BLACKROCK CREDIT ALLOCATION INCOME TRUST IV
Form 497
September 20, 2012
Table of Contents

BLACKROCK CREDIT ALLOCATION INCOME TRUST I, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST II, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST III

BLACKROCK CREDIT ALLOCATION INCOME TRUST IV

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

September 18, 2012

Dear Shareholder:

You are cordially invited to attend a joint special shareholder meeting (the Special Meeting) of BlackRock Credit Allocation Income Trust I, Inc. (PSW), a corporation organized under the laws of the State of Maryland, BlackRock Credit Allocation Income Trust II, Inc. (PSY), a corporation organized under the laws of the State of Maryland, BlackRock Credit Allocation Income Trust III (BPP), a statutory trust organized under the laws of the State of Delaware, and BlackRock Credit Allocation Income Trust IV (BTZ and together with BPP, PSW and PSY, each, a Fund), a statutory trust organized under the laws of the State of Delaware, to be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, NJ 08540-6455, on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time). Before the Special Meeting, I would like to provide you with additional background information and ask for your vote on important proposals affecting PSW, PSY, BPP and BTZ, which are described in the enclosed Joint Proxy Statement/Prospectus.

Shareholders of PSY and PSW will be asked to consider the following proposals, which are described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: (i) reorganizing each of PSW and PSY into BTZ, a fund with the same or substantially similar (but not identical) investment objective and investment policies; and (ii) removing each of PSW s and PSY s investment policy requiring that such Fund invests at least 25% of its total assets in the industries comprising the financial services sector and amending such Fund s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of BPP will be asked to consider the following proposals, which are described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: (i) reorganizing BPP into BTZ, a fund with the same or substantially similar (but not identical) investment objective and investment policies; and (ii) removing BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets (as defined in the Joint Proxy Statement/Prospectus) in securities of companies principally engaged in providing financial services and amending such Fund s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry.

Shareholders of BTZ will be asked to consider the following proposals, which are described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: (i) issuing additional common shares of BTZ in connection with the reorganizations of each of PSW, PSY and BPP into BTZ; and (ii) removing BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets (as defined in the Joint Proxy Statement/Prospectus) in securities of companies principally engaged in providing financial services and amending such Fund s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

The Board of Directors/Trustees of each Fund believes the proposal applicable to its respective Fund is in the best interests of that Fund and its shareholders and unanimously recommends that you vote **FOR** such proposal.

The enclosed materials explain these proposals in more detail, and I encourage you to review them carefully. As a shareholder, your vote is important, and we hope that you will respond today to ensure that your shares will be represented at the Special Meeting. You may vote using one of the methods below by following the instructions on your proxy card:

by touch-tone telephone;

Table of Contents

- by internet;
- by returning the enclosed proxy card in the postage-paid envelope; or
- in person at the Special Meeting.

If you do not vote using one of these methods described above, you may be contacted by Georgeson Inc., our proxy solicitor, to vote your shares over the telephone.

As always, we appreciate your support.

Sincerely,

John M. Perlowski

President and Chief Executive Officer

BlackRock Credit Allocation Income Trust I, Inc.

BlackRock Credit Allocation Income Trust II, Inc.

BlackRock Credit Allocation Income Trust III

BlackRock Credit Allocation Income Trust IV

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares to be voted, your shares will be voted FOR each proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares as you instruct at the Special Meeting.

Table of Contents

September 18, 2012

IMPORTANT NOTICE

TO SHAREHOLDERS OF

BLACKROCK CREDIT ALLOCATION INCOME TRUST I, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST II, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST III

BLACKROCK CREDIT ALLOCATION INCOME TRUST IV

QUESTIONS & ANSWERS

Although we urge you to read the entire Joint Proxy Statement/Prospectus, we have provided for your convenience a brief overview of the issues to be voted on.

Q: Why is a shareholder meeting being held?

A: *Shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW), BlackRock Credit Allocation Income Trust II, Inc. (PSY), and BlackRock Credit Allocation Income Trust III (BPP):* You are being asked to vote on the reorganization (each, a Reorganization) of each of PSW, PSY and BPP (each such fund being referred to herein as a Target Fund) into BlackRock Credit Allocation Income Trust IV (BTZ or the Acquiring Fund and, together with the Target Funds, each, a Fund), a fund that pursues an investment objective and has investment policies that are either the same or substantially similar (but not identical) to those of each of the Target Funds and has the same investment adviser, BlackRock Advisors, LLC (the Investment Advisor), as the Target Funds. The term Combined Fund will refer to BTZ as the surviving Fund after the Reorganizations.

Shareholders of PSY and PSW will be asked to consider the following proposals, which are described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: (i) reorganizing each of PSW and PSY into BTZ, a fund with the same or substantially similar (but not identical) investment objective and investment policies; and (ii) removing each of PSW s and PSY s investment policies requiring that such Fund invests at least 25% of its total assets in the industries comprising the financial services sector (each, a Policy Amendment) and amending such Fund s fundamental investment restriction regarding industry concentration to reflect its Policy Amendment.

Shareholders of BPP will be asked to consider the following proposals, which are described in the enclosed Joint Proxy Statement/Prospectus, at the Special Meeting: (i) reorganizing BPP into BTZ, a fund with the same or substantially similar (but not identical) investment objective and investment policies; and (ii) removing BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services (a Policy Amendment) and amending such Fund s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry. Managed Assets means the total assets of the Fund (including any assets attributable to any preferred shares or borrowings that may be outstanding) minus the sum of the accrued liabilities (other than debt representing financial leverage).

Shareholders of BlackRock Credit Allocation Income Trust IV (BTZ): You are being asked to vote on the issuances of additional common shares of the Acquiring Fund in connection with the Reorganizations (the Issuances).

Shareholders of BTZ are also being asked to approve a proposal to remove BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services (a Policy Amendment) and amending such Fund s fundamental investment restriction regarding industry concentration to reflect the Acquiring Fund s Policy Amendment.

A Reorganization will be consummated if Target Fund shareholders approve the Reorganization and Acquiring Fund shareholders approve the Issuance with respect to such Reorganization. A Reorganization is not contingent upon the approval of any other Reorganization or the approval of any Policy Amendment. If any Reorganization is not consummated, then the Target Fund for which such Reorganization was not

Table of Contents

consummated would continue to exist and operate on a stand-alone basis. Similarly, a Policy Amendment is not contingent upon the approval of any of the Reorganizations or the Issuances or any other Policy Amendment. A Fund s shareholders would be subject to a Policy Amendment regardless of whether the applicable Reorganization or the applicable Issuance is approved so long as such Fund s Policy Amendment was approved by the Fund s shareholders.

However, in the event a Reorganization is consummated, shareholders of the Combined Fund, including former shareholders of the applicable Target Fund, would be subject to the investment policies of the Acquiring Fund following the Reorganization. If the Acquiring Fund s shareholders do not approve the Acquiring Fund s Policy Amendment, then the Combined Fund would operate under the Acquiring Fund s current investment policies and shareholders of the Combined Fund, including former shareholders of the Target Funds, would not be subject to a Policy Amendment. In such an event, Target Fund shareholders would not be subject to a Policy Amendment even if Target Fund shareholders had previously approved its respective Policy Amendment. If the Acquiring Fund shareholders approve its Policy Amendment, then shareholders of the Combined Fund, including former shareholders of the Target Funds, would be subject to the Acquiring Fund s Policy Amendment. In such an event, Target Fund shareholders would be subject to the Acquiring Fund s Policy Amendment even if Target Fund shareholders had not previously approved its respective Policy Amendment. There can be no assurance that Acquiring Fund shareholders will approve the Acquiring Fund s Policy Amendment.

Q: Why are the Reorganizations being recommended?

A: The Board of Directors or Board of Trustees of each Fund, as applicable (each, a Board and collectively, the Boards), anticipates that the Reorganizations will benefit the shareholders of each of the Target Funds and the Acquiring Fund by providing certain of the following benefits as applicable to each Fund: the potential for a lower operating expense ratio than each of the Funds prior to the Reorganizations (see How will the Reorganizations affect the fees and expenses of the Funds? below for additional information), portfolio management and administrative efficiencies, enhanced market liquidity, and marketing benefits. Because each Fund will vote separately on its respective Reorganization, there are multiple potential combinations of Reorganizations. The Boards of the Funds and the Investment Advisor believe that the most likely result of the potential combinations of Reorganizations is the combination of all the Funds. To the extent that one or more of the Reorganizations are not completed, but the other Reorganization(s) are completed, any expected expense savings by the Combined Fund may be reduced.

If the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How will the Reorganizations affect the fees and expenses of the Funds?

A: The Boards believe that the completion of the Reorganizations would result in a reduced Total Expense Ratio for the Combined Fund because certain fixed administrative costs would be spread across the Combined Fund s larger asset base. See Reasons for the Reorganizations in the attached Joint Proxy Statement/Prospectus.

For the 12-month period ended April 30, 2012, the Total Expense Ratios of PSW, PSY, BPP, and BTZ were 1.20%, 1.17%, 1.13%, and 1.17%, respectively. When we use the term Total Expenses, we mean a Fund s total annual operating expenses (including interest expenses). When we use the term Total Expense Ratio, we mean a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its common shares. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and *pro forma* basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the

Table of Contents

Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations.

Q: What happens if shareholders of one Target Fund do not approve its Reorganization but shareholders of the other Target Funds approve their Reorganizations?

A: An unfavorable vote on a proposed Reorganization by the shareholders of one Target Fund will not affect the implementation of the Reorganizations of the other Target Funds if the other Reorganizations are approved by the shareholders of the other Target Funds and the issuance of additional common shares of the Acquiring Fund is approved by the shareholders of the Acquiring Fund with respect to the other Target Funds. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of BlackRock closed-end funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: What happens if shareholders of the Acquiring Fund do not approve the issuance of additional common shares in connection with the Reorganization of one Target Fund but approve the issuance of additional common shares in connection with the Reorganizations of the other Target Funds?

A: An unfavorable vote by shareholders of the Acquiring Fund on the issuance of additional common shares in connection with the Reorganization of one Target Fund will not affect the implementation of the Reorganizations by the other Target Funds, if the issuance of additional common shares in connection with the other Reorganizations are approved by the shareholders of the Acquiring Fund and the other Reorganizations are approved by the shareholders of the other Target Funds. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the BlackRock closed-end funds and its product line, recommend alternative proposals to the Board of that Target Fund.

Q: How similar are the Funds?

A: The Funds have the same investment adviser, the same portfolio managers, and either the same or substantially similar (but not identical) investment objectives, investment policies, strategies, risks and restrictions. The primary investment objective of PSW is to provide common shareholders with high current income. The primary investment objective of PSY is to provide common shareholders with current income. The secondary investment objective of each of PSW and PSY is to provide common shareholders with capital appreciation. The investment objective of BPP is to seek high current income consistent with capital preservation. Finally, the investment objective of BTZ is to seek current income, current gains and capital appreciation. Each Fund s investment objective(s) is a fundamental policy and may not be changed without shareholder approval.

In addition, each of the Funds, under normal market conditions, seeks to achieve its investment objective(s) by investing at least 80% of its assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds (commonly referred to as junk bonds), bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities. Each Fund may invest, under normal marketing conditions, without limitation in securities rated below investment grade at the time of purchase. However, it is anticipated, under current market conditions, that the Funds will have an average credit quality of at least investment grade.

Each of PSY and PSW is organized as a Maryland corporation and each is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). Each of BPP and BTZ is organized as a Delaware statutory trust and each is a non-diversified, closed-end management investment company registered under the 1940 Act. The Board of each Fund consists of the same members. Each Fund s common shares are listed on the New York Stock Exchange. The Funds have the same investment adviser and the same portfolio managers.

iii

Table of Contents

The Acquiring Fund is organized as a Delaware statutory trust and shareholders of PSW and PSY will become shareholders of a Delaware statutory trust rather than a Maryland corporation if their respective Reorganizations are completed. A more detailed description of the differences between Delaware statutory trust law and Maryland corporate law is contained in the Joint Proxy Statement/Prospectus under the heading Governing Law.

Please see the Joint Proxy Statement/Prospectus for additional comparison information.

Q: How will the Reorganizations be effected?

A: Assuming Target Fund shareholders approve the Reorganizations of the Target Funds and Acquiring Fund shareholders approve the issuance of additional common shares of the Acquiring Fund, each Target Fund will merge with and into a new direct, wholly-owned subsidiary of BTZ (the BTZ Merger Subsidiary). Following the Reorganizations, the BTZ Merger Subsidiary will dissolve under state law and be liquidated into BTZ, and each Target Fund will terminate its registration under the 1940 Act.

Shareholders of the Target Funds: You will become shareholders of the Acquiring Fund. You will receive newly issued common shares of the Acquiring Fund, par value $0.001 per share, the aggregate net asset value (not the market value) of which will equal the aggregate net asset value (not the market value) of the common shares of the particular Target Fund you held immediately prior to such Reorganization, less the applicable costs of the Reorganization (though you may receive cash for fractional shares).

Shareholders of BTZ: You will remain shareholders of BTZ, which will have additional common shares outstanding after the Reorganization.

Q: Have common shares of the Target Funds and the Acquiring Fund historically traded at a premium or discount?

A: The common shares of each Fund has historically fluctuated between a discount and a premium. As of July 31, 2012, each Fund traded at a discount to its respective NAV. To the extent PSW, PSY and BPP are trading at a wider discount (or a narrower premium) than BTZ at the time of the Reorganizations, PSW, PSY, and BPP shareholders would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent PSW, PSY, and BPP are trading at a narrower discount (or wider premium) than BTZ at the time of the Reorganizations, PSW, PSY, and BPP shareholders may be negatively impacted if the Reorganizations are consummated. BTZ shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganizations, common shares of the Combined Fund will trade at, above or below net asset value. In the Reorganizations, shareholders of each Target Fund will receive common shares of the Acquiring Fund based on the relative net asset values (not the market values) of each respective Fund s common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of your Fund prior to the Reorganizations.

Q: Will I have to pay any sales load, commission or other similar fees in connection with the Reorganizations?

A: You will pay no sales loads or commissions in connection with the Reorganizations. However, regardless of whether the Reorganizations are completed, the costs associated with the proposed Reorganizations, including the costs associated with the shareholder meeting, will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate, except that the Investment Advisor will bear all of PSY s reorganization costs. Based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations; thus, the Investment Advisor has decided to cover the costs of the PSY Reorganization and the costs associated with the PSY Reorganization will not be borne directly by PSY. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined

Table of Contents

Fund s larger size) as more fully discussed in the Joint Proxy Statement/Prospectus. Because of the expected expense savings and other benefits for each of PSW, BPP and BTZ, the Investment Advisor recommended and the Boards have approved that PSW, BPP and BTZ be responsible for their own Reorganization expenses. See Reasons for the Reorganizations in the attached Joint Proxy Statement/Prospectus. Such costs are estimated to be $1,390,000 in the aggregate, of which $300,000 is estimated to be attributable to BPP, $400,000 is estimated to be attributable to PSY (which will be covered by the Investment Advisor), $240,000 is estimated to be attributable to PSW, and $450,000 is estimated to be attributable to BTZ. Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (*e.g.*, expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations). The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.

Q: Will I have to pay any U.S. federal taxes as a result of the Reorganizations?

A: Each of the Reorganizations is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). If a Reorganization so qualifies, in general, shareholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund common shares for Acquiring Fund common shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Fund will recognize no gain or loss for U.S. Federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to any Reorganization.

On or prior to the closing date of the Reorganization (the Closing Date), each of the Target Funds will declare a distribution to its shareholders that, together with all previous distributions, will have the effect of distributing to each respective Target Fund s shareholders all of its investment company taxable income (computed without regard to the deduction for dividends paid), if any, through the Closing Date, all of its net capital gains, if any, through the Closing Date, and all of its net tax-exempt interest income, if any, through the Closing Date. Such a distribution will be taxable to each Target Fund s shareholders for U.S. federal income tax purposes.

The Funds shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganizations, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

Q: Why is the vote of shareholders of the Acquiring Fund being solicited in connection with the Reorganizations?

A: Although the Acquiring Fund will continue its legal existence and operations after the Reorganizations, the rules of the New York Stock Exchange (on which the Acquiring Fund s common shares are listed) require the Acquiring Fund s shareholders to approve the issuance of additional common shares in connection with the Reorganizations. If the issuance of additional common shares of the Acquiring Fund is not approved for a Reorganization, then such Reorganization will not occur.

Q: Why are the Policy Amendments being recommended?

A: Shareholders of PSY and PSW are being asked to approve a proposal to remove its respective Fund s investment policy requiring that such Fund invests at least 25% of its total assets in the industries comprising the financial services sector and amending such Fund s fundamental investment restriction regarding industry concentration to reflect its Policy Amendment.

Shareholders of BPP are being asked to approve a proposal to remove BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending such Fund s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry.

Table of Contents

Shareholders of BTZ are being asked to approve a proposal to remove BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending BTZ s fundamental investment restriction regarding industry concentration to reflect its Policy Amendment.

As former preferred stock funds, each Fund formerly emphasized its investments in the preferred stock of companies from the financial sector. Such concentration policies are no longer relevant to the Funds and unduly restrictive given the Funds broad focus on credit-related securities. If the Policy Amendments are approved by shareholders, the Funds will be less exposed to financial sector risk and will have greater capital available for other investment and diversification purposes.

The Board of each Fund anticipates that its Policy Amendment would benefit such Fund s shareholders by providing the Funds investment advisor and sub-advisors with increased flexibility in managing such Fund s portfolio and by reducing such Fund s exposure to financial sector risk.

The Policy Amendment for each Fund would take effect immediately upon approval by such Fund s shareholders.

Q: How does the Board of my Fund suggest that I vote?

A: After careful consideration, the Board of your Fund unanimously recommends that you vote **FOR** each of the items proposed for your Fund.

Q: How do I vote my proxy?

A: You may cast your vote by mail, phone, internet or in person at the Special Meeting. To vote by mail, please mark your vote on the enclosed proxy card and sign, date and return the card in the postage-paid envelope provided. If you choose to vote by phone or internet, please refer to the instructions found on the proxy card accompanying this Joint Proxy Statement/Prospectus. To vote by phone or internet, you will need the control number that appears on the proxy card.

Q: Whom do I contact for further information?

A: You may contact your financial advisor for further information. You may also call Georgeson Inc., the Funds proxy solicitor, at 1-866-328-5445.

Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your shares to be voted, your shares will be voted FOR each proposal, as applicable. If your shares are held through a broker, you must provide voting instructions to your broker about how to vote your shares in order for your broker to vote your shares as you instruct at the Special Meeting.

Table of Contents

BLACKROCK CREDIT ALLOCATION INCOME TRUST I, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST II, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST III

BLACKROCK CREDIT ALLOCATION INCOME TRUST IV

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON FRIDAY, NOVEMBER 2, 2012

Notice is hereby given that a joint special meeting of shareholders (the Special Meeting) of BlackRock Credit Allocation Income Trust I, Inc. (PSW), BlackRock Credit Allocation Income Trust II, Inc. (PSY), BlackRock Credit Allocation Income Trust III (BPP), and BlackRock Credit Allocation Income Trust IV (BTZ) will be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, NJ 08540-6455, on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time) for the following purposes:

1. The Reorganizations of the Target Funds

Shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW):

Proposal 1(A): The shareholders of PSW are being asked to approve an Agreement and Plan of Reorganization among PSW, BTZ and a new direct, wholly-owned subsidiary of BTZ (the BTZ Merger Subsidiary) (the PSW Reorganization Agreement) and the termination of PSW s registration under the Investment Company Act of 1940 (the 1940 Act).

Shareholders of BlackRock Credit Allocation Income Trust II, Inc. (PSY):

Proposal 1(B): The shareholders of PSY are being asked to approve an Agreement and Plan of Reorganization among PSY, BTZ and the BTZ Merger Subsidiary (the PSY Reorganization Agreement) and the termination of PSY s registration under the 1940 Act.

Shareholders of BlackRock Credit Allocation Income Trust III (BPP):

Proposal 1(C): The shareholders of BPP are being asked to approve an Agreement and Plan of Reorganization among BPP, BTZ and the BTZ Merger Subsidiary (the BPP Reorganization Agreement) and the termination of BPP s registration under the 1940 Act.

2. Issuances of Additional Acquiring Fund Common Shares

Shareholders of BlackRock Credit Allocation Income Trust IV (BTZ):

Proposal 2(A): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the PSW Reorganization Agreement.

Proposal 2(B): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the PSY Reorganization Agreement.

Proposal 2(C): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the BPP Reorganization Agreement.

3. Removal of the Industry Concentration Policies

Shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW):

Proposal 3(A): The shareholders of PSW are being asked to approve a proposal to remove PSW s investment policy requiring PSW to invest at least 25% of its total assets in the industries comprising the financial services sector and to amend PSW s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Table of Contents

Shareholders of BlackRock Credit Allocation Income Trust II, Inc. (PSY):

Proposal 3(B): The shareholders of PSY are being asked to approve a proposal to remove PSY s investment policy requiring PSY to invest at least 25% of its total assets in the industries comprising the financial services sector and to amend PSY s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of BlackRock Credit Allocation Income Trust III (BPP):

Proposal 3(C): The shareholders of BPP are being asked to approve a proposal to remove BPP s investment policy requiring BPP to invest at least 25% of its Managed Assets (as defined in the Joint Proxy Statement/Prospectus) in companies principally engaged in financial services and to amend BPP s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry.

Shareholders of BlackRock Credit Allocation Income Trust IV (BTZ):

Proposal 3(D): The shareholders of BTZ are being asked to approve a proposal to remove BTZ s investment policy requiring BTZ to invest at least 25% of its Managed Assets (as defined in the Joint Proxy Statement/Prospectus) in companies principally engaged in financial services and to amend BTZ s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of record as of the close of business on September 4, 2012 are entitled to vote at the Special Meeting or any adjournment thereof.

THE BOARD OF DIRECTORS OR BOARD OF TRUSTEES, AS APPLICABLE, (EACH, A BOARD) OF EACH OF PSW, PSY, BPP AND BTZ REQUESTS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING SUCH PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES, OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET.

THE BOARD OF PSW UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- **FOR** THE REORGANIZATION OF YOUR FUND PURSUANT TO THE PSW REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS AND THE TERMINATION OF YOUR FUND S REGISTRATION UNDER THE 1940 ACT.

- **FOR** THE REMOVAL OF THE FUND S INVESTMENT POLICY REQUIRING THAT THE FUND INVEST AT LEAST 25% OF ITS TOTAL ASSETS IN THE INDUSTRIES COMPRISING THE FINANCIAL SERVICES SECTOR AND THE AMENDMENT TO THE FUND S FUNDAMENTAL INVESTMENT RESTRICTION REGARDING INDUSTRY CONCENTRATION TO REFLECT THE REMOVAL OF SUCH INVESTMENT POLICY.

THE BOARD OF PSY UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- **FOR** THE REORGANIZATION OF YOUR FUND PURSUANT TO THE PSY REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS AND THE TERMINATION OF YOUR FUND S REGISTRATION UNDER THE 1940 ACT.

- **FOR** THE REMOVAL OF THE FUND S INVESTMENT POLICY REQUIRING THAT THE FUND INVEST AT LEAST 25% OF ITS TOTAL ASSETS IN THE INDUSTRIES COMPRISING THE FINANCIAL SERVICES SECTOR AND THE AMENDMENT TO THE FUND S FUNDAMENTAL INVESTMENT RESTRICTION REGARDING INDUSTRY CONCENTRATION TO REFLECT THE REMOVAL OF SUCH INVESTMENT POLICY.

Table of Contents

THE BOARD OF BPP UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- **FOR** THE REORGANIZATION OF YOUR FUND PURSUANT TO THE BPP REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS AND THE TERMINATION OF YOUR FUND S REGISTRATION UNDER THE 1940 ACT.

- **FOR** THE REMOVAL OF THE FUND S INVESTMENT POLICY REQUIRING THAT THE FUND INVEST AT LEAST 25% OF ITS MANAGED ASSETS IN THE INDUSTRIES COMPRISING THE FINANCIAL SERVICES SECTOR AND THE AMENDMENT TO THE FUND S FUNDAMENTAL INVESTMENT RESTRICTION REGARDING INDUSTRY CONCENTRATION TO REMOVE THE EXCEPTION FOR THE FINANCIAL SERVICES INDUSTRY.

THE BOARD OF BTZ UNANIMOUSLY RECOMMENDS THAT YOU CAST YOUR VOTE:

- **FOR** THE ISSUANCE OF ADDITIONAL COMMON SHARES OF YOUR FUND IN CONNECTION WITH THE PSW REORGANIZATION AGREEMENT.

- **FOR** THE ISSUANCE OF ADDITIONAL COMMON SHARES OF YOUR FUND IN CONNECTION WITH THE PSY REORGANIZATION AGREEMENT.

- **FOR** THE ISSUANCE OF ADDITIONAL COMMON SHARES OF YOUR FUND IN CONNECTION WITH THE BPP REORGANIZATION AGREEMENT.

- **FOR** THE REMOVAL OF THE FUND S INVESTMENT POLICY REQUIRING THAT THE FUND INVEST AT LEAST 25% OF ITS MANAGED ASSETS IN THE INDUSTRIES COMPRISING THE FINANCIAL SERVICES SECTOR AND THE AMENDMENT TO THE FUND S FUNDAMENTAL INVESTMENT RESTRICTION REGARDING INDUSTRY CONCENTRATION TO REFLECT THE REMOVAL OF SUCH INVESTMENT POLICY.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD OR RECORD YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET PROMPTLY.

For the Board of Directors/Trustees of

BlackRock Credit Allocation Income Trust I, Inc.

BlackRock Credit Allocation Income Trust II, Inc.

BlackRock Credit Allocation Income Trust III

BlackRock Credit Allocation Income Trust IV

JOHN M. PERLOWSKI

President and Chief Executive Officer

BlackRock Credit Allocation Income Trust I, Inc.

BlackRock Credit Allocation Income Trust II, Inc.

BlackRock Credit Allocation Income Trust III

BlackRock Credit Allocation Income Trust IV

September 18, 2012

Table of Contents

YOUR VOTE IS IMPORTANT.

PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE

ENCLOSED PROXY CARD OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET, NO MATTER HOW MANY SHARES YOU OWN.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR

THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON NOVEMBER 2, 2012.

THE PROXY STATEMENT FOR THIS MEETING IS AVAILABLE AT:

HTTPS://WWW.PROXY-DIRECT.COM/BLK-23888

Table of Contents

JOINT PROXY STATEMENT/PROSPECTUS

BLACKROCK CREDIT ALLOCATION INCOME TRUST I, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST II, INC.

BLACKROCK CREDIT ALLOCATION INCOME TRUST III

BLACKROCK CREDIT ALLOCATION INCOME TRUST IV

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

JOINT SPECIAL MEETING OF SHAREHOLDERS

NOVEMBER 2, 2012

This Joint Proxy Statement/Prospectus is furnished to you as a shareholder of (i) BlackRock Credit Allocation Income Trust I, Inc. (PSW), (ii) BlackRock Credit Allocation Income Trust II, Inc. (PSY), (iii) BlackRock Credit Allocation Income Trust III (BPP) and/or (iv) BlackRock Credit Allocation Income Trust IV (BTZ). Each of BPP and BTZ is a non-diversified registered investment company and statutory trust organized under the laws of the State of Delaware and registered under the Investment Company Act of 1940, as amended (the 1940 Act); whereas each of PSW and PSY is a diversified registered investment company and corporation organized under the laws of the State of Maryland and registered under the 1940 Act. A joint special meeting (the Special Meeting) of shareholders of PSW, PSY, BPP, and BTZ (each, a Fund) will be held at the offices of BlackRock Advisors, LLC (the Investment Advisor), 1 University Square Drive, Princeton, NJ 08540-6455, on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time) to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment or postponement thereof, the Board of Directors or Board of Trustees, as applicable, of each Fund (each, a Board) requests that you vote your common shares of beneficial interests or shares of common stock (common shares) by completing and returning the enclosed proxy card or by recording your voting instructions by telephone or via the Internet. The approximate mailing date of this Joint Proxy Statement/Prospectus and accompanying form of proxy is September 26, 2012.

The purposes of the Special Meeting are:

1. The Reorganizations of the Target Funds

Shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW):

Proposal 1(A): The shareholders of PSW are being asked to approve an Agreement and Plan of Reorganization among PSW, BTZ and a new direct, wholly-owned subsidiary of BTZ (the BTZ Merger Subsidiary) (the PSW Reorganization Agreement) and the termination of PSW s registration under the 1940 Act.

Shareholders of BlackRock Credit Allocation Income Trust II, Inc. (PSY):

Proposal 1(B): The shareholders of PSY are being asked to approve an Agreement and Plan of Reorganization among PSY, BTZ and the BTZ Merger Subsidiary (the PSY Reorganization Agreement) and the termination of PSY s registration under the 1940 Act.

Shareholders of BlackRock Credit Allocation Income Trust III (BPP):

Proposal 1(C): The shareholders of BPP are being asked to approve an Agreement and Plan of Reorganization among BPP, BTZ and the BTZ Merger Subsidiary (the BPP Reorganization Agreement) and the termination of BPP s registration under the 1940 Act.

2. Issuances of Additional Acquiring Fund Common Shares

Shareholders of BlackRock Credit Allocation Income Trust IV (BTZ):

Proposal 2(A): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the PSW Reorganization Agreement.

Table of Contents

Proposal 2(B): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the PSY Reorganization Agreement.

Proposal 2(C): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the BPP Reorganization Agreement.

3. Removal of the Industry Concentration Policies

Shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW):

Proposal 3(A): The shareholders of PSW are being asked to approve a proposal to remove PSW s investment policy requiring PSW to invest at least 25% of its total assets in the industries comprising the financial services sector and to amend PSW s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of BlackRock Credit Allocation Income Trust II, Inc. (PSY):

Proposal 3(B): The shareholders of PSY are being asked to approve a proposal to remove PSY s investment policy requiring PSY to invest at least 25% of its total assets in the industries comprising the financial services sector and to amend PSY s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of BlackRock Credit Allocation Income Trust III (BPP):

Proposal 3(C): The shareholders of BPP are being asked to approve a proposal to remove BPP s investment policy requiring BPP to invest at least 25% of its Managed Assets (as defined in the Joint Proxy Statement/Prospectus) in companies principally engaged in financial services and to amend BPP s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry.

Shareholders of BlackRock Credit Allocation Income Trust IV (BTZ):

Proposal 3(D): The shareholders of BTZ are being asked to approve a proposal to remove BTZ s investment policy requiring BTZ to invest at least 25% of its Managed Assets in companies principally engaged in financial services and to amend BTZ s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of record as of the close of business on September 4, 2012 are entitled to vote at the Special Meeting or any adjournment thereof.

PSW, PSY and BPP are sometimes referred to herein as the Target Funds, and BTZ is sometimes referred to herein as the Acquiring Fund. Each Reorganization Agreement that Target Fund shareholders are being asked to consider involve transactions that will be referred to in this Joint Proxy Statement/Prospectus as a Reorganization. The Fund surviving any or all Reorganizations is referred to herein as the Combined Fund. The PSW Reorganization Agreement, the PSY Reorganization Agreement and the BPP Reorganization Agreement are referred to herein as the Reorganization Agreements.

The Reorganizations seek to combine four Funds that are substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies for the Funds. In each Reorganization, each Target Fund will merge with and into the BTZ Merger Subsidiary. Following the Reorganizations, the BTZ Merger Subsidiary will dissolve under state law and be liquidated into the Acquiring Fund. The Target Funds will then terminate their registrations under the 1940 Act. In each Reorganization, the outstanding common shares of each Target Fund will be exchanged for newly-issued common shares of the Acquiring Fund, par value $0.001 per share (Acquiring Fund Shares). In connection with the Reorganizations, the Acquiring Fund subsequently will issue to the Target Funds common shareholders book entry interests for the Acquiring Fund Shares registered in the name of such shareholder. Each Target Fund will then terminate its registration under the 1940 Act. The aggregate net asset value of Acquiring Fund Shares received by the shareholders of the Target Fund in each Reorganization will equal the aggregate net asset value (not market value) of Target Fund common shares held by such shareholders immediately prior to such Reorganization, less the applicable costs of such Reorganization (although shareholders may receive cash for their fractional common shares).

Each Target Fund will terminate its registration under the 1940 Act after the completion of its Reorganization. The Acquiring Fund will continue to operate after the Reorganization as a registered, non-diversified, closed-end management investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

In connection with each Reorganization, the shareholders of the Acquiring Fund are being asked to approve the issuance of additional common shares of the Acquiring Fund.

Shareholders of PSY and PSW are also being asked approve a proposal to remove its respective Fund s investment policy requiring that such Fund invests at least 25% of its total assets in the industries comprising the financial services sector and to amend such Fund s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

Shareholders of BPP are also being asked to approve a proposal to remove BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and to amend such Fund s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry.

Shareholders of BTZ are also being asked to approve a proposal to remove BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and to amend such Fund s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy.

The Board of each Fund has determined that including these proposals in one Joint Proxy Statement/Prospectus will reduce costs and is in the best interests of each Fund s shareholders.

In the event that shareholders of a Target Fund do not approve its Reorganization, such Target Fund would continue to exist and operate on a stand-alone basis. In the event the Acquiring Fund shareholders do not approve the issuance of Acquiring Fund Shares in connection with a Reorganization, then the affected Target Fund would continue to exist and operate on a stand-alone basis. However, if the Reorganization of a Target Fund is not approved, the Funds investment adviser, BlackRock Advisors, LLC (the Investment Advisor) may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of that Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganization by the other Target Funds.

A Reorganization is not contingent upon the approval of any Policy Amendment (as defined herein). Similarly, a Policy Amendment is not contingent upon the approval of any of the Reorganizations or the issuances of common shares by the Acquiring Fund. A Fund s shareholders would be subject to a Policy Amendment regardless of whether the applicable Reorganization or the applicable common share issuance is approved so long as such Fund s Policy Amendment was approved by the Fund s shareholders.

However, in the event a Reorganization is consummated, shareholders of the Combined Fund, including former shareholders of the applicable Target Fund, would be subject to the investment policies of the Acquiring Fund following the Reorganization. If the Acquiring Fund s shareholders do not approve the Acquiring Fund s Policy Amendment, then the Combined Fund would operate under the Acquiring Fund s current investment policies and shareholders of the Combined Fund, including former shareholders of the Target Funds, would not

Table of Contents

be subject to a Policy Amendment. In such an event, Target Fund shareholders would not be subject to a Policy Amendment even if Target Fund shareholders had previously approved its respective Policy Amendment. If the Acquiring Fund shareholders approve its Policy Amendment, then shareholders of the Combined Fund, including former shareholders of the Target Funds, would be subject to the Acquiring Fund s Policy Amendment. In such an event, Target Fund shareholders would be subject to the Acquiring Fund s Policy Amendment even if Target Fund shareholders had not previously approved its respective Policy Amendment. There can be no assurance that Acquiring Fund shareholders will approve the Acquiring Fund s Policy Amendment.

This Joint Proxy Statement/Prospectus sets forth concisely the information that shareholders of each Fund should know before voting on the proposals for their Fund and constitutes an offering of Acquiring Fund Shares. Please read it carefully and retain it for future reference. A Statement of Additional Information, dated September 18, 2012, relating to this Joint Proxy Statement/Prospectus (the Statement of Additional Information) has been filed with the United States Securities and Exchange Commission (the SEC) and is incorporated herein by reference. Copies of each Fund s most recent annual report and semi-annual report can be obtained on a website maintained by BlackRock, Inc. (BlackRock) at www.blackrock.com. In addition, each Fund will furnish, without charge, a copy of the Statement of Additional Information, its most recent annual report or semi-annual report to any shareholder upon request. Any such request should be directed to BlackRock by calling (800) 882-0052 or by writing to the respective Fund at Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055. The Statement of Additional Information and the annual and semi-annual reports of each Fund are available on the EDGAR Database on the Securities and Exchange Commission s Internet site at www.sec.gov. The address of the principal executive offices of the Funds is 100 Bellevue Parkway, Wilmington, Delaware 19809, and the telephone number is (800) 882-0052.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports, proxy statements, proxy materials and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or downloaded from the SEC s website at www.sec.gov. Information on the operation of the SEC s Public Reference Room may be obtained by calling the SEC at (202) 551-8090. You may also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC s e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, DC 20549-0102.

BlackRock updates performance information for the Funds, as well as certain other information for the Funds, on a monthly basis on its website in the Closed-End Funds section of www.blackrock.com. Shareholders are advised to periodically check the website for updated performance information and other information about the Funds.

Please note that only one copy of shareholder documents, including annual or semi-annual reports and proxy materials may be delivered to two or more shareholders of the Funds who share an address, unless the Funds have received instructions to the contrary. This practice is commonly called householding and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded indefinitely unless you instruct us otherwise. To request a separate copy of any shareholder document or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, shareholders should contact the Fund at the address and phone number set forth above.

The common shares of BlackRock Credit Allocation Income Trust IV are listed on the New York Stock Exchange (NYSE) under the ticker symbol BTZ and will continue to be so listed subsequent to the Reorganization. The common shares of BlackRock Credit Allocation Income Trust I, Inc. are listed on the NYSE under the ticker symbol PSW. The common shares of BlackRock Credit Allocation Income Trust II, Inc. are listed on the NYSE under the ticker symbol PSY. The common shares of BlackRock Credit Allocation Income

Table of Contents

Trust III are listed on the NYSE under the ticker symbol BPP . Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

This Joint Proxy Statement/Prospectus serves as a prospectus of the Acquiring Fund in connection with the issuance of Acquiring Fund Shares in the Reorganizations. No person has been authorized to give any information or make any representation not contained in this Joint Proxy Statement/Prospectus and, if so given or made, such information or representation must not be relied upon as having been authorized. This Joint Proxy Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

Photographic identification and proof of ownership will be required for admission to the meeting. For directions to the meeting, please contact Georgeson Inc., the firm assisting us in the solicitation of proxies, at 1-866-328-5445.

THE SEC HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Joint Proxy Statement/Prospectus is September 18, 2012.

TABLE OF CONTENTS

SUMMARY

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement/Prospectus and in the Statement of Additional Information. Shareholders should read the entire Joint Proxy Statement/Prospectus carefully.

PROPOSAL 1: THE REORGANIZATIONS OF THE TARGET FUNDS

The Proposed Reorganization

The Board of each Fund, including the directors or trustees, as applicable, (the Board Members) who are not interested persons of each Fund (as defined in the 1940 Act) (the Independent Board Members), has unanimously approved its Reorganization, including its respective Reorganization Agreement. If the shareholders of a Target Fund approve their Reorganization Agreement and the shareholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Shares in connection with the Reorganization, as applicable (see Proposal 2: Issuances of Additional Shares of Acquiring Fund Common Shares), such Target Fund will merge with and into the BTZ Merger Subsidiary. Following the Reorganizations, the BTZ Merger Subsidiary will dissolve under state law and be liquidated into BTZ. In connection with the Reorganizations, the Acquiring Fund subsequently will issue to the Target Funds common shareholders book entry interests for the Acquiring Fund Shares registered in the name of such shareholder. Each Target Fund will then terminate its registration under the 1940 Act. The aggregate net asset value of Acquiring Fund Shares received by a Target Fund s shareholders in each Reorganization will equal the aggregate net asset value (not the market value) of that Target Fund s common shares held immediately prior to such Reorganization, less the applicable costs of such Reorganization (although Target Fund shareholders may receive cash for their fractional common shares). In the Reorganizations, shareholders of each Target Fund will receive common shares of the Acquiring Fund based on the relative net asset value, not the market value, of each respective Fund s common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of a Target Fund prior to the Reorganizations.

Background and Reasons for the Proposed Reorganization

The Reorganizations seek to combine four funds that are either the same or substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies. Each Target Fund will merge with and into the BTZ Merger Subsidiary, which will dissolve under state law and be liquidated into the Acquiring Fund following the completion of the Reorganizations. The Board of each Target Fund (each, a Target Fund Board), based upon its evaluation of all relevant information, anticipates that the Reorganization would benefit shareholders of its Target Fund. The Board of the Acquiring Fund (the Acquiring Fund Board), based upon its evaluation of all relevant information, anticipates that the Reorganizations would benefit shareholders of the Acquiring Fund. Because shareholders of each Target Fund will vote separately on their Target Fund s respective Reorganization and the shareholders of the Acquiring Fund will vote on the Acquiring Fund s issuance of Acquiring Fund Shares in connection with each Reorganization, there are multiple potential combinations of Reorganizations.

Based on the considerations below, the Board of each Fund, including the Independent Board Members, has determined that each Reorganization would be in the best interests of the applicable Fund and that the interests of the existing shareholders of the applicable Fund would not be diluted with respect to net asset value as a result of the Reorganization. The Board of each Fund approved its respective Reorganization and the Board of each Target Fund recommends that shareholders of such Target Fund approve its respective Reorganization.

The Board of each Fund considered its respective Reorganization over a series of meetings. In preparation for meetings of the Boards held on July 27, 2012 (collectively, the Meeting) at which the Reorganizations were

Table of Contents

approved, the Investment Advisor provided the Boards with information regarding the proposed Reorganizations, including the rationale therefor and alternatives considered to the Reorganizations. The Boards considered a number of principal factors presented at the time of the Meeting or prior meetings in reaching their determinations, including, but not limited to, the following:

- potential for improved economies of scale and a lower total expense ratio;

The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations.

- alternatives to the Reorganization for each Fund, if such Fund s Reorganization is not approved;
- the potential effects of the Reorganizations on the earnings and distributions of each Fund;
- the potential effects of the Reorganizations on each Fund s premium/discount to NAV;
- the compatibility of the Funds investment objectives, policies and related risks;
- consistency of portfolio management and portfolio composition;
- potential for improved secondary market trading;
- potential for operating and administrative efficiencies;
- the anticipated tax-free nature of the Reorganization;
- the potential effects on the Funds capital loss carry-forwards;
- the expected costs of the Reorganization;
- the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the Funds;
- the effect of the Reorganizations on shareholder rights; and

any potential benefits of the Reorganizations to the Investment Advisor and its affiliates as a result of the Reorganizations.

The Board of each Fund, including the Independent Board Members, approved its respective Reorganization, concluding that such Reorganization is in the best interests of its Fund and that the interests of existing shareholders of its Fund will not be diluted as a result of its respective Reorganization. This determination was made on the basis of each Board Member s business judgment after consideration of all of the factors taken as a whole with respect to its Fund and shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

If a Reorganization is not approved by a Target Fund s shareholders, such Target Fund will continue to operate for the time being as a stand-alone Maryland corporation or Delaware statutory trust, as the case may be, and will continue to be advised by the Investment Advisor. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the other Reorganizations.

Table of Contents

Expenses

The Boards believe that the completion of the Reorganizations would result in a reduced Total Expense Ratio for the Acquiring Fund because certain fixed administrative costs would be spread across the Combined Fund s larger asset base.

For the 12-month period ended April 30, 2012, the Total Expense Ratios of PSW, PSY, BPP, and BTZ were 1.20%, 1.17%, 1.13% and 1.17%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and *pro forma* basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations.

Appraisal Rights

Shareholders of PSW and PSY do not have appraisal rights for their common shares because the common shares of each Fund are traded on the NYSE. Shareholders of BPP do not have appraisal rights, as such rights are not expressly provided for in the Fund s charter or under Delaware law.

Comparison of the Funds

A summary comparison of the significant investment strategies and operating policies used by the Funds as of the date of April 30, 2012 is set forth in the table below. See Proposal 1: The Reorganizations of the Target Funds Comparison of the Funds for a more detailed comparison of the Funds. After the Reorganizations, the investment strategies and significant operating policies of the Combined Fund will be those of BTZ.

PSW	PSY	BPP	BTZ
Credit-Related Securities	**Credit-Related Securities**	**Credit-Related Securities**	**Credit-Related Securities**
Same as BTZ	Same as BTZ	Same as BTZ	Under normal market conditions, the Fund will invest at least 80% of its total assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds, bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities (the 80% Policy).

Table of Contents

PSW	PSY	BPP	BTZ
Investment Grade Policy	**Investment Grade Policy**	**Investment Grade Policy**	**Investment Grade Policy**
Same as BTZ	Same as BTZ	Same as BTZ	Under normal market conditions, the Fund may invest without limitation in securities rated below investment grade at the time of purchase.
Financial Sector Concentration*	**Financial Sector Concentration***	**Financial Sector Concentration***	**Financial Sector Concentration***
Under normal circumstances, the Fund will invest at least 25% of its total assets in the industries comprising the financial services sector. The companies in the financial services sector are companies principally engaged in financial services. A company is principally engaged in financial services if it owns financial service related assets that constitute at least 50% of its revenue from providing financial services. The Fund also may emphasize investments in the industries comprising the utilities sector; however, the Fund will not invest 25% or more of its total assets in any one of the industries comprising the utilities sector.	Same as PSW	Same as BTZ	The Fund will invest at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services. A company is principally engaged in financial services if it derives at least 50% of its consolidated revenues from providing financial services.

* See Proposal 3: Removal of Financial Sector Concentration Policies, which proposes the removal of the financial sector concentration policy.

Table of Contents

PSW **Non-U.S. Securities**	**PSY** **Non-U.S. Securities**	**BPP** **Non-U.S. Securities**	**BTZ** **Non-U.S. Securities**
The Fund may invest without limitation in securities of issuers domiciled outside the United States that are U.S. dollar denominated investments or otherwise provide for payment to the Fund in U.S. dollars.	Same as PSW	The Fund may invest up to 35% of its Managed Assets in U.S. dollar denominated securities of non-U.S. issuers that are traded or listed in U.S. markets. For purposes of this 35% limitation, non-U.S. securities include securities represented by American Depository Receipts.	Under normal market conditions, the Fund may invest up to 35% of its Managed Assets in non-U.S. securities. Non-U.S. securities may include securities denominated in U.S. dollars or in non-U.S. currencies or multinational current units.
The Fund also may invest up to 35% of its total assets in non-U.S. dollar denominated securities.		The Fund also may invest up to 35% of its Managed Assets in non-U.S. dollar denominated securities.	The Fund may invest in non-U.S. securities of so-called emerging market issuers.
		The Fund may invest in any region of the world and invests in companies operating in developed countries such as Canada, Japan, Australia, New Zealand and most Western European countries.	For purposes of the Fund, a company is deemed to be a non-U.S. company if it meets any of the following tests: (i) such company was not organized in the United States; (ii) such company s primary business office is not in the United States; (iii) the principal trading market for such company s assets is not located in the United States; (iv) less than 50% of such company s assets are located in the United States; or (v) 50% or more of such issuer s revenues are derived from outside the United States.

Table of Contents

PSW	PSY	BPP	BTZ
		The Fund does not intend to invest in companies based in emerging markets such as the Far East, Latin America and Eastern Europe, but if it did, may invest no more than 10% of its managed assets in emerging markets securities.	
Common Stock	**Common Stock**	**Common Stock**	**Common Stock**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may invest in common stocks, subject to the 80% Policy.
Illiquid Securities	**Illiquid Securities**	**Illiquid Securities**	**Illiquid Securities**
The Fund may invest in preferred securities, debt securities and other securities that lack a secondary trading market or are otherwise considered illiquid.	Same as PSW	Same as BTZ	The Fund may invest up to 10% of its managed assets in illiquid securities
Defensive Measures	**Defensive Measures**	**Defensive Measures**	**Defensive Measures**
The Fund for temporary defensive purposes may invest up to 100% of its total assets in securities issued or guaranteed by the United States Government or its instrumentalities or agencies, certificates of deposit, bankers acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency, or other debt securities deemed by the Investment Advisor to be consistent with a defensive posture, or may hold its assets in cash.	Same as PSW	Substantially the same as BTZ	For temporary defensive purposes or to keep cash on hand, the Fund may invest up to 100% of its Managed Assets in cash equivalents and short-term debt securities.

Table of Contents

PSW **Leverage**	**PSY** **Leverage**	**BPP** **Leverage**	**BTZ** **Leverage**
The Fund may not issue senior securities or borrow money other than as permitted by Section 18 of the 1940 Act or otherwise as permitted by applicable law.	The Fund may not issue senior securities or borrow money except as permitted by Section 18 of the 1940 Act.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act.
The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. The Fund at times may borrow from affiliates of the Investment Advisor, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.	The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. The Fund at times may borrow from affiliates of the Investment Advisor, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.	The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques as BlackRock may from time to time determine.	The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.
The Fund currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets.	The Fund currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets.	The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.	The Fund currently voluntarily limits its aggregate economic leverage to 33 $^1/_3$% of its Managed Assets.

13

Table of Contents

PSW	PSY	BPP	BTZ
		The Fund currently voluntarily limits its aggregate economic leverage to 33 1/3% of its Managed Assets.	
Reverse Repurchase Agreements	**Reverse Repurchase Agreements**	**Reverse Repurchase Agreements**	**Reverse Repurchase Agreements**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may engage in reverse repurchase agreements.
When-Issued and Forward Commitment Securities	**When-Issued and Forward Commitment Securities**	**When-Issued and Forward Commitment Securities**	**When-Issued and Forward Commitment Securities**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may purchase securities on a when-issued basis and may purchase or sell securities on a forward commitment basis.
Options	**Options**	**Options**	**Options**
The Fund may purchase call options on any of the types of securities in which it may invest. The Fund also may purchase and sell call options on indices.	Same as PSW	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.	The Fund may purchase call options on any of the types of individual securities, indices or instruments in which it may invest.
The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options.		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 segregation and coverage requirements).	The Fund is also authorized to write (i.e., sell) covered call options on the individual securities, indices or instruments in which it may invest and to enter into closing purchase transactions with respect to certain of such options.

Table of Contents

PSW	PSY	BPP	BTZ
The Fund is authorized to write (i.e., sell) uncovered call options on securities in which it may invest but that are not currently held by the Fund.		As with calls, the Fund may purchase put options (puts) on securities (whether or not it holds such securities in its portfolio).	The Fund also is authorized to write (i.e., sell) uncovered call options on individual securities, indices or instruments in which it may invest but that are not currently held by the Fund.
The Fund is authorized to purchase put options. The Fund may also purchase uncovered put options.		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.	The Fund is authorized to purchase put options. The Fund also may purchase uncovered put options.
The Fund also has authority to write (i.e., sell) put options on the types of securities that may be held by the Fund, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. 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 obligations under its hedging and other investment transactions.			The Fund has authority to write (i.e., sell) put options on the types of securities or instruments that may be held by the Fund, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. The Fund will not sell put options if, as a result, more than 50% of the Fund s total assets would be required to cover its potential obligations under the put options and under any other transactions (excluding calls) that would be treated as senior securities under the 1940 Act.

15

Table of Contents

PSW	PSY	BPP	BTZ
The Fund is also authorized to write (i.e., sell) uncovered put options on securities in which it may invest but that the Fund does not currently have a corresponding short position or has not deposited cash equal to the exercise value of the put option with the broker dealer through which it made the uncovered put option as collateral. The Fund will engage in transactions in OTC options only with banks or dealers which have capital of at least $50 million or whose obligations are guaranteed by an entity having capital of at least $50 million.			The Fund is also authorized to write (i.e., sell) uncovered put options on securities or instruments in which it may invest but that the Fund does not currently have a corresponding short position or has not deposited cash equal to the exercise value of the put option with the broker dealer through which it made the uncovered put option as collateral.
Interest Rate Transactions	**Interest Rate Transactions**	**Interest Rate Transactions**	**Interest Rate Transactions**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may engage in interest rate swap, cap or floor transactions.
Credit Derivatives	**Credit Derivatives**	**Credit Derivatives**	**Credit Derivatives**
The Fund may enter into credit default swap agreements.	Same as PSW	Same as BTZ	The Fund may engage in credit derivative transactions.

Table of Contents

PSW	PSY	BPP	BTZ
The Fund will enter into credit default swap agreements only with counterparties who are rated investment grade quality by at least one nationally recognized statistical rating organization at the time of entering into such transaction or whose creditworthiness is believed by the Investment Advisor to be equivalent to such rating.			
Futures	**Futures**	**Futures**	**Futures**
The Fund is authorized to engage in transactions in financial futures contracts and related options on such futures contracts.	Same as PSW	Same as BTZ	The Fund may enter into futures contracts of securities, aggregates of securities or indices or prices thereof, other financial indices and U.S. Government debt securities or options on the above.
Short Sales	**Short Sales**	**Short Sales**	**Short Sales**
The Fund may make short sales of securities. The Fund also may make short sales against the box.	Same as PSW	Substantially the Same as BTZ	The Fund may make short sales of securities. 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 total 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.

17

Table of Contents

PSW	PSY	BPP	BTZ
Securities Lending	**Securities Lending**	**Securities Lending**	**Securities Lending**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 $^{1}/_{3}$% of the value of the Fund s total assets (including such loans).
Indexed and Inverse Floating Obligations	**Indexed and Inverse Floating Obligations**	**Indexed and Inverse Floating Obligations**	**Indexed and Inverse Floating Obligations**
The Fund may invest in securities whose potential returns are directly related to changes in an underlying index or interest rate, known as indexed securities. The Fund also may invest in securities whose return is inversely related to changes in an interest rate.	Same as PSW	No Stated Policy	No Stated Policy

Further Information Regarding the Reorganization

Each Target Fund s Board has determined that its Reorganization is in the best interests of its Target Fund and the shareholders of such Fund and that the interests of such shareholders will not be diluted as a result of their Fund s Reorganization. Similarly, the Acquiring Fund s Board has determined that each Reorganization is in the best interests of the Acquiring Fund and its shareholders and that the interests of such shareholders will not be diluted as a result of each Reorganization. As a result of the Reorganizations, however, shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds.

Each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If a Reorganization so qualifies, in general, shareholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund common shares for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Funds will recognize no gain or loss for U.S. Federal income tax purposes by reason of the Reorganizations. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to each Reorganization. It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund receive an opinion from Skadden, Arps, Slate, Meagher & Flom LLP (Skadden Arps), dated as of the closing date of such Reorganization (the Closing Date), regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code.

The Target Fund Boards request that shareholders of each Target Fund approve their Target Fund s proposed Reorganization at the Special Meeting to be held on November 2, 2012.

Shareholder approval of the PSW Reorganization and the PSY Reorganization requires the affirmative vote of a majority of the outstanding common shares of PSW and PSY, respectively, voting together as a single class.

Table of Contents

Shareholder approval of BPP s Reorganization requires the affirmative vote by BPP shareholders, voting as a single class, of a majority of the outstanding voting securities as defined under the 1940 Act (such a majority referred to herein as a 1940 Act Majority). A 1940 Act Majority means the affirmative vote of either (i) 67% or more of the voting securities present at the Special Meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (ii) more than 50% of the outstanding voting securities of the Fund, whichever is less. For additional information regarding voting requirements, see Voting Information and Requirements.

Subject to the requisite approval of the shareholders of each Target Fund with regard to each Reorganization, it is expected that the Closing Date will be sometime during the fourth quarter 2012, but it may be at a different time as described herein.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The PSW Board recommends that shareholders of PSW vote **FOR** PSW s proposed Reorganization.

The PSY Board recommends that shareholders of PSY vote **FOR** PSY s proposed Reorganization.

The BPP Board recommends that shareholders of BPP vote **FOR** BPP s proposed Reorganization.

PROPOSAL 2: ISSUANCES OF ADDITIONAL ACQUIRING FUND SHARES

In connection with each proposed Reorganization described under Proposal 1: The Reorganizations of the Target Funds, the Acquiring Fund will issue additional Acquiring Fund Shares and list such common shares on the NYSE. All other things being equal, the Reorganizations will result in no reduction of the net asset value of the Acquiring Fund Shares, other than to reflect the applicable costs of the Reorganizations.

No gain or loss for U.S. federal income tax purposes will be recognized by the Acquiring Fund or its shareholders pursuant to the Reorganizations. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganizations will benefit shareholders of the Acquiring Fund. In particular, the Acquiring Fund Board reviewed data presented by the Investment Advisor showing that the Acquiring Fund will experience a reduced management fee and a reduced Total Expense Ratio as a result of the proposed Reorganizations.

The Acquiring Fund pays the Investment Advisor a monthly management fee of 0.65% based on the Acquiring Fund s average weekly Managed Assets. Managed Assets means the total assets of the Acquiring Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). If any of the Reorganizations are approved and consummated, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.62% of the Combined Fund s average weekly Managed Assets.

For the 12-month period ended April 30, 2012, the Total Expense Ratio of the Acquiring Fund was 1.17%. The Acquiring Fund estimates that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for the Acquiring Fund of 0.05%, as a percentage of average net assets attributable to common shares.

The Acquiring Fund Board requests that shareholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Shares in connection with the Reorganizations (the Issuances) at the Special Meeting to be held on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time). The Issuances must be approved by an affirmative vote of a majority of votes cast, where total votes cast represented over 50% of all securities

Table of Contents

entitled to vote. Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be after the close of business on or about December 7, 2012, but it may be at a different time as described herein. For additional information regarding voting requirements, see Voting Information and Requirements.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The Acquiring Fund Board recommends that shareholders of the Acquiring Fund vote **FOR** the Issuances of additional Acquiring Fund Shares in connection with each Reorganization.

PROPOSAL 3: REMOVAL OF FINANCIAL SECTOR CONCENTRATION POLICIES

Each Fund is currently subject to an investment policy that requires such Fund to invest at least 25% of its total or managed assets in the financial services sector (each, a Concentration Policy).

The Board of PSW has approved, and recommends that shareholders of PSW approve, the removal of PSW s investment policy requiring that PSW invests at least 25% of its total assets in the industries comprising the financial services sector and amending PSW s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the PSW Policy Amendment). PSW s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any one industry; provided that this limitation shall not apply with respect to obligations issued or guaranteed by the U.S. government or by its agencies or instrumentalities.

The Board of PSY has approved, and recommends that shareholders of PSY approve, the removal of PSY s investment policy requiring that PSY invests at least 25% of its total assets in the industries comprising the financial services sector and amending PSY s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the PSY Policy Amendment). PSY s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any one industry; provided that this limitation shall not apply with respect to obligations issued or guaranteed by the U.S. government or by its agencies or instrumentalities.

The Board of BPP has approved, and recommend that shareholders of BPP approve, the removal of BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending BPP s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry (the BPP Policy Amendment). BPP s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its Managed Assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to obligations issued or guaranteed by the U.S. Government or by its agencies or instrumentalities.

Table of Contents

The Board of BTZ has approved, and recommends that shareholders of BTZ approve, the removal of BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending BTZ s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the BTZ Policy Amendment and together with the PSW Policy Amendment, PSY Policy Amendment and BPP Policy Amendment, the Policy Amendments). BTZ s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest 25% or more of the value of its total assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to obligations issued or guaranteed by the U.S. Government or by its agents or instrumentalities.

The Board of each Fund anticipates that such Fund s Policy Amendment would benefit such Fund s shareholders by providing the Funds investment advisor and sub-advisors with increased flexibility in managing such Fund s portfolio and by reducing such Fund s exposure to financial sector risk. As former preferred stock funds, each Fund formerly emphasized its investments in the preferred stock of companies from the financial sector. Such concentration policies are no longer relevant to the Funds and unduly restrictive given the Funds broad focus on credit-related securities. If the Policy Amendments are approved by shareholders, the Funds will be less exposed to financial sector risk and will have greater capital available for other investment and diversification purposes.

Approval of a Fund s Policy Amendment is not contingent upon the approval of any Reorganization or the Issuance, as applicable, and vice versa. A Fund s shareholders would have the benefit of a Policy Amendment regardless of whether such Fund s Reorganization or Issuance, as applicable, is approved so long as such Fund s Policy Amendment was approved by such Fund s shareholders. In the event a Fund s Policy Amendment is not approved by such Fund s shareholders, the Investment Advisor will continue to manage the Fund under its Concentration Policy.

In the event any of the Reorganizations are consummated, shareholders of the Combined Fund, including former shareholders of the applicable Target Funds, would be subject to the Concentration Policy or the Policy Amendment, as applicable, of the Acquiring Fund following the Reorganizations. If Acquiring Fund shareholders do not approve the Acquiring Fund s Policy Amendment, then the Combined Fund would operate under the Acquiring Fund s Concentration Policy and shareholders of the Combined Fund, including former shareholders of the Target Funds, would not have the benefit of a Policy Amendment. In such an event, Target Fund shareholders would not have the benefit of any Policy Amendment even if Target Fund shareholders had previously approved its respective Target Fund s Policy Amendment. If Acquiring Fund shareholders approve the Acquiring Fund s Policy Amendment, then the Combined Fund would operate under the Acquiring Fund s Policy Amendment and shareholders of the Combined Fund, including former shareholders of the applicable Target Funds, would have the benefit of the Acquiring Fund s Policy Amendment. In such an event, shareholders of the applicable Target Funds would be subject to a Policy Amendment even if such Target Fund shareholders had not previously approved its respective Target Fund s Policy Amendment. There can be no assurance that Acquiring Fund shareholders will approve the Acquiring Fund s Policy Amendment.

At the Special Meeting, each Fund s shareholders will be asked to approve their respective Fund s Policy Amendment. Each Fund s Policy Amendment will take effect immediately upon approval by such Fund s shareholders. Each Fund s Policy Amendment requires approval by an affirmative vote of a 1940 Act Majority of such Fund.

The PSW Board recommends that shareholders of PSW vote **FOR** the PSW Policy Amendment.

The PSY Board recommends that shareholders of PSY vote **FOR** the PSY Policy Amendment.

21

Table of Contents

The BPP Board recommends that shareholders of BPP vote **FOR** the BPP Policy Amendment.

The BTZ Board recommends that shareholders of BTZ vote **FOR** the BTZ Policy Amendment.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Comparison of Risks

Because the Funds have either the same or substantially similar (but not identical) investment objectives and principal investment strategies, the Funds generally are subject to substantially similar investment risks. The Combined Fund will be managed in accordance with the same investment objective and investment policies, and subject to the same risks, as the Acquiring Fund. Many of the investment risks associated with an investment in the Acquiring Fund are substantially similar to those associated with an investment in the Target Funds. Risks that predominately affect common shares include credit risk, interest rate risk, high yield security risk, leverage risk, derivatives risk, liquidity and market price risk, issuer risk, market risk and foreign securities risk. In addition, as exchange-traded closed-end funds, the Funds are subject to the risk that the Funds common shares may trade at a discount from the Funds net asset value. Accordingly, the Funds are primarily designed for long-term investors and should not be considered a vehicle for trading purposes.

However, there are some differences between the Acquiring Fund and the Target Funds. BPP and the Acquiring Fund are each registered as a non-diversified investment company under the 1940 Act, while PSW and PSY are each registered as a diversified investment company under the 1940 Act. This means that each of BPP and the Acquiring Fund may invest a greater percentage of its assets in the obligations of a single issuer than PSW or PSY. To the extent that the Acquiring Fund assumes large positions in the securities of a small number of issuers, the Acquiring Fund s net asset value may fluctuate to a greater extent than that of PSW and PSY as a result of changes in the financial condition or in the market s assessment of such issuers. Even as a non-diversified fund, however, the Acquiring Fund s investments will be limited so as to qualify the Acquiring Fund as a regulated investment company for purposes of federal tax laws. In addition, BPP and the Acquiring Fund are each a Delaware statutory trust organized under Delaware law, while PSW and PSY are each a Maryland corporation organized under Maryland law. A Maryland corporation generally provides greater certainty with respect to limitation of personal liability than a Delaware statutory trust. See Governing Law for additional information.

Each Fund seeks to achieve its investment objective(s) by investing, under normal market conditions, at least 80% of its assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds (commonly referred to as junk bonds), bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities. Each Fund can invest, under normal marketing conditions, without limitation in securities rated below investment grade at the time of purchase. However, it is anticipated, under current market conditions, that each Fund will have an average credit quality of at least investment grade. There are, however, some differences between the Funds. See Comparison of the Funds in this Joint Proxy Statement/Prospectus for a description of the salient differences among the Funds. See Risk Factors and Special Considerations in the Statement of Additional Information for a further discussion of factors affecting the Funds common shares.

Risks Related to the Reorganizations

Expenses.

While the Funds currently estimate that the Reorganizations will result in reduced aggregate expenses of the Combined Fund by approximately $735,234 per year if all the Reorganizations are completed, approximately $382,053 if only the Reorganization between PSY and BTZ are approved, and approximately $667,153 if the

Table of Contents

Reorganizations of PSW and BPP into BTZ are approved, the realization of these reduced expenses will not affect holders of the Funds proportionately, and may take longer than expected to be realized or may not be realized at all.

After the Reorganizations, the Combined Fund is expected to incur lower Total Expenses on a per common share basis than is currently incurred by the Acquiring Fund. In addition, no matter which Funds complete their Reorganizations, the Combined Fund may incur higher Total Expenses for a period due to expenses associated with the Reorganizations prior to experiencing such savings or may never experience such savings if its fixed costs were to increase or the value of its assets were to decrease.

Each of the PSW, PSY, BPP and BTZ Boards believes that its shareholders should realize lower Total Expense Ratios after the Reorganizations than they would realize if the Reorganizations did not occur after the expenses associated with the Reorganizations have been paid. For the 12-month period ended April 30, 2012, the Total Expense Ratios of PSW, PSY, BPP and BTZ were 1.20%, 1.17%, 1.13% and 1.17% respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and *pro forma* basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. See Reasons for the Reorganizations.

As of April 30, 2012, the historical and *pro forma* total annual gross expense ratios applicable to the Reorganizations are as follows:

				Pro Forma	***Pro Forma***	***Pro Forma***
				Combined Fund	**Combined Fund**	**Combined Fund**
PSW	**PSY**	**BPP**	**BTZ**	**(All Funds)**	**(PSY & BTZ)**	**(PSW, BPP & BTZ)**
1.20%	1.17%	1.13%	1.17%	1.12%	1.14%	1.11%

There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations. The most likely combination is the Reorganizations of all of the Funds. The Reorganization of PSW and BPP into BTZ is expected to result in the lowest Total Expense Ratio of any of the possible combinations of Reorganizations. The Reorganization of only PSY into BTZ is expected to result in the highest Total Expense Ratio of any of the possible combinations of Reorganizations.

PSW, BPP and the Acquiring Fund will bear expenses incurred in connection with the Reorganizations, including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganizations, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate. Because the PSW, BPP and the Acquiring Fund have already incurred expenses solely and directly attributable to the Reorganizations and because PSW, BPP and the Acquiring Fund (and not the Investment Advisor) is responsible for paying those expenses, if a Fund s respective shareholders do not approve their Fund s respective Reorganization, such Fund will continue to be responsible for the expenses arising from its proposed Reorganization even though its proposed Reorganization will not occur and those expenses may be material. Based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations; thus, the Investment Advisor has decided to cover the costs of the PSY Reorganization and the costs associated with the PSY Reorganization will not be directly borne by PSY. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (*e.g.*, expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations). See Reasons for the Reorganizations.

Earnings and Distribution Yield.

The Combined Fund s earnings and distribution yield on NAV are expected to be comparable (i.e., the same or slightly lower or higher) or higher when compared with that of each Fund prior to the Reorganizations; however, the Combined Fund s earnings and distribution yield on NAV may change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution yield prior to the Reorganizations.

Premium/Discount to NAV.

As with any stock, the price of each Fund s common shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Each Fund s common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors who sell their shares in a relatively short period of time after completion of the Reorganizations.

The common shares of each Fund have historically fluctuated between a discount and a premium. As of April 30, 2012, each Fund traded at a discount to its respective NAV. To the extent PSW, PSY and BPP are trading at a wider discount (or a narrower premium) than BTZ at the time of the Reorganizations, PSW, PSY, and BPP shareholders would have the potential for an economic benefit by the narrowing of the discount/premium. To the extent PSW, PSY, and BPP are trading at a narrower discount (or wider premium) than BTZ at the time of the Reorganizations, PSW, PSY, and BPP shareholders may be negatively impacted if the Reorganizations are consummated. Acquiring Fund shareholders would only benefit from a discount perspective to the extent the post-Reorganization discount (or premium) improves.

There can be no assurance that, after the Reorganizations, common shares of the Combined Fund will trade at, above or below net asset value. Upon consummation of the Reorganizations, the Acquiring Fund Shares may trade at a price that is less than the Acquiring Fund s current trading market price. In the Reorganizations, shareholders of each Target Fund will receive common shares