they enter into such transactions .

The Fund may also acquire equity securities or debt securities (including non-dollar denominated debt securities) issued in exchange for a senior loan or issued in connection with the debt restructuring or reorganization of a

borrower, or if such acquisition, in the judgment of the Investment Advisor, may enhance the value of a senior loan or would otherwise be consistent with the Fund's investment policies.

Collateralized Bond Obligations. The Fund may invest in collateralized bond obligations ("CBOs"), which are structured securities backed by a diversified pool of high yield, public or private fixed income securities. Under normal market conditions, the Fund expects to invest in the lower tranches of CBOs.

Derivatives. The Fund may purchase and sell futures contracts, enter into various interest rate transactions such as swaps, caps, floors or collars, currency transactions such as currency forward contracts, currency futures contracts,

currency swaps or options on currency or currency futures and swap contracts (including, but not limited to, credit default swaps) and may purchase and sell exchange-listed and over-the-counter put and call options on securities and swap contracts, financial indices and futures contracts and use other derivative instruments or management techniques. The Fund also may purchase derivative instruments that combine features of these instruments.

Other Investment Companies. The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies that invest primarily in bonds of the types in which the Fund may invest directly. The Fund generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its common shares, or during periods when there is a shortage of attractive opportunities in the fixed income market.

Other Investment Policies:

Leverage. The Fund currently utilizes leverage for investment purposes in the form of reverse repurchase agreements. As of August 31, 2013, this leverage represented approximately 30% of the Fund's Managed Assets (approximately 42% of the Fund's net assets). The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques as the Advisors may from time to time determine. Of these investment techniques, the Fund expects primarily to use reverse repurchase agreements and dollar rolls. The Fund has the ability to utilize leverage through borrowings in an amount up to 33 1/3% of the value of its Managed Assets (which includes the amount obtained from such borrowings).

The Fund also has the ability to utilize leverage through the issuance of preferred shares in an amount up to 50% of the value of its Managed Assets (which includes the amount obtained from such issuance). The Fund does not currently anticipate issuing any preferred shares; thus, the Fund will limit its borrowing to 33 1/3% of the Fund's Managed Assets. If preferred shares are issued, however, the Fund's borrowing limit will be proportionately reduced so that the Fund's aggregate leverage will not exceed 33 1/3% of the Fund's Managed Assets.

The Fund generally will not utilize leverage if it anticipates that the Fund's leveraged capital structure would result in a lower return to shareholders than that obtainable over time with an unleveraged capital structure. Use of financial leverage creates an opportunity for total return for the shareholders, but at the same time, creates special risks and there can be no assurance that a leveraging strategy will be successful during any period in which it is employed. There can be no assurance that the Fund will borrow in order to leverage its assets or, if it does, what percentage of the Fund's assets such borrowings will represent.

Variable and Floating Rate Instruments. The Fund may invest in floating rate debt instruments ("floaters"). The Fund also may invest in inverse floating rate debt instruments ("inverse floaters").

Stripped Securities. The Fund may invest in zero-coupon U.S. Treasury securities, which are Treasury notes and bonds that have been stripped of their unmatured interest coupons, the coupons themselves and receipts or certificates representing interests in such stripped debt obligations and coupons. Such stripped securities also are issued by corporations and financial institutions which constitute a proportionate ownership of the issuer's pool of underlying U.S. Treasury securities.

Premium Securities. The Fund may invest in income securities bearing coupon rates higher than prevailing market rates. Such "premium" securities are typically purchased at prices greater than the principal amounts payable on maturity.

Treasury Inflation-Protected Securities. The Fund may invest in U.S. Treasury inflation-protected securities ("TIPS") that are designed to provide an investment vehicle that is not vulnerable to inflation.

Pay-In-Kind Bonds. The Fund may invest in pay-in-kind, or "PIK," bonds.

Structured Investments. The Fund may invest a portion of its assets in interests in entities organized and operated solely for the purpose of restructuring the investment characteristics of securities. This type of restructuring involves the deposit with or purchase by an entity, such as a corporation or a trust, of specified instruments and the issuance by that entity of one or more classes of securities ("Structured Investments") backed by, or representing interests in the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued Structured Investments to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to Structured

Investments is dependent on the extent of the cash flow on the underlying instruments. The Fund is permitted to invest in a class of Structured Investments that is either subordinated or not subordinated to the right of payment of another class.

Project Loans. The Fund may invest in project loans, which are fixed income securities of issuers whose revenues are primarily derived from mortgage loans to multi-family, nursing home and other real estate development projects.

Preferred Securities. The Fund may invest in preferred securities, including preferred securities that may be converted into common stock or other securities of the same or a different issuer. The types of preferred securities in which the Fund may invest include trust preferred securities.

Convertible Securities. The Fund may invest in convertible securities. A convertible security is a bond, debenture, note, preferred security or other security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula.

Money Market Obligations of Domestic Banks, Foreign Banks and Foreign Branches of U.S. Banks. The Fund may purchase bank obligations, such as certificates of deposit, notes, bankers' acceptances and time deposits, including instruments issued or supported by the credit of U.S. or foreign banks or savings institutions having total assets at the time of purchase in excess of \$1 billion. These obligations may be general obligations of the parent bank or may be limited to the issuing branch or subsidiary by the terms of a specific obligation or by government regulation. The assets of a bank or savings institution will be deemed to include the assets of its domestic and foreign branches for purposes of the Fund's investment policies. Investments in short-term bank obligations may include obligations of foreign banks and domestic branches of foreign banks, and also foreign branches of domestic banks.

The Fund may purchase obligations of U.S. banks and savings and loan associations and dollar-denominated obligations of U.S. subsidiaries and branches of foreign banks, such as certificates of deposit (including marketable variable rate certificates of deposit) and bankers' acceptances. Bank certificates of deposit will only be acquired by the Fund if the bank has assets in excess of \$1 billion.

The Fund may invest in debt obligations of domestic or foreign corporations and banks, and may acquire commercial obligations issued by Canadian corporations and Canadian counterparts of U.S. corporations, as well as Europaper, which is U.S. dollar-denominated commercial paper of a foreign issuer. The Fund may also make interest-bearing savings deposits in commercial and savings banks.

Guaranteed Investment Contracts. The Fund may make investments in guaranteed investment contracts ("GICs") issued by highly rated U.S. insurance companies. Under these contracts, the Fund makes cash contributions to a deposit fund of the insurance company's general account. The insurance company then credits to the Fund, on a monthly basis, interest which is based on an index, but is guaranteed not to be less than a certain minimum rate.

Interest Rate Transactions. The Fund may enter into interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio as a duration management technique or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund may enter into interest rate swaps, caps and floors on either an asset-based or liability-based basis.

The Fund intends to use these transactions for hedging and risk management purposes and not as a speculative investment. The Fund will not sell interest rate caps or floors that it does not own.

Futures Contracts and Options on Futures Contracts. In connection with its hedging and other risk management strategies, the Fund may also enter into contracts for the purchase or sale for future delivery ("future contracts") of debt securities, aggregates of debt securities, financial indices, and U.S. Government debt securities or options on the foregoing to hedge the value of its portfolio securities that might result from a change in interest rates or market movements. The Fund will engage in such transactions only for bona fide hedging, risk management and other appropriate portfolio management purposes.

The Fund may engage in options and futures transactions on exchanges and options in the over-the-counter markets ("OTC options"). The Fund will only enter into OTC options with counterparties the Investment Advisor believes to be creditworthy at the time they enter into such transactions.

Effective December 31, 2012, the Commodities Futures Trading Commission (the "CFTC") adopted certain regulatory changes that subject registered investment companies and advisers to registered investment companies to regulation by the CFTC if a fund invests more than a prescribed level of its net assets in CFTC-regulated futures, options and swaps ("CFTC Derivatives"), or if the fund markets itself as providing investment exposure to such instruments. To the extent the Fund uses CFTC Derivatives, it intends to do so below such prescribed levels and will not market itself as a "commodity pool" or a vehicle for trading such instruments. Accordingly, BlackRock Advisors, LLC has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act ("CEA") pursuant to Rule 4.5 under the CEA. BlackRock Advisors, LLC is not, therefore, subject to registration or regulation as a "commodity pool operator" under the CEA in respect of the Fund.

Calls on Securities, Indices and Futures Contracts. In order to enhance income or reduce fluctuations in NAV, the Fund may sell or purchase call options ("calls") on securities and indices based upon the prices of debt securities that are traded on U.S. securities exchanges and on the over-the-counter markets. All such calls sold by the Fund must be "covered" as long as the call is outstanding (i.e., the Fund must own the instrument subject to the call or other securities or assets acceptable for applicable earmarking and coverage requirements).

Puts on Securities, Indices and Futures Contracts. As with calls, the Fund may purchase put options ("puts") on securities (whether or not it holds such securities in its portfolio). For the same purposes, the Fund may also sell puts on securities financial indices and puts on futures contracts on securities if the Fund's contingent obligations on such puts are secured by designating cash or liquid assets on its books and records having a value not less than the exercise price. The Fund will not sell puts if, as a result, more than 50% of the Fund's assets would be required to cover its potential obligation under its hedging and other investment transactions.

Credit Default Swap Agreements and Credit Derivatives. The Fund may engage in credit derivative transactions. There are two broad categories of credit derivatives: default price risk derivatives and market spread derivatives. Default price risk derivatives are linked to the price of reference securities or loans after a default by the issuer or borrower, respectively. Market spread derivatives are based on the risk that changes in market factors, such as credit spreads, can cause a decline in the value of a security, loan or index. There are three basic transactional forms for credit derivatives: swaps, options and structured instruments.

In particular, the Fund may enter into credit default swap agreements. The credit default swap agreement may have as reference obligations one or more securities that are not currently held by the Fund. The protection "buyer" in a credit default contract may be obligated to pay the protection "seller" an upfront or a periodic stream of payments over the term of the contract provided that no credit event on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the "par value" (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction.

There is no limit on the amount of credit derivative transactions that may be entered into by the Fund.

Currency Forward Contracts. The Fund may purchase a forward currency contract to lock in the U.S. dollar price of a security denominated in a foreign currency that the Fund intends to acquire. The Fund may sell a forward currency contract to lock in the U.S. dollar equivalent of the proceeds from the anticipated sale of a security or a dividend or interest payment denominated in a foreign currency. The Fund may also use forward currency contracts to shift the Fund's exposure to foreign currency exchange rate changes from one currency to another. For example, if the Fund owns securities denominated in a foreign currency and the Investment Advisor believes that currency will decline relative to another currency, it might enter into a forward currency contract to sell the appropriate amount of the first foreign currency with payment to be made in the second currency. The Fund may also purchase forward currency

contracts to enhance income when the Investment Advisor anticipates that the foreign currency will appreciate in value but securities denominated in that currency do not present attractive investment opportunities.

Swap Counterparties. The Fund may enter into swap transactions with any counterparties approved by the Investment Advisor. The Fund will seek to minimize its exposure to counterparty risk by entering into swap transactions with counterparties the Investment Advisor believes to be creditworthy at the time they enter into such transactions.

Short Sales. The Fund may make short sales of bonds. The Fund will not make a short sale if, after giving effect to such sale, the market value of all securities sold short exceeds 25% of the value of its Managed Assets or the Fund's aggregate short sales of a particular class of securities exceeds 25% of the outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Fund owns or has the immediate and unconditional right to acquire at no additional cost the identical security.

Restricted and Illiquid Securities. The Fund may invest in illiquid securities, which are securities that lack a secondary trading market or are otherwise considered illiquid. When purchasing securities that have not been registered under the Securities Act, and are not readily marketable, the Fund will endeavor, to the extent practicable, to obtain the right to registration at the expense of the issuer.

The Fund may purchase certain securities eligible for resale to qualified institutional buyers as contemplated by Rule 144A under the Securities Act ("Rule 144A Securities"). Rule 144A provides an exemption from the registration requirements of the Securities Act for the resale of certain restricted securities to certain qualified institutional buyers. One effect of Rule 144A is that certain restricted securities may be considered liquid, though no assurance can be given that a liquid market for Rule 144A Securities will develop or be maintained. However, where a substantial market of qualified institutional buyers has developed for certain unregistered securities purchased by the Fund pursuant to Rule 144A under the Securities Act, the Fund intends to treat such securities as liquid securities in accordance with procedures approved by the Board. Because it is not possible to predict with assurance how the market for Rule 144A Securities will develop, the Board has directed the Advisors to monitor carefully the Fund's investments in such securities with particular regard to trading activity, availability of reliable price information and other relevant information. To the extent that, for a period of time, qualified institutional buyers cease purchasing restricted securities pursuant to Rule 144A, the Fund's investing in such securities may have the effect of increasing the level of illiquidity in its investment portfolio during such period.

When-Issued and Forward Commitment Securities. The Fund may purchase securities on a "when-issued" basis and may purchase or sell securities on a "forward commitment" basis in order to acquire the security or to hedge against anticipated changes in interest rates and prices.

Rights Offerings and Warrants to Purchase. The Fund may participate in rights offerings and may purchase warrants, which are privileges issued by corporations enabling the owners to subscribe to and purchase a specified number of shares of the corporation at a specified price during a specified period of time.

Lending Securities. The Fund may lend securities with a value up to 33 1/3% of its Managed Assets to banks, brokers and other financial institutions.

Repurchase Agreements. As temporary investments, the Fund may invest in repurchase agreements. The Fund will only enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Investment Advisor, present minimal credit risk.

Temporary Defensive Strategies. The Fund may implement various temporary "defensive" strategies at times when the Investment Advisor determines that conditions in the markets make pursuing the Fund's basic investment strategy inconsistent with the best interests of its shareholders. The Fund may not achieve its investment objective when it does so.

1940 Act and Tax Diversification Requirements. The Fund is classified as diversified within the meaning of the 1940 Act, which means that it must satisfy the 5% and 10% requirements described in item (ii) below with respect to

75% of its total assets. The Fund's investments will be limited so as to qualify the Fund as a "regulated investment company" for purposes of Federal tax laws. Requirements for qualification as a "regulated investment company" include limiting its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in (A) the securities of a single issuer (other than U.S. Government securities and securities of other regulated investment companies), (B) the securities of two or more issuers (other than securities of other regulated investment companies) controlled by the Fund and engaged in the same, similar or related trades or businesses, or (C) the securities of one or more qualified publicly traded partnerships, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer and the Fund will not own more than 10% of the outstanding voting securities of a single issuer (other than U.S. Government securities and securities of other regulated investment companies).

Tax-related limitations may be changed by the Board to the extent appropriate in light of changes to applicable tax requirements.

Investment Process

In selecting securities for the Fund, BlackRock will seek to identify issuers and industries that BlackRock believes are likely to experience stable or improving financial conditions. BlackRock's analysis will include:

- credit research on the issuers' financial strength;
- assessment of the issuers' ability to meet principal and interest payments;
- general industry trends;
- the issuers' managerial strength;
- changing financial conditions;
- borrowing requirements or debt maturity schedules; and
- the issuers' responsiveness to changes in business conditions and interest rates.

BlackRock will consider relative values among issuers based on anticipated cash flow, interest or dividend coverage, asset coverage and earnings prospects. Using these tools, BlackRock will seek to add consistent value and control performance volatility consistent with the Fund's investment objectives and policies. BlackRock believes this strategy should enhance the Fund's ability to achieve its investment objective. In managing the assets of the Fund, BlackRock will utilize an active management approach that stresses the flexibility to reallocate investments as appropriate. BlackRock will diversify the Fund's portfolio of assets in an effort to minimize exposure to individual securities, issuers and industries.

BlackRock's analysis continues on an ongoing basis for any securities in which the Fund has invested. Although BlackRock uses due care in making such analysis, there can be no assurance that such analysis will reveal factors that may impair the value of such securities.

Fundamental Investment Restrictions:

The following investment restrictions are considered fundamental by the Fund, which means that they may not be changed without the approval of the holders of a majority of the Fund's outstanding common shares (which for this purpose and under the 1940 Act means the lesser of (i) 67% of the common shares represented at a meeting at which more than 50% of the outstanding common shares are represented, or (ii) more than 50% of the outstanding shares). Under the fundamental investment restrictions, the Fund may not:

- (1) purchase any security if as a result 25% or more of the total assets of the Fund would be invested in the securities of issuers having their principal business activities in the same industry (with respect to loan participations in which the Fund may invest, the Fund intends to treat as "issuers" the corporate borrower, the bank selling such participation interests and any other person interpositioned between the bank and the Fund);
- (2) with respect to 75% of its total assets, invest more than 5% of the value of its total assets in the securities of any single issuer or purchase more than 10% of the outstanding voting securities of any one issuer;
- (3) purchase commodities or commodity contracts, except that the Fund may purchase and sell options, futures contracts and options thereon and may engage in interest rate and foreign currency transactions
- (4)

purchase, hold or deal in real estate or real estate mortgage loans, or oil, gas or other mineral leases or exploration or development programs, except that the Fund may (a) purchase and sell securities that are secured by, or issued by companies that invest or deal in, real estate, oil, gas or other minerals, or interests therein and (b) hold or sell any such assets acquired in connection with its investment in portfolio securities

- (5) issue senior securities or borrow money, except as permitted by the 1940 Act;

- (6) make loans to others, except through the purchase of debt obligations (including senior loans), the entry into repurchase agreements and the lending of its portfolio securities; and
- (7) act as an underwriter of securities of other issuers, except to the extent the Fund may be deemed an underwriter under the Securities Act, by virtue of its purchase or sale of portfolio securities.

For purposes of applying the limitation set forth in subparagraphs (1) and (2) above, securities of the U.S. Government, its agencies, or instrumentalities, and securities backed by the credit of a governmental entity are not considered to represent industries. However, obligations backed only by the assets and revenues of non-governmental issuers may for this purpose be deemed to be issued by such non-governmental issuers.

All other investment policies of the Fund are considered non-fundamental and may be changed by the Board without prior approval of the Fund's outstanding voting shares.

Non-Fundamental Investment Restrictions:

Any policies of the Fund not described as fundamental in this Prospectus may be changed by its Board without shareholder approval. Additional investment restrictions adopted by the Fund, which may be changed by the Board without shareholder approval, provide that the Fund may not:

- (1) make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's Managed Assets and the Fund's aggregate short sales of a particular class of securities of an issuer does not exceed 25% of the then outstanding securities of that class. The Fund may also make short sales "against the box" without respect to such limitations. In this type of short sale, at the time of the sale, the Fund owns or has the immediate and unconditional right to acquire at no additional cost the identical security;
- (2) purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or any exemptive relief obtained thereunder; or
- (3) purchase securities of companies for the purpose of exercising control.

Under the 1940 Act, the Fund may invest up to 10% of its Managed Assets in the aggregate in shares of other investment companies and up to 5% of its Managed Assets in any one investment company, provided the investment does not represent more than 3% of the voting stock of the acquired investment company at the time such shares are purchased.

Percentage and Rating Limitations:

All percentage and ratings limitations on securities in which the Fund may invest apply at the time of making an investment and shall not be considered violated if an investment rating is subsequently withdrawn or downgraded to a rating that would have precluded the Fund's initial investment in such security, or if exceeded as a result of market value fluctuations of the Fund's portfolio, and will not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of the acquisition of securities. In determining whether to retain or sell such a security, the Investment Advisor may consider such factors as its assessment of the credit quality of the issuer of the security, the price at which the security could be sold and the rating, if any, assigned to the security by other rating agencies. In the event that the Fund disposes of a portfolio security subsequent to its being downgraded, the Fund may experience a greater risk of loss than if such security had been sold prior to such downgrade.

All references to securities ratings by Moody's and S&P herein shall, unless otherwise indicated, include all securities within each such rating category (i.e., Ba1, Ba2 and Ba3 in the case of Moody's and BB+, BB and BB- in the case of S&P). For securities with split ratings (i.e., a security receiving two different ratings from two different rating agencies), the Fund will apply the higher of the applicable ratings.

Subsidiary:

The Fund wholly owns BLW Subsidiary, LLC, a Delaware-domiciled entity (the "Subsidiary"). The Subsidiary enables the Fund to hold investments that are organized as an operating partnership and satisfy regulated investment

company ("RIC") tax requirements. Income earned and gains realized on the investments held by the Subsidiary are taxable to the Subsidiary. The Fund may invest up to 25% of its total assets in the Subsidiary. The Subsidiary's assets are managed by the Investment Advisor and are subject to the same investment policies and restrictions that apply to the Fund.

The Subsidiary is organized as a Delaware limited liability company and taxed as a corporation for Federal income tax purposes. The Subsidiary's limited liability company agreement provides that the business and affairs of the Subsidiary shall be managed by the Investment Advisor, as the manager of the Subsidiary within the meaning of the Delaware Limited Liability Company Act, subject to the supervision of the Board. The Investment Advisor does not receive separate compensation from the Subsidiary for providing investment management or administrative services. The Fund can remove the manager of the Subsidiary at any time. The Subsidiary does not make investments that Section 17 of the 1940 Act would prohibit the Fund or the Subsidiary from making. State Street Bank and Trust Company serves as the Subsidiary's custodian.

Additional Information:

Additional information regarding the foregoing securities, instruments and investment techniques are included in "Portfolio Contents and Techniques" under Item 8 in Part II.

3.a. The risk factors associated with an investment in the Fund are set forth in "Risk Factors" under Item 8 in Part II. Due to the nature of the Fund's investment program, the Fund is particularly susceptible to the risks of fixed-income securities (such as interest rate risk and credit risk), high-yield and distressed securities, senior loans, mortgage-related securities, asset-backed securities, leveraging, illiquid securities, foreign investing, credit and other derivatives (such as options, credit default swaps and interest rate transactions), currency instruments and counterparty default.

3.b. The Fund currently utilizes leverage for investment purposes in the form of reverse repurchase agreements. As of August 31, 2013, this leverage represented approximately 30% of the Fund's Managed Assets (approximately 42% of the Fund's net assets).

Assuming the utilization of leverage by borrowings in the amount of approximately 30% of the Fund's Managed Assets, and an annual interest rate of 0.52 % payable on such leverage based on market rates as of the date of this Prospectus, the annual return that the Fund's portfolio must experience (net of expenses) in order to cover such interest payments would be 0.16 %.

The following table is designed to illustrate the effect on the return to a holder of common shares of the leverage obtained by borrowings in the amount of approximately 30% of the Fund's Managed Assets, assuming hypothetical annual returns on the Fund's portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when 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.

Assumed Portfolio Return (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Common Share Return	(14.43)%	(7.32)%	(0.22)%	6.89%	13.99%

Common share total return is composed of two elements: the common share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund) and gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0% the Fund must assume that the interest it receives on its securities investments is entirely offset by losses in the value of those securities.

Additional information regarding the risks of the Fund's use of leverage is contained under "Item 8—Leverage" in Part II.

4. See Item 8.2, above, and Item 8 in Part II.

5. The following tables set forth the high and low market prices for Fund common shares on the NYSE, for each full quarterly period within the Fund's two most recent fiscal years and each full quarter since the beginning of the Fund's current fiscal year, along with the NAV and discount or premium to NAV for each quotation.

Period Ended	Market Price		Net Asset Value		Premium/(Discount) to Net Asset Value			
	High	Low	High	Low	High	Low	High	Low
February 28, 2014	\$17.58	\$16.70	\$18.07	\$17.96	(2.71)%	(7.02)%		
November 30, 2013	\$17.15	\$16.42	\$17.56	\$17.70	(2.33)%	(7.23)%		
August 31, 2013	\$17.96	\$16.32	\$17.86	\$17.43	0.56 %	(6.37)%		
May 31, 2013	\$19.17	\$17.96	\$17.93	\$18.00	6.92 %	(0.22)%		
February 28, 2013	\$19.14	\$18.13	\$17.82	\$17.76	7.41 %	2.08 %		

November 30, 2012	\$ 18.83	\$ 17.55	\$ 17.57	\$ 17.51	7.17	%	0.23	%
August 31, 2012	\$ 18.19	\$ 16.90	\$ 17.31	\$ 16.90	5.08	%	0.00	%
May 31, 2012	\$ 17.93	\$ 16.62	\$ 17.09	\$ 17.07	4.92	%	(2.64))%
February 29, 2012	\$ 17.20	\$ 15.93	\$ 16.94	\$ 16.39	1.53	%	(2.81))%
November 30, 2011	\$ 16.47	\$ 15.05	\$ 16.54	\$ 15.93	(0.42))%	(5.52))%

As of April 22, 2014, the NAV per common share of the Fund was \$ 18.12 and the market price per common share was \$ 17.23, representing a discount to NAV of 4.91%. Common shares of the Fund have historically traded at both a premium and discount to NAV.

See "Repurchase of Common Shares" under Item 8 in Part II for additional information.

6. Not applicable.

Item 9. Management

1. BlackRock Advisors, LLC acts as the investment adviser for the Fund. Pursuant to an investment management agreement between the Investment Advisor and the Fund (the "Investment Management Agreement"), the Fund pays the Investment Advisor a monthly fee at an annual rate of 0.55% of the Fund's average weekly Managed Assets (0.80% of the Fund's net assets, assuming leverage of approximately 30% of the Fund's Managed Assets). Because the management fee is calculated on the basis of Managed Assets, which includes assets attributable to leverage, the fee paid to the Investment Advisor will be higher than if the Fund did not use leverage.

BlackRock Financial Management, Inc. acts as the sub-adviser for the Fund. BlackRock Advisors, LLC has entered into a separate sub-advisory agreement with the Sub-Advisor (the "Sub-Advisory Agreement," and together with the Investment Management Agreement, the "Advisory Agreements") which states that the Investment Advisor agrees to pay the Sub-Advisor for services it provides, a monthly fee equal to 38% of the investment advisory fees paid by the Fund to the Investment Advisor with respect to the assets of the Fund allocated to the Sub-Advisor.

A discussion regarding the basis for the approval of the Investment Management Agreement and the Sub-Advisory Agreement by the Board is available in the Fund's Annual Report to shareholders for the fiscal year ended August 31, 2013.

The Fund is managed by a team of investment professionals comprised of Leland Hart, Managing Director of BlackRock, James E. Keenan, Managing Director of BlackRock, C. Adrian Marshall, Managing Director of BlackRock, and Tom Musmanno, Managing Director of BlackRock, each of whom is jointly and primarily responsible for the day-to-day management of the Fund's portfolio.

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Portfolio Manager	Primary Role	Since	Title and Recent Biography
Leland Hart	Jointly responsible for the day-to-day management of the Fund's portfolio, which includes setting the Fund's overall investment strategy, overseeing the management of the Fund and/or selection of its investments.	2009	Managing Director of BlackRock, Inc. since 2009; Partner of R3 Capital Partners ("R3") in 2009; Managing Director of R3 from 2008 to 2009; Managing Director of Lehman Brothers from 2006 to 2008.
James E. Keenan, CFA	Jointly responsible for the day-to-day management of the Fund's portfolio, which includes setting the Fund's overall investment strategy, overseeing the management of the Fund and/or selection of its investments.	2007	Managing Director of BlackRock, Inc. since 2008 and Head of the Leveraged Finance portfolio team; Director of BlackRock, Inc. from 2006 to 2007.
C. Adrian Marshall, CFA	Jointly responsible for the day-to-day management of the Fund's portfolio, which includes setting the Fund's overall investment strategy, overseeing the management of the Fund and/or selection of its investments.	2009	Managing Director of BlackRock, Inc. since 2013; Director of BlackRock, Inc. from 2007 to 2013; Vice President of BlackRock, Inc. from 2004 to 2007.
Thomas Musmanno, CFA	Jointly responsible for the day-to-day management of the Fund's portfolio, which includes setting the Fund's overall investment strategy, overseeing the management of the Fund and/or selection of its investments.	2012	Managing Director of BlackRock, Inc. since 2010; Director of BlackRock, Inc. from 2006 to 2009.

Additional information regarding the Board, the Advisors and the portfolio managers, including the portfolio managers' compensation, other accounts managed and ownership of Fund securities, is included under Item 21, below, and under Item 9, Item 18 and Item 21 in Part II.

State Street Bank and Trust Company provides certain administration and accounting services to the Fund pursuant to an Administrative Services Agreement (the "Administration Agreement"). State Street Bank and Trust Company is paid a monthly fee at an annual rate ranging from 0.0075% to 0.015% of the Fund's Managed Assets, along with an annual fixed fee ranging from \$0 to \$10,000 for the services it provides to the Fund.

Certain legal matters will be passed upon by Skadden, Arps, Slate, Meagher & Flom LLP, which serves as counsel to the Fund.

See "Other Service Providers" under Item 9 in Part II for additional information about State Street Bank and Trust Company, the Fund's other service providers and other matters relevant to the Fund's management.

2. Not applicable.

3. Not applicable.

Item 10. Capital Stock, Long-Term Debt and Other Securities

1. The Fund is an unincorporated statutory trust organized under the laws of Delaware pursuant to an Agreement and Declaration of Trust dated as of May 16, 2003, as subsequently amended and restated. The Fund is authorized to issue an unlimited number of common shares of beneficial interest, par value \$0.001 per share. The Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to holders of the Fund's common shares. The Fund reserves the right to change its distribution policy and the basis for establishing the rate

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of its monthly distributions at any time and may do so without prior notice to common shareholders. For additional information about the Fund's common shares, see Item 10 in Part II.

The Fund does not have any preferred shares outstanding.

2. See Item 10.1, above, and Item 10 in Part II.

3. See Item 10.1, above, and Item 10 in Part II.

4. See "Tax Matters" under Item 10 in Part II.

5. Outstanding Securities, as of April 22, 2014:

Title of Class	Amount Authorized	Amount Held by Fund for its Account	Amount Outstanding (Exclusive of Amount Held by Fund for its Account)
Common Shares, par value \$0.001	Unlimited	0	37,003,854

6. Not applicable.

Item 11. Defaults and Arrears on Senior Securities

Not applicable.

Item 12. Legal Proceedings

Not applicable .

Item 13. Table of Contents of SAI

Not applicable.

Item 14. Cover Page

Not applicable.

Item 15. Table of Contents

Not applicable.

Item 16. General Information and History

Not applicable.

Item 17. Investment Objective and Policies

1. See Item 8.2 and Item 8.3, above, and Item 8 in Part II.

2. See Item 8.2 and Item 8.3, above, and Item 8 in Part II.

3. See Item 8.2 and Item 8.3, above, and Item 8 in Part II.

4. Not applicable.

Item 18. Management

1. See Item 18 in Part II.

2. See Item 18 in Part II.

3. See Item 18 in Part II.

4. See Item 18 in Part II.

5. During the Fund's fiscal year ended August 31, 2013, the Board and the Board's committees held the following meetings:

Board or Committee	Number of Meetings
Board (regular meetings)	6
Board (special meetings)	2
Audit Committee	14
Governance and Nominating Committee	4
Compliance Committee	4
Performance Oversight Committee	4
Leverage Committee	10
Executive Committee	2

See Item 18 in Part II.

6. See Item 18 in Part II.

7. The Board of the Fund currently consists of 11 individuals, nine of whom are not "interested persons" of the Fund as defined in the 1940 Act (the "Independent Trustees"). The registered investment companies advised by the Advisors or their affiliates (the "BlackRock-Advised Funds") are organized into one complex of closed-end funds (the "Closed-End Complex"), two complexes of open-end funds (the "Equity-Liquidity Complex" and the "Equity-Bond Complex") and one complex of exchange-traded funds (the "Exchange-Traded Complex"; each such complex a "BlackRock Fund Complex"). The Fund is included in the Closed-End Complex. The Trustees also oversee as Board members the operations of the other closed-end registered investment companies included in the

Closed-End Complex.

Information relating to each Trustee's share ownership in the Fund and in the other funds in the Closed-End Complex that are overseen by the respective Trustee as of December 31, 2013 is set forth in the chart below:

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Name of Trustee	Dollar Range of Equity Securities and Share Equivalents in the Fund*	Aggregate Dollar Range of Equity Securities and Share Equivalents Overseen by Trustees in the Family of Registered Investment Companies**
Independent Trustees		
Michael J. Castellano	\$10,001 - \$50,000	over \$100,000
Richard E. Cavanagh	over \$100,000	over \$100,000
Frank J. Fabozzi	over \$100,000	over \$100,000
Kathleen F. Feldstein	over \$100,000	over \$100,000
James T. Flynn	over \$100,000	over \$100,000
Jerrold B. Harris	over \$100,000	over \$100,000
R. Glenn Hubbard	over \$100,000	over \$100,000
W. Carl Kester	\$50,001 - \$100,000	over \$100,000
Karen P. Robards	\$50,001 - \$100,000	over \$100,000
Interested Trustees		
Paul L. Audet	None	over \$100,000
Henry Gabbay	\$1 - \$10,000	over \$100,000

*Includes share equivalents owned under the deferred compensation plan in the Fund by certain Independent Trustees who have participated in the deferred compensation plan of the funds in the Family of Registered Investment Companies.

**The term "Family of Registered Investment Companies" refers to all registered investment companies advised by the Advisors or an affiliate thereof. Includes share equivalents owned under the deferred compensation plan in the funds in the Family of Registered Investment Companies by certain Independent Trustees who have participated in the deferred compensation plan of the funds in the Family of Registered Investment Companies.

8. See Item 18 in Part II.

9. See Item 18 in Part II.

10. See Item 18 in Part II.

11. See Item 18 in Part II.

12. See Item 18 in Part II.

13. The following table sets forth the aggregate compensation, including deferred compensation amounts, paid to each Independent Trustee and Dr. Gabbay (a Trustee the Fund treats as a "interested person") by the Fund during its most recently completed fiscal year and by the Closed-End Complex for the most recently completed calendar year. See Item 18 in Part II for additional information regarding trustee compensation.

Name	Aggregate Compensation from the Fund	Aggregate Compensation from the Fund and
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	(Most Recently Completed Fiscal Year)	other BlackRock-Advised Funds in the Closed-End Complex(1) (Most Recently Completed Calendar Year)
Independent Trustees		
Michael J. Castellano	\$5,392	\$275,000 (2)
Richard E. Cavanagh	\$7,745	\$395,000 (3)
Frank J. Fabozzi	\$6,274	\$320,000 (4)
Kathleen F. Feldstein	\$4,902	\$250,000 (5)
James T. Flynn	\$5,392	\$275,000 (6)
Jerrold B. Harris	\$5,294	\$270,000 (7)
R. Glenn Hubbard	\$5,098	\$260,000 (8)
W. Carl Kester	\$5,882	\$300,000 (9)
Karen P. Robards	\$7,352	\$375,000 (10)
Interested Trustee		
Henry Gabbay	\$4,194	\$212,500 (11)

(1) Represents the aggregate compensation earned by such persons from the Closed-End Complex during the calendar year ended December 31, 2013. Of this amount, Mr. Castellano, Mr. Cavanagh, Dr. Fabozzi, Dr. Feldstein, Mr. Flynn, Mr. Harris, Dr. Hubbard, Dr. Kester and Ms. Robards deferred \$82,500, \$37,000, \$14,750, \$75,000, \$137,500, \$135,000, \$130,000, \$75,000 and \$35,000, respectively, pursuant to the Closed-End Complex's deferred compensation plan.

(2) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$235,579 as of December 31, 2013.

(3) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$688,375 as of December 31, 2013.

- (4) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$606,433 as of December 31, 2013.
- (5) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$767,918 as of December 31, 2013.
- (6) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$1,157,009 as of December 31, 2013.
- (7) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$1,086,495 as of December 31, 2013.
- (8) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$1,146,290 as of December 31, 2013.
- (9) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$631,096 as of December 31, 2013.
- (10) Total amount of deferred compensation payable by the Closed-End Complex to Trustee is \$560,854 as of December 31, 2013.
- (11) As of December 31, 2013, Dr. Gabbay did not participate in the deferred compensation plan.

14. Not applicable.

15. See Item 18 in Part II.

16. See Item 18 in Part II.

17. See Item 18 in Part II.

Item 19. Control Persons and Principal Holders of Securities

1. Not applicable.

2. Unless otherwise indicated, the information set forth below is as of April 28, 2014. To the Fund's knowledge, no person beneficially owned more than 5% of the Fund's outstanding common shares, except as set forth below.

Investor	Address	Common Shares Held	Common Shares % Held
First Trust Portfolios L.P.(1)	120 East Liberty Drive Suite 400 Wheaton, Illinois 60187	6,384,116	17.28%
Morgan Stanley(2)	1585 Broadway New York, NY 10036	1,991,297	5.40%

(1) Based on Schedule 13G/A filed with the SEC on January 31, 2014. First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation filed their Schedule 13G jointly and did not differentiate holdings as to each entity.

(2) Based on Schedule 13G/A filed with the SEC on February 10, 2014. Morgan Stanley and Morgan Stanley Smith Barney LLC, filed their Schedule 13G jointly and did not differentiate holdings as to each entity.

3. See Item 19 in Part II.

Item 20. Investment Advisory and Other Services

1. The table below sets forth information about the total advisory fees, net of any applicable fee waiver, paid by the Fund to the Investment Advisor for the last three fiscal years.

	Year Ended August 31,	
2013	2012	2011
\$5,261,885(1)(2)	\$4,744,572(1)(2)	\$4,560,740(1)(2)

(1)The Investment Advisor voluntarily agreed to waive its investment advisory fees by the amount of investment advisory fees the Fund pays to the Investment Advisor indirectly through its investment in affiliated money market funds. However, the Investment Advisor does not waive its investment advisory fees by the amount of investment advisory fees paid in connection with the Fund's investment in other affiliated investment companies, if any. Pursuant to this arrangement, the figures in the table above reflect waivers by the Investment Advisor of its fees in the amounts of \$5,075, \$2,198 and \$4,615 for the years ended August 31, 2013, August 31, 2012 and August 31, 2011, respectively.

(2)The Investment Advisor provides investment management and other services to the Subsidiary. The Investment Advisor does not receive separate compensation from the Subsidiary for providing investment management or administrative services. However, the Fund pays the Investment Advisor based on the Fund's net assets which includes the assets of the Subsidiary.

For the last three fiscal years, the Investment Advisor did not pay any sub-advisory fees to the Sub-Advisor.

See Item 9.1, above, and Item 9 and Item 20 in Part II for additional information regarding the Investment Advisor and the Sub-Advisor.

2. See Item 9.1, above, and Item 9 and Item 20 in Part II.
3. Not applicable.
4. State Street Bank and Trust Company provides certain administration and accounting services to the Fund pursuant to the Administration Agreement. The table below shows the amounts paid by the Fund to State Street Bank and Trust Company for such services for the last three fiscal years:

	Year Ended August 31,	
2013	2012	2011
\$79,662	\$88,691	\$93,111(1)

(1)Includes \$5,013 paid to the Investment Advisor as reimbursement for certain accounting services. Effective January 1, 2011, the Fund no longer reimburses the Investment Advisor for accounting services.

See Item 9.1, above, and Item 9 in Part II for additional information regarding the Administration Agreement.

5. Not applicable.
6. See Item 9 in Part II.
7. See Item 9 in Part II.
8. Not applicable.

Item 21: Portfolio Managers

1. The following table sets forth information about funds and accounts other than the Fund for which the portfolio managers are primarily responsible for the day-to-day portfolio management as of August 31, 2013:

Name of Portfolio Manager	Number of Other Accounts Managed and Assets by Account Type			Number of Other Accounts and Assets for Which Advisory Fee is Performance-Based		
	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
Leland Hart	7 \$4.12 Billion	18 \$3.9 Billion	12 \$3.27 Billion	0 \$0	7 \$1.16 Billion	0 \$0
James E. Keenan	21 \$19.15 Billion	22 \$10.85 Billion	24 \$6.84 Billion	0 \$0	7 \$1.21 Billion	4 \$578.7 Million
C. Adrian Marshall	7 \$4.12 Billion	18 \$3.9 Billion	12 \$3.27 Billion	0 \$0	7 \$1.16 Billion	0 \$0
Thomas Musmanno	10 \$5.83 Billion	10 \$1.65 Billion	184 \$46.85 Billion	0 \$0	0 \$0	1 \$5.83 Million

Conflicts of Interest: Messrs. Hart, Keenan, Marshall, and Musmanno may be managing certain hedge fund and/or long only accounts, or may be part of a team managing certain hedge fund and/or long only accounts subject to incentive fees. Messrs. Hart, Keenan, Marshall, and Musmanno may therefore be entitled to receive a portion of any incentive fees earned on such accounts. See "Portfolio Managers — Potential Material Conflicts of Interest" under Item 21 in Part II.

2. See Item 21 in Part II for a general overview and description of the structure of, and the method used to determine, the compensation of the portfolio managers. The principal components of compensation include a base salary, a performance-based discretionary bonus, participation in various benefits programs and one or more of the incentive compensation programs established by BlackRock. The following sets forth how various components of this compensation structure apply specifically to these portfolio managers as of August 31, 2013.

Performance-Based Discretionary Bonus. Among other things, BlackRock's Chief Investment Officers make a subjective determination with respect to each portfolio manager's compensation based on the performance of the funds and other accounts managed by each portfolio manager relative to the various benchmarks. Performance of fixed income funds is measured on a pre-tax and/or after-tax basis over various time periods including 1-, 3- and 5- year periods, as applicable. With respect to Leland Hart and C. Adrian Marshall, such benchmarks for the Fund and other accounts are a combination of market-based indices (e.g., S&P Leveraged All Loan Index), certain customized indices and certain fund industry peer groups. With respect to James E. Keenan, such benchmarks for the Fund and other accounts are a combination of market-based indices (e.g., The Barclays U.S.

Corporate High Yield 2% Issuer Cap Index), certain customized indices and certain fund industry peer groups. With respect to Thomas Musmanno, such benchmarks for the Fund and other accounts are a combination of market-based indices (e.g., Bank of America Merrill Lynch U.S. Corporate & Government Index, 1-3 Years), certain customized indices and certain fund industry peer groups.

Long-Term Incentive Plan Awards. These portfolio managers have unvested long-term incentive awards.

Deferred Compensation Program. Any portfolio manager who is either a managing director or director at BlackRock (which would include these portfolio managers) is eligible to participate in the deferred compensation program.

Incentive Savings Plan. All of the eligible portfolio managers are eligible to participate in these plans.

3. As of August 31, 2013, the portfolio managers beneficially own the following dollar ranges of equity securities in the Fund:

Portfolio Manager	Dollar Range of Equity Securities of the Fund Beneficially Owned
Leland Hart	None
James E. Keenan	None
C. Adrian Marshall	None
Thomas Musmanno	None

Item 22. Brokerage Allocation and Other Practices

1. Information about the brokerage commissions paid by the Fund is set forth in the following table:

For the Fiscal Year Ended	Aggregate Brokerage Commissions
August 31, 2013	\$ 8,507
August 31, 2012	\$ 10,172
August 31, 2011	\$ 5,285

See Item 22 in Part II for additional information about how the Fund effects portfolio transactions.

2. The Advisors may place portfolio transactions, to the extent permitted by law, with brokerage firms affiliated with the Fund and the Advisors, if they reasonably believe that the quality of execution and the commission are comparable to that available from other qualified brokerage firms.

The Fund has not paid any brokerage commissions to affiliated broker-dealers during the three most recent fiscal years.

The Fund paid no security lending agent fees to the security lending agent during the Fund's previous three fiscal years.

3. See Item 22 in Part II.

4. Not applicable.

5. The Fund acquired during its most recent fiscal year securities of its regular brokers or dealers, as defined in Rule 10b-1 under the 1940 Act, as set forth below:

Broker or Dealer	Holdings of Securities of such Regular Broker or Dealer (as of August 31, 2013)
Goldman Sachs & Co.	\$3,400,000
Citigroup Global Markets Inc.	\$1,301,500

Item 23. Tax Status

See Item 10.4, above, and "Tax Matters" under Item 10 in Part II.

Item 24. Financial Statements

The Fund's audited financial statements for the fiscal year ended August 31, 2013 are incorporated by reference herein to the Fund's annual report filed on Form N-CSR on November 4, 2013.

Item 25. Financial Statements and Exhibits

1. The Fund's audited financial statements for the fiscal year ended August 31, 2013 are incorporated by reference herein to the Fund's annual report filed on Form N-CSR on November 4, 2013.

- (a) (1) Amended and Restated Agreement and Declaration of Trust of the Registrant, dated June 10, 2003(1)
- (a)(2) Certification Evidencing Amendment, dated February 11, 2011 – filed herewith
- (b) Amended and Restated Bylaws of the Registrant, dated October 28, 2010(2)
- (c) Not applicable

- (d) Form of Specimen Certificate(3)
- (e) Automatic Dividend Reinvestment Plan (4)
- (f) Not applicable
- (g)(1) Investment Advisory Agreement between the Registrant and BlackRock Advisors, LLC (5)
- (g)(2) Investment Sub-Advisory Agreement between the Registrant and BlackRock Financial Management, Inc. (6)
- (h)(1) Distribution Agreement between the Registrant and BlackRock Investments, LLC – filed herewith
- (h)(2) Sub-Placement Agent Agreement between BlackRock Investments, LLC and UBS Securities LLC – filed herewith
- (i) Second Amended and Restated Deferred Compensation Plan (7)
- (j) Custodian Agreement between the Registrant and State Street Bank and Trust Company (8)
- (k)(1) Transfer Agency and Service Agreement between the Registrant and Computershare Trust Company, N.A. and Computershare Shareholder Services, Inc. (9)
- (k)(2) Administrative Services Agreement between the Registrant and State Street (10)
- (k)(3) Form of Securities Lending Agreement – filed herewith
- (l) Opinion and Consent of Counsel for the Registrant – filed herewith
- (m) Not applicable
- (n) Consent of independent registered public accounting firm for the Registrant – filed herewith
- (o) Not applicable
- (p) Not applicable
- (q) Not applicable
- (r)(1) Code of Ethics of the Registrant (11)
- (r)(2) Code of Ethics of the Investment Advisor and Sub-Advisor (12)
- (s) Power of Attorney (13)

-
- (1) Incorporated by reference to Exhibit (a) to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2, as filed with the SEC on June 20, 2003.
 - (2) Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, as filed with the SEC on October 29, 2010.
 - (3) Incorporated by reference to Exhibit (d) to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement on Form N-2, as filed with the SEC on June 20, 2003.
 - (4) Incorporated by reference to Exhibit (e) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (5) Incorporated by reference to Exhibit (g)(1) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (6) Incorporated by reference to Exhibit (g)(2) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (7) Incorporated by reference to Exhibit (i) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (8) Incorporated by reference to Exhibit (j) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (9) Incorporated by reference to Exhibit (k)(1) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (10) Incorporated by reference to Exhibit (k)(2) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.
 - (11)

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Incorporated by reference to Exhibit (r)(1) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.

(12) Incorporated by reference to Exhibit (r)(2) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.

(13) Incorporated by reference to Exhibit (s) to the Registrant's Registration Statement on Form N-2, as filed with the SEC on March 14, 2014.

Item 26. Marketing Arrangements

Not applicable.

Item 27. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses to be incurred in connection with the offering described in this registration statement:

Registration fee	\$8,300
NYSE listing fee	13,125
Accounting fees and expenses	4,000
Legal fees and expenses	75,000
FINRA fee	9,650
Miscellaneous	2,300
Total	\$112,375

Item 28. Persons Controlled by or Under Common Control

See Item 28 in Part II.

Item 29. Number of Holders of Securities

As of April 22 , 2014:

Title Of Class	Number Of Record Holders
Common Shares	41

Item 30. Indemnification

See Item 30 in Part II.

Item 31. Business and Other Connections of Investment Advisor

See Item 31 in Part II.

Item 32. Location of Accounts and Records

See Item 32 in Part II.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

See Item 34 in Part II.

PART II
ADDITIONAL INFORMATION ABOUT
BLACKROCK LIMITED DURATION INCOME TRUST

Item 5. Plan of Distribution

The Fund has entered into a Distribution Agreement (the "Distribution Agreement") with BlackRock Investments, LLC, an affiliate of the Fund and the Advisors located at 55 East 52nd Street, New York, NY 10055, to provide for distribution of the Fund's common shares on a reasonable efforts basis through various specified transactions, including at-the-market offerings pursuant to Rule 415 under the Securities Act, subject to various conditions. The Distribution Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The summary of the Distribution Agreement contained herein is qualified by reference to the Distribution Agreement.

Subject to the terms and conditions of the Distribution Agreement, the Fund may from time to time issue and sell its common shares through the Distributor to certain broker-dealers which have entered into selected dealer agreements with the Distributor. Currently, the Distributor has entered into a dealer agreement with UBS Securities LLC, pursuant to which the Dealer will be acting as the Distributor's sub-placement agent with respect to at-the-market offerings of the Fund's common shares. The Dealer Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The summary of the Dealer Agreement contained herein is qualified by reference to the Dealer Agreement.

Under the Dealer Agreement, upon instructions from the Distributor the Dealer will use its reasonable best efforts to sell, as sub-placement agent, Fund common shares under the terms and subject to the conditions set forth in the Dealer Agreement. The Distributor will instruct the Dealer as to the amount of Fund common shares authorized for sale by the Dealer on any particular day that is a trading day for the exchange on which the Fund's common shares are listed and primarily trade. The Distributor will also instruct the Dealer not to sell Fund common shares if the sales cannot be effected at or above a price designed by the Distributor, which price will at least be equal to the Minimum Price and which price, may, in the discretion of the Distributor and the Fund, be above the Minimum Price. The Distributor and the Fund may, in their discretion, determine not to authorize sales of the Fund's common shares on a particular day even if the per share price of the shares is equal to or greater than the Minimum Price. The Fund and the Distributor will have full discretion regarding whether sales of Fund common shares will be authorized on a particular day and, if so, in what amounts. The Fund, the Distributor or the Dealer may suspend a previously authorized offering of Fund common shares upon proper notice and subject to other conditions.

The Dealer will provide written confirmation to the Distributor following the close of trading on a day on which Fund common shares are sold under the Dealer Agreement. Each confirmation will include the number of shares sold, the net proceeds to the Fund and the compensation that the Dealer is owed in connection with the sales. There is no guarantee that there will be any sales of the Fund's common shares pursuant to this Prospectus. Actual sales, if any, of the Fund's common shares may be greater or less than the most recent market price set forth in this Prospectus, depending on the market price of the Fund's common shares at the time of any such sale; provided, however, that sales will not be made at less than the Minimum Price.

Settlements of sales of common shares will occur on the third business day following the date on which any such sales are made.

In connection with the sale of common shares on behalf of the Fund, the Distributor may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of the Distributor may be deemed to be underwriting commissions or discounts.

The offering of the Fund's common shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all common shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and the Distributor each have the right to terminate the Distribution Agreement in its discretion upon advance notice to the other party.

The Dealer, its affiliates and their respective employees hold or may hold in the future, directly or indirectly, investment interests in BlackRock, Inc., the parent company of the Distributor, and funds advised by the Investment Advisor and its affiliates. The interests held by employees of the Dealer or its affiliates are not attributable to, and no investment discretion is held by, the Dealer or its affiliates.

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The Fund has agreed to indemnify the Distributor and hold the Distributor harmless against certain liabilities, including certain liabilities under the Securities Act, except for any liability to the Fund or its investors to which the Distributor would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of its duties or by its reckless disregard of its obligations and duties under its agreement with the Fund.

Additional information regarding the plan of distribution is set forth under Item 5 in Part I.

Item 8. Description of the Fund

Portfolio Contents and Techniques

The Fund may invest in the following instruments and use the following investment techniques, subject to any limitations set forth in Part I. There is no guarantee the Fund will buy all of the types of securities or use all of the investment techniques that are described herein.

Corporate Bonds. Corporate bonds are debt obligations issued by corporations. Corporate bonds may be either secured or unsecured. Collateral used for secured debt includes real property, machinery, equipment, accounts receivable, stocks, bonds or notes. If a bond is unsecured, it is known as a debenture. Bondholders, as creditors, have a prior legal claim over common and preferred stockholders as to both income and assets of the corporation for the principal and interest due them and may have a prior claim over other creditors if liens or mortgages are involved. Interest on corporate bonds may be fixed or floating, or the bonds may be zero coupons. Interest on corporate bonds is typically paid semi-annually and is fully taxable to the bondholder. Corporate bonds contain elements of both interest rate risk and credit risk. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates and may also be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the marketplace. Corporate bonds usually yield more than government or agency bonds due to the presence of credit risk.

High Yield Securities. The Fund may invest in securities rated, at the time of investment, below investment grade quality such as those rated Ba or below by Moody's or BB or below by S&P, or securities comparably rated by other rating agencies or in unrated securities determined by the Advisors to be of comparable quality. Such securities, sometimes referred to as "high yield" or "junk" bonds, are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve greater price volatility than securities in higher rating categories. Often the protection of interest and principal payments with respect to such securities may be very moderate and issuers of such securities face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Fund to sell certain securities or could result in lower prices than those used in calculating the Fund's NAV.

The prices of fixed income securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupons of such securities. Accordingly, below investment grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity because of their higher coupon. The investor receives this higher coupon in return for bearing greater credit risk. The higher credit risk associated with below investment grade securities

potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

The ratings of Moody's, S&P and other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Advisors also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Fund invests in lower grade securities that have not been rated by a rating agency, the Fund's ability to achieve its investment objective will be more dependent on the Advisors' credit analysis than would be the case when the Fund invests in rated securities.

Distressed and Defaulted Securities. The Fund may invest in securities of financially distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally trade significantly

below par and are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result in only partial recovery of cash payments or an exchange of the defaulted obligation for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

Senior Loans. The senior loans in which the Fund invests primarily consist of direct obligations of a borrower undertaken to finance the growth of the borrower's business, internally or externally, or to finance a capital restructuring. Senior loans may also include debtor in possession financings pursuant to Chapter 11 of the U.S. Bankruptcy Code and obligations of a borrower issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code. A significant portion of such senior loans are highly leveraged loans such as leveraged buy-out loans, leveraged recapitalization loans and other types of acquisition loans. Such senior loans may be structured to include both term loans, which are generally fully funded at the time of the Fund's investment, and revolving credit facilities or delayed draw term loans, which would require the Fund to make additional investments in the senior loans as required under the terms of the credit facility. Such senior loans may also include receivables purchase facilities, which are similar to revolving credit facilities secured by a borrower's receivables, senior loans designed to provide "bridge" financing to a borrower pending the sale of identified assets or the arrangement of longer-term loans or the issuance and sale of debt obligations or senior loans of borrowers that have obtained bridge loans from other parties. Senior loans generally are issued in the form of senior syndicated loans, but the Fund also may invest from time to time in privately placed notes, credit linked notes, structured notes or other instruments with credit and pricing terms which are, in the opinion of the Investment Advisor, consistent with investments in senior loan obligations.

The senior loans in which the Fund invests typically have stated maturities ranging from five to nine years, though such stated maturities could vary from this range and the Fund is not subject to any restrictions with respect to the maturity of senior loans held in its portfolio. As a result, as short-term interest rates increase, interest payable to the Fund from its investments in senior loans should increase, and as short-term interest rates decrease, interest payable to the Fund from its investments in senior loans should decrease. Because of prepayments, the Advisors expect the average life of the senior loans in which the Fund invests to be shorter than the stated maturity.

The senior loans in which the Fund invests generally hold a senior position in the capital structure of the borrower. Such loans may include loans that hold the most senior position, loans that hold an equal ranking with other senior debt, or loans that are, in the judgment of the Investment Advisor, in the category of senior debt. A senior position in the borrower's capital structure generally gives the holder of the senior loan a claim on some or all of the borrower's assets that is senior to that of subordinated debt, preferred stock and common stock in the event the borrower defaults or becomes bankrupt. The senior loans in which the Fund invests may be wholly or partially secured by collateral, or may be unsecured. In the event of a default, the ability of an investor to have access to any collateral may be limited by bankruptcy and other insolvency laws. The value of the collateral also may decline subsequent to the Fund's investment in the senior loan. Under certain circumstances, the collateral may be released with the consent of the Agent Bank and Co-Lenders (each as defined below), or pursuant to the terms of the underlying credit agreement with the borrower. There is no assurance that the liquidation of the collateral will satisfy the borrower's obligation in the event of nonpayment of scheduled interest or principal, or that the collateral could be readily liquidated. As a result, the Fund might not receive payments to which it is entitled and thereby may experience a decline in the value of the investment, and possibly, its NAV.

In the case of highly leveraged senior loans, a borrower is often required to pledge collateral that may include (i) working capital assets, such as accounts receivable and inventory, (ii) tangible fixed assets, such as real property, buildings and equipment, (iii) intangible assets, such as trademarks, copyrights and patent rights and/or (iv) security

interests in securities of subsidiaries or affiliates. Collateral also may include guarantees or other credit support by subsidiaries or affiliates. In some cases the only collateral for the senior loan is the stock of the borrower and/or its subsidiaries and affiliates. To the extent a senior loan is secured by stock of the borrower and/or its subsidiaries and affiliates, such stock may lose all of its value in the event of a bankruptcy or insolvency of the borrower. In the case of senior loans to privately held companies, the companies' owners may provide additional credit support in the form of guarantees and/or pledges of other securities that they own.

In the case of project finance loans, the borrower is generally a special purpose entity that pledges undeveloped land and other non-income producing assets as collateral and obtains construction completion guaranties from third parties, such as the project sponsor. Project finance credit facilities typically provide for payment of interest from escrowed funds during a scheduled construction period, and for the pledge of current and fixed assets after the project is constructed and becomes operational. During the construction period, however, the lenders bear the risk that the project will not be constructed in a timely manner, or will exhaust project funds prior to completion. In such an event, the lenders may need to take legal action to enforce the completion guaranties, or may need to lend more money to the project on less favorable financing terms, or may need to liquidate the undeveloped project assets. There can be no assurance in any of such cases that the lenders will recover all of their invested capital.

The rate of interest payable on senior floating rate loans is established as the sum of a base lending rate plus a specified margin. These base lending rates generally are the prime rate ("Prime Rate") of a designated U.S. bank, London Interbank Offered Rate ("LIBOR"), the Certificate of Deposit ("CD") rate or another base lending rate used by commercial lenders. The interest rate on Prime Rate-based senior loans floats daily as the Prime Rate changes, while the interest rate on LIBOR-based and CD-based senior loans is reset periodically, typically every one, two, three or six months. Certain of the senior floating rate loans in which the Fund invests permit the borrower to select an interest rate reset period of up to one year. A portion of the Fund's portfolio may be invested in senior loans with interest rates that are fixed for the term of the loan. Investment in senior loans with longer interest rate reset periods or fixed interest rates may increase fluctuations in the Fund's NAV, and potentially the market price of the Fund's common shares, as a result of changes in interest rates.

The Fund may receive and/or pay certain fees in connection with its lending activities. These fees are in addition to interest payments received and may include facility fees, commitment fees, amendment and waiver fees, commissions and prepayment fees. In certain circumstances, the Fund may receive a prepayment fee on the prepayment of a senior loan by a borrower. In connection with the acquisition of senior loans or other debt securities, the Fund also may acquire warrants and other debt and equity securities of the borrower or issuer or its affiliates. The acquisition of such debt and equity securities will only be incidental to the Fund's purchase of an interest in a senior loan or other debt security. The Fund may also acquire other debt and equity securities of the borrower or issuer in connection with an amendment, waiver, conversion or exchange of a senior loan or in connection with a bankruptcy or workout of the borrower or issuer.

In making an investment in a senior loan, the Investment Advisor will consider factors deemed by it to be appropriate to the analysis of the borrower and the senior loan. The Investment Advisor performs its own independent credit analysis of the borrower in addition to utilizing information prepared and supplied by the Agent Bank, Co-Lender or Participant (each defined below) from whom the Fund purchases its interest in a senior loan. Such factors include, but are not limited to, the legal/protective features associated with the securities (such as their position in the borrower's capital structure and any security through collateral), financial ratios of the borrower such as pre-tax interest coverage, leverage ratios, and the ratios of cash flows to total debts and the ratio of tangible assets to debt. In its analysis of these factors, the Investment Advisor also will be influenced by the nature of the industry in which the borrower is engaged, the nature of the borrower's assets and the Investment Advisor's assessments of the general quality of the borrower. The Investment Advisor's analysis continues on an ongoing basis for any senior loans in which the Fund has invested. Although the Investment Advisor uses due care in making such analysis, there can be no assurance that such analysis will disclose factors that may impair the value of the senior loan.

Senior loans made in connection with highly leveraged transactions are subject to greater credit risks than other senior loans in which each Fund may invest. These credit risks include a greater possibility of default or bankruptcy of the borrower and the assertion that the pledging of collateral to secure the loan constituted a fraudulent conveyance or preferential transfer which can be nullified or subordinated to the rights of other creditors of the borrower under applicable law.

Many senior loans in which the Fund invests may not be rated by a rating agency, are not registered with the SEC, or any state securities commission, and are not listed on any national securities exchange. Borrowers may have outstanding debt obligations that are rated below investment grade by a rating agency. Many of the senior loans in which the Fund invests will have been assigned below investment grade ratings by independent rating agencies. In the event senior loans are not rated, they are likely to be the equivalent of below investment grade quality. The Advisors do not view ratings as the determinative factor in their investment decisions and rely more upon their credit analysis abilities than upon ratings.

The Fund has no policy with regard to minimum ratings for senior loans in which it may invest. The Fund may purchase and retain in its portfolio senior loans where the borrower has experienced, or may be perceived to be likely to experience, credit problems, including involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. Such investments may provide opportunities for enhanced income as well as capital appreciation, although they also will be subject to greater risk of loss. At times, in connection with the restructuring of a senior loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Fund may determine or be required to accept equity securities or junior fixed income securities in exchange for all or a portion of a senior loan.

The secondary market for trading of senior loans continues to develop and mature. One of the effects of a more active and liquid secondary market, however, is that a senior loan may trade at a premium or discount to the principal amount, or par value, of the loan. There are many factors that influence the market value of a senior loan, including technical factors relating to the operation of the loan market, supply and demand conditions, market perceptions about the credit quality or financial condition of the borrower or more general concerns about the industry in which the borrower operates. The Fund participates in this secondary market for senior loans, purchasing and selling loans that may trade at a premium or discount to the par value of the loan. However, no active trading market may exist for some senior loans and some loans may be subject to restrictions on resale. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value and thus cause a material decline in the Fund's

NAV. In addition, the Fund may not be able to readily dispose of its senior loans at prices that approximate those at which the Fund could sell such loans if they were more widely-traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. During periods of limited supply and liquidity of senior loans, the Fund's yield may be lower.

When interest rates decline, the value of a fund invested in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a fund invested in fixed rate obligations can be expected to decline. Although changes in prevailing interest rates can be expected to cause some fluctuations in the value of floating rate senior loans (due to the fact that floating rates on senior loans only reset periodically), the value of floating rate senior loans is substantially less sensitive to changes in market interest rates than fixed rate instruments. As a result, to the extent the Fund invests in floating rate senior loans, the Fund's portfolio may be less volatile and less sensitive to changes in market interest rates than if the Fund invested in fixed rate obligations. Similarly, a sudden and significant increase in market interest rates may cause a decline in the value of these investments and in the Fund's NAV. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can reduce the value of senior loans and other debt obligations, impairing the Fund's NAV.

A borrower must comply with various restrictive covenants contained in any credit agreement between the borrower and the lending syndicate. Such covenants, in addition to requiring the scheduled payment of interest and principal, may include restrictions on dividend payments and other distributions to stockholders, provisions requiring the borrower to maintain specific financial ratios or relationships, limits on total debt and restrictions on the borrower's ability to pledge its assets. In addition, the loan agreement may contain a covenant requiring the borrower to prepay the senior loan with any excess cash flow. Excess cash flow generally includes net cash flow after scheduled debt service payments and permitted capital expenditures, among other things, as well as the proceeds from asset dispositions or sales of securities. A breach of a covenant (after giving effect to any cure period) which is not waived by the Agent Bank and the lending syndicate normally is an event of default (i.e., the Agent Bank has the right to call the outstanding senior loan).

Senior loans usually require, in addition to scheduled payments of interest and principal, the prepayment of the senior loan from excess cash flow, as discussed above, and typically permit the borrower to prepay at its election. The degree to which borrowers prepay senior loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the borrower and competitive conditions among lenders, among other factors. Accordingly, prepayments cannot be predicted with accuracy. Upon a prepayment, the Fund may receive both a prepayment fee from the prepaying borrower and a facility fee on the purchase of a new senior loan with the proceeds from the prepayment of the former. Such fees may mitigate any adverse impact on the yield on the Fund's portfolio which may arise as a result of prepayments and the reinvestment of such proceeds in senior loans bearing lower interest rates.

A senior loan in which the Fund may invest typically is originated, negotiated and structured by a syndicate of lenders ("Co-Lenders") consisting of commercial banks, thrift institutions, insurance companies, finance companies, investment banking firms, securities brokerage houses or other financial institutions or institutional investors, one or more of which administers the loan on behalf of the syndicate (the "Agent Bank"). Co-Lenders may sell senior loans to third parties ("Participants"). The Fund invests in a senior loan either by participating in the primary distribution as a Co-Lender at the time the loan is originated or by buying an assignment or participation interest in the senior loan in the secondary market from a Co-Lender or a Participant. The Fund will not act as an Agent Bank, guarantor, sole negotiator or sole structurer with respect to a senior loan.

The Fund may invest in a senior loan at origination as a Co-Lender or by acquiring an assignment or participation interest in the secondary market from a Co-Lender or Participant. If the Fund purchases an assignment, the Fund typically accepts all of the rights of the assigning lender in a senior loan, including the right to receive payments of principal and interest and other amounts directly from the borrower and to enforce its rights as a lender directly against the borrower and assumes all of the obligations of the assigning lender, including any obligations to make future advances to the borrower. As a result, therefore, the Fund has the status of a Co-Lender. In some cases, the rights and obligations acquired by a purchaser of an assignment may differ from, and may be more limited than, the rights and obligations of the assigning lender. The Fund also may purchase a participation in a portion of the rights of a Co-Lender or Participant in a senior loan by means of a participation agreement. A participation is similar to an assignment in that the Co-Lender or Participant transfers to the Fund all or a portion of an interest in a senior loan. Unlike an assignment, however, a participation does not establish any direct relationship between the Fund and the borrower. In such a case, the Fund is required to rely on the Co-Lender or Participant that sold the participation not only for the enforcement of the Fund's rights against the borrower but also for the receipt and processing of payments due to the Fund under the senior loans.

Because it may be necessary to assert through a Co-Lender or Participant such rights as may exist against the borrower, in the event the borrower fails to pay principal and interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would be involved if the Fund could enforce its rights directly against the borrower. Moreover, under the terms of a participation, the Fund may be regarded as a creditor of the Co-Lender or Participant that sold

the participation (rather than of the borrower), so that the Fund may also be subject to the risk that the Co-Lender or Participant may become insolvent. Similar risks may arise with respect to the Agent Bank, as described below. Further, in the event of the bankruptcy or insolvency of the borrower, the obligation of the borrower to repay the senior loan may be subject to certain defenses that can be asserted by such borrower as a result of improper conduct by the Agent Bank, Co-Lender or Participant.

In a typical senior loan, the Agent Bank administers the terms of the credit agreement and is responsible for the collection of principal and interest and fee payments from the borrower and the apportionment of these payments to the credit of all lenders which are parties to the credit agreement. The Fund generally relies on the Agent Bank (or the Co-Lender or Participant that sold the Fund a participation interest) to collect its portion of the payments on the senior loan. Furthermore, the Fund generally relies on the Agent Bank to use appropriate creditor remedies against the borrower. Typically, under credit agreements, the Agent Bank is given broad discretion in enforcing the credit agreement, and is obligated to use only the same care it would use in the management of its own property. The borrower compensates the Agent Bank for these services. Such compensation may include special fees paid on structuring and funding the senior loan and other fees paid on a continuing basis.

In the event that an Agent Bank becomes insolvent, or has a receiver, conservator, or similar official appointed for it by the appropriate bank regulatory authority or becomes a debtor in a bankruptcy proceeding, assets held by the Agent Bank under the credit agreement should remain available to holders of senior loans.

If, however, assets held by the Agent Bank for the benefit of the Fund were determined by an appropriate regulatory authority or court to be subject to the claims of the Agent Bank's general or secured creditors, the Fund might incur certain costs and delays in realizing payment on a senior loan or suffer a loss of principal and/or interest. In situations involving a Co-Lender or Participant that sold the Fund a participation interest, similar risks may arise, as described above.

The Fund may have certain obligations pursuant to a credit agreement, which may include the obligation to make future advances to the borrower in connection with revolving credit facilities in certain circumstances. These commitments may have the effect of requiring the Fund to increase its investment in a borrower at a time it might not be desirable to do so (including at a time when the borrower's financial condition makes it unlikely that such amounts will be repaid). The Fund currently intends to reserve against such contingent obligations by designating sufficient investments in liquid assets on its books and records.

The Fund may obtain exposure to senior loans through the use of derivative instruments, which have recently become increasingly available. The Advisors may utilize these instruments and similar instruments that may be available in the future. The Fund may invest in a derivative instrument known as a Select Aggregate Market Index ("SAMI"), which provides investors with exposure to a reference basket of senior loans. SAMIs are structured as floating rate instruments. SAMIs consist of a basket of credit default swaps whose underlying reference securities are senior secured loans. While investing in SAMIs will increase the universe of floating rate fixed income securities to which the Fund is exposed, such investments entail risks that are not typically associated with investments in other floating rate fixed income securities. The liquidity of the market for SAMIs will be subject to liquidity in the secured loan and credit derivatives markets. Investment in SAMIs involves many of the risks associated with investments in derivative instruments discussed generally herein.

Second Lien Loans. The Fund may invest in second lien or other subordinated or unsecured floating rate and fixed rate loans or debt. Second lien loans have the same characteristics as senior loans except that such loans are second in lien property rather than first. Second lien loans typically have adjustable floating rate interest payments. Accordingly, the risks associated with second lien loans are higher than the risk of loans with first priority over the collateral. In the

event of default on a second lien loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible that no collateral value would remain for the second priority lien holder, which may result in a loss of investment to the Fund.

Mezzanine Loans. The Fund may invest in mezzanine loans. Structurally, mezzanine loans usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. However, mezzanine loans rank senior to common and preferred equity in a borrower's capital structure. Mezzanine debt is often used in leveraged buyout and real estate finance transactions. Typically, mezzanine loans have elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to their higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine loans generally earn a higher return than senior secured loans. The warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine loans also may include a "put" feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed-upon formula. Mezzanine investments may be issued with or without registration rights. Mezzanine investments may be issued with or without registration rights. Similar to other high yield securities, maturities of mezzanine investments are typically seven to ten years, but the expected average life

is significantly shorter at three to five years; however, maturities and expected average lives could vary from these ranges and the Fund is not subject to any restrictions with respect to the maturities or expected average lives of mezzanine loans held in its portfolio. Mezzanine investments are usually unsecured and subordinate to other obligations of the issuer.

Debtor-In-Possession Financings. The Fund may invest in "debtor-in-possession" or "DIP" financings newly issued in connection with "special situation" restructuring and refinancing transactions. DIP financings are loans to a debtor-in-possession in a proceeding under the U.S. Bankruptcy Code that has been approved by the bankruptcy court. These financings allow the entity to continue its business operations while reorganizing under Chapter 11 of the U.S. Bankruptcy Code. DIP financings are typically fully secured by a lien on the debtor's otherwise unencumbered assets or secured by a junior lien on the debtor's encumbered assets (so long as the loan is fully secured based on the most recent current valuation or appraisal report of the debtor). DIP financings are often required to close with certainty and in a rapid manner in order to satisfy existing creditors and to enable the issuer to emerge from bankruptcy or to avoid a bankruptcy proceeding.

Mortgage Related Securities. Mortgage-backed securities ("MBS") include structured debt obligations collateralized by pools of commercial ("CMBS") or residential ("RMBS") mortgages. Pools of mortgage loans and mortgage-backed loans, such as mezzanine loans, are assembled as securities for sale to investors by various governmental, government-related and private organizations. MBS include complex instruments such as collateralized mortgage obligations ("CMOs"), stripped MBS, mortgage pass-through securities and interests in Real Estate Mortgage Investment Conduits ("REMICs"). The MBS in which the Fund may invest include those with fixed, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified reference interest rate or index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Fund may invest in RMBS and CMBS issued by governmental entities and private issuers, including subordinated MBS and residual interests. The Fund may invest in sub-prime mortgages or MBS that are backed by sub-prime mortgages.

In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher rated security. The Fund may invest in any class of security included in a securitization. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which the Fund invests, the Fund will not be able to recover all of its investment in the MBS it purchases. MBS in which the Fund invests may not contain reserve funds, letters of credit, mezzanine loans and/or junior classes of securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Mortgage Pass-Through Securities. Mortgage pass-through securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, these securities provide a monthly payment which consists of both interest and principal payments. In effect, these payments are a "pass through" of the monthly payments made by the individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by repayments of principal resulting from the sale of the underlying property, refinancing or foreclosure, net of fees or costs that may be incurred. Some mortgage related securities (such as securities issued by the Government National Mortgage Association ("GNMA")) are described as "modified pass-through." These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, at the scheduled payment dates regardless of whether or not the mortgagor actually

makes the payment.

RMBS. RMBS are securities the payments on which depend primarily on the cash flow from residential mortgage loans made to borrowers that are secured, on a first priority basis or second priority basis, subject to permitted liens, easements and other encumbrances, by residential real estate (one- to four-family properties), the proceeds of which are used to purchase real estate and purchase or construct dwellings thereon or to refinance indebtedness previously used for such purposes. Non-agency residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The ability of a borrower to repay a loan secured by residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of God, terrorism, social unrest and civil disturbances, may impair a borrower's ability to repay its loans.

Agency RMBS. The principal U.S. Governmental guarantor of mortgage related securities is GNMA, which is a wholly owned U.S. Government corporation. GNMA is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration (the "FHA") or guaranteed by the Department of Veterans Affairs (the "VA"). MBS issued by GNMA include GNMA Mortgage Pass-Through Certificates (also known as "Ginnie Maes") which are guaranteed as to the timely payment of principal and interest by GNMA and such guarantees are backed by the full faith and credit of the

United States. GNMA certificates also are supported by the authority of GNMA to borrow funds from the U.S. Treasury to make payments under its guarantee.

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). FNMA is a government-sponsored corporation the common stock of which is owned entirely by private stockholders. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA (also known as "Fannie Maes") are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC was created by Congress in 1970 for the purpose of increasing the availability of mortgage credit for residential housing. It is a government-sponsored corporation that issues FHLMC Guaranteed Mortgage Pass-Through Certificates (also known as "Freddie Macs" or "PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

In 2008, the Federal Housing Finance Agency ("FHFA") placed FNMA and FHLMC into conservatorship. FNMA and FHLMC are continuing to operate as going concerns while in conservatorship and each remains liable for all of its obligations, including its guaranty obligations, associated with its MBS.

As the conservator, FHFA succeeded to all rights, titles, powers and privileges of FNMA and FHLMC and of any stockholder, officer or director of FNMA and FHLMC with respect to FNMA and FHLMC and the assets of FNMA and FHLMC. In connection with the conservatorship, the U.S. Treasury entered into a Senior Preferred Stock Purchase Agreement with each of FNMA and FHLMC pursuant to which the U.S. Treasury would purchase up to an aggregate of \$100 billion of each of FNMA and FHLMC to maintain a positive net worth in each enterprise. This agreement contains various covenants that severely limit each enterprise's operations. In exchange for entering into these agreements, the U.S. Treasury received \$1 billion of each enterprise's senior preferred stock and warrants to purchase 79.9% of each enterprise's common stock. In February 2009, the U.S. Treasury doubled the size of its commitment to each enterprise under the Senior Preferred Stock Program to \$200 billion. The U.S. Treasury's obligations under the Senior Preferred Stock Program are for an indefinite period of time for a maximum amount of \$200 billion per enterprise. In December 2009, the U.S. Treasury announced further amendments to the Senior Preferred Stock Purchase Agreements which included additional financial support to certain governmentally supported entities, including the Federal Home Loan Banks ("FHLBs"), FNMA and FHLMC. It is difficult, if not impossible, to predict the future political, regulatory or economic changes that could impact FNMA, FHLMC and the FHLBs, and the values of their related securities or obligations. There is no assurance that the obligations of such entities will be satisfied in full, or that such obligations will not decrease in value or default.

Under the Federal Housing Finance Regulatory Reform Act of 2008 (the "Reform Act"), which was included as part of the Housing and Economic Recovery Act of 2008, FHFA, as conservator or receiver, has the power to repudiate any contract entered into by FNMA or FHLMC prior to FHFA's appointment as conservator or receiver, as applicable, if FHFA determines, in its sole discretion, that performance of the contract is burdensome and that repudiation of the contract promotes the orderly administration of FNMA's or FHLMC's affairs. The Reform Act requires FHFA to exercise its right to repudiate any contract within a reasonable period of time after its appointment as conservator or receiver. FHFA, in its capacity as conservator, has indicated that it has no intention to repudiate the guaranty obligations of FNMA or FHLMC because FHFA views repudiation as incompatible with the goals of the conservatorship. However, in the event that FHFA, as conservator or if it is later appointed as receiver for FNMA or FHLMC, were to repudiate any such guaranty obligation, the conservatorship or receivership estate, as applicable,

would be liable for actual direct compensatory damages in accordance with the provisions of the Reform Act. Any such liability could be satisfied only to the extent of FNMA's or FHLMC's assets available therefor. In the event of repudiation, the payments of interest to holders of FNMA or FHLMC MBS would be reduced if payments on the mortgage loans represented in the mortgage loan groups related to such MBS are not made by the borrowers or advanced by the servicer. Any actual direct compensatory damages for repudiating these guaranty obligations may not be sufficient to offset any shortfalls experienced by such mortgage-backed security holders. Further, in its capacity as conservator or receiver, FHFA has the right to transfer or sell any asset or liability of FNMA or FHLMC without any approval, assignment or consent. Although FHFA has stated that it has no present intention to do so, if FHFA, as conservator or receiver, were to transfer any such guaranty obligation to another party, holders of FNMA or FHLMC MBS would have to rely on that party for satisfaction of the guaranty obligation and would be exposed to the credit risk of that party. In addition, certain rights provided to holders of MBS issued by FNMA and FHLMC under the operative documents related to such securities may not be enforced against FHFA, or enforcement of such rights may be delayed, during the conservatorship or any future receivership. The operative documents for FNMA and FHLMC MBS may provide (or with respect to securities issued prior to the date of the appointment of the conservator may have provided) that upon the occurrence of an event of default on the part of FNMA or FHLMC, in its capacity as guarantor, which includes the appointment of a conservator or receiver, holders of such MBS have the right to replace FNMA or FHLMC as trustee if the requisite percentage of MBS

holders consent. The Reform Act prevents mortgage-backed security holders from enforcing such rights if the event of default arises solely because a conservator or receiver has been appointed.

A 2011 report to Congress from the Treasury Department and the Department of Housing and Urban Development set forth a plan to reform America's housing finance market, which would reduce the role of and eventually eliminate FNMA and FHLMC. Notably, the plan did not propose similar significant changes to GNMA, which guarantees payments on mortgage related securities backed by federally insured or guaranteed loans. The report also identified three proposals for Congress and the administration to consider for the long-term structure of the housing finance markets after the elimination of FNMA and FHLMC, including implementing: (i) a privatized system of housing finance that limits government insurance to very limited groups of creditworthy low- and moderate-income borrowers; (ii) a privatized system with a government backstop mechanism that would allow the government to insure a larger share of the housing finance market during a future housing crisis; and (iii) a privatized system where the government would offer reinsurance to holders of certain highly rated mortgage related securities insured by private insurers and would pay out under the reinsurance arrangements only if the private mortgage insurers were insolvent.

Non-Agency RMBS. These RMBS are issued by commercial banks, savings and loan institutions, mortgage bankers, private mortgage insurance companies and other non-governmental issuers. Timely payment of principal and interest on RMBS backed by pools created by non-governmental issuers often is supported partially by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance. The insurance and guarantees are issued by government entities, private insurers and the mortgage poolers. There can be no assurance that the private insurers or mortgage poolers can meet their obligations under the policies, so that if the issuers default on their obligations, the holders of the security could sustain a loss. No insurance or guarantee covers the Fund or the price of the Fund's shares. RMBS issued by non-governmental issuers generally offer a higher rate of interest than government agency and government-related securities because there are no direct or indirect government guarantees of payment.

CMBS. CMBS generally are multi-class debt or pass-through certificates secured or backed by mortgage loans on commercial properties. CMBS generally are structured to provide protection to the senior class investors against potential losses on the underlying mortgage loans. This protection generally is provided by having the holders of subordinated classes of securities ("Subordinated CMBS") take the first loss if there are defaults on the underlying commercial mortgage loans. Other protection, which may benefit all of the classes or particular classes, may include issuer guarantees, reserve funds, additional Subordinated CMBS, cross-collateralization and over-collateralization.

The Fund may invest in Subordinated CMBS, which are subordinated in some manner as to the payment of principal and/or interest to the holders of more senior CMBS arising out of the same pool of mortgages and which are often referred to as "B-Pieces." The holders of Subordinated CMBS typically are compensated with a higher stated yield than are the holders of more senior CMBS. On the other hand, Subordinated CMBS typically subject the holder to greater risk than senior CMBS and tend to be rated in a lower rating category (frequently a substantially lower rating category) than the senior CMBS issued in respect of the same mortgage pool. Subordinated CMBS generally are likely to be more sensitive to changes in prepayment and interest rates and the market for such securities may be less liquid than is the case for traditional income securities and senior CMBS.

CMOs. A CMO is a multi-class bond backed by a pool of mortgage pass-through certificates or mortgage loans. CMOs may be collateralized by (i) GNMA, FNMA or FHLMC pass-through certificates, (ii) unsecuritized mortgage loans insured by the FHA or guaranteed by the VA, (iii) unsecuritized conventional mortgages, (iv) other MBS or (v) any combination thereof. Each class of a CMO, often referred to as a "tranche," is issued at a specific coupon rate and has a stated maturity or final distribution date. Principal prepayments on collateral underlying a CMO may cause it to be retired substantially earlier than its stated maturity or final distribution date. The principal and interest on the underlying mortgages may be allocated among the several classes of a series of a CMO in many ways. One or more

tranches of a CMO may have coupon rates which reset periodically at a specified increment over an index, such as LIBOR (or sometimes more than one index). These floating rate CMOs typically are issued with lifetime caps on the coupon rate thereon.

The Fund may invest in inverse floating rate CMOs. Inverse floating rate CMOs constitute a tranche of a CMO with a coupon rate that moves in the reverse direction relative to an applicable index such as LIBOR. Accordingly, the coupon rate thereon will increase as interest rates decrease. Inverse floating rate CMOs are typically more volatile than fixed or floating rate tranches of CMOs. Many inverse floating rate CMOs have coupons that move inversely to a multiple of an index. The effect of the coupon varying inversely to a multiple of an applicable index creates a leverage factor. Inverse floating rate debt instruments ("inverse floaters") based on multiples of a stated index are designed to be highly sensitive to changes in interest rates and can subject the holders thereof to extreme reductions of yield and loss of principal. The market for inverse floating rate CMOs with highly leveraged characteristics at times may be very thin. The Fund's ability to dispose of its positions in such securities will depend on the degree of liquidity in the markets for such securities. It is impossible to predict the amount of trading interest that may exist in such securities, and therefore the future degree of liquidity.

Stripped MBS. Stripped MBS are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new securities, each receiving a specified percentage of the underlying security's principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of one type of security, known as an interest-only security (or "IO"), and all of the principal is distributed to holders of another type of security, known as a principal-only security (or "PO"). Strips can be created in a pass-through structure or as tranches of a CMO. The yields to maturity on IOs and POs are very sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Fund may not fully recoup its initial investment in IOs. Conversely, if the underlying mortgage assets experience less than anticipated prepayments of principal, the yield on POs could be materially and adversely affected.

Adjustable Rate Mortgage Securities. Adjustable rate mortgages ("ARMs") have interest rates that reset at periodic intervals. Acquiring ARMs permits the Fund to participate in increases in prevailing current interest rates through periodic adjustments in the coupons of mortgages underlying the pool on which ARMs are based. Such ARMs generally have higher current yield and lower price fluctuations than is the case with more traditional fixed income securities of comparable rating and maturity. In addition, when prepayments of principal are made on the underlying mortgages during periods of rising interest rates, the Fund may potentially reinvest the proceeds of such prepayments at rates higher than those at which they were previously invested. Mortgages underlying most ARMs, however, have limits on the allowable annual or lifetime increases that can be made in the interest rate that the mortgagor pays. Therefore, if current interest rates rise above such limits over the period of the limitation, the Fund, when holding an ARM, does not benefit from further increases in interest rates. Moreover, when interest rates are in excess of the coupon rates (i.e., the rates being paid by mortgagors) of the mortgages, ARMs behave more like fixed income securities and less like adjustable-rate securities and are subject to the risks associated with fixed income securities. In addition, during periods of rising interest rates, increases in the coupon rate of ARMs generally lag current market interest rates slightly, thereby creating the potential for capital depreciation on such securities.

Sub-Prime Mortgages. Sub-prime mortgages are mortgages rated below "A" by S&P or Moody's. Historically, sub-prime mortgage loans have been made to borrowers with blemished (or non-existent) credit records, and the borrower is charged a higher interest rate to compensate for the greater risk of delinquency and the higher costs of loan servicing and collection. Sub-prime mortgages are subject to both state and federal anti-predatory lending statutes that carry potential liability to secondary market purchasers such as the Fund. Sub-prime mortgages have certain characteristics and associated risks similar to below investment grade securities, including a higher degree of credit risk, and certain characteristics and associated risks similar to MBS, including prepayment risk.

Mortgage Related ABS. Asset-backed securities ("ABS") are bonds backed by pools of loans or other receivables. ABS are created from many types of assets, including in some cases mortgage related asset classes, such as home equity loan ABS. Home equity loan ABS are subject to many of the same risks as RMBS, including interest rate risk and prepayment risk.

Mortgage REITs. A real estate investment trust ("REIT") is a corporation, or a business trust that would otherwise be taxed as a corporation, that meets the definitional requirements applicable to REITs under the Internal Revenue Code of 1986, as amended (the "Code"). The Code permits a qualifying REIT to deduct dividends paid, thereby generally eliminating corporate level U.S. federal income tax and effectively making the REIT a pass-through vehicle for U.S. federal income tax purposes. To meet the definitional requirements of the Code, a REIT must, among other things, invest substantially all of its assets in interests in real estate (including mortgages and other REITs) or cash and government securities, derive most of its income from rents from real property or interest on loans secured by mortgages on real property, and distribute to shareholders annually substantially all of its otherwise taxable income.

Mortgage REITs invest mostly in mortgages on real estate, which may secure construction, development or long-term loans, and the main source of their income is mortgage interest payments. The value of securities issued by REITs is affected by tax and regulatory requirements and by perceptions of management skill. They also are subject to heavy cash flow dependency and the possibility of failing to qualify for REIT status under the Code or to maintain exemption from the 1940 Act.

Mortgage Related Derivative Instruments. The Fund may invest in MBS credit default swaps. MBS credit default swaps include swaps the reference obligation for which is an MBS or related index, such as the CMBX Index (a tradeable index referencing a basket of CMBS), the TRX Index (a tradeable index referencing total return swaps based on CMBS) or the ABX Index (a tradeable index referencing a basket of sub-prime MBS). The Fund may engage in other derivative transactions related to MBS, including purchasing and selling exchange-listed and over-the-counter put and call options, futures and forwards on mortgages and MBS. The Fund may invest in newly developed mortgage related derivatives that may hereafter become available.

Net Interest Margin (NIM) Securities. The Fund may invest in net interest margin ("NIM") securities. These securities are derivative interest-only mortgage securities structured off home equity loan transactions. NIM securities receive

any "excess" interest computed after paying coupon costs, servicing costs and fees and any credit losses associated with the underlying pool of home equity loans. Like traditional stripped mortgage-backed securities, the yield to maturity on a NIM security is sensitive not only to changes in prevailing interest rates but also to the rate of principal payments (including prepayments) on the underlying home equity loans. NIM securities are highly sensitive to credit losses on the underlying collateral and the timing in which those losses are taken.

Tiered Index Bonds. Tiered index bonds are relatively new forms of mortgage-related securities. The interest rate on a tiered index bond is tied to a specified index or market rate. So long as this index or market rate is below a predetermined "strike" rate, the interest rate on the tiered index bond remains fixed. If, however, the specified index or market rate rises above the "strike" rate, the interest rate of the tiered index bond will decrease. Thus, under these circumstances, the interest rate on a tiered index bond, like an inverse floater, will move in the opposite direction of prevailing interest rates, with the result that the price of the tiered index bond may be considerably more volatile than that of a fixed-rate bond.

TBA Commitments. The Fund may enter into "to be announced" or "TBA" commitments. TBA commitments are forward agreements for the purchase or sale of securities, including mortgage-backed securities, for a fixed price, with payment and delivery on an agreed upon future settlement date. The specific securities to be delivered are not identified at the trade date. However, delivered securities must meet specified terms, including issuer, rate and mortgage terms. See "When Issued, Delayed Delivery Securities and Forward Commitment Securities" below.

Other Mortgage Related Securities. Other mortgage related securities include securities other than those described above that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. Other mortgage related securities may be equity or debt securities issued by agencies or instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans, including savings and loan associations, homebuilders, mortgage banks, commercial banks, investment banks, partnerships, trusts and special purpose entities of the foregoing.

Asset-Backed Securities. ABS are a form of structured debt obligation. The securitization techniques used for ABS are similar to those used for MBS. ABS are bonds backed by pools of loans or other receivables. The collateral for these securities may include home equity loans, automobile and credit card receivables, boat loans, computer leases, airplane leases, mobile home loans, recreational vehicle loans and hospital account receivables. The Fund may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by mortgage related securities. Primarily, these securities may provide the Fund with a less effective security interest in the related collateral than do mortgage related securities. Therefore, there is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities.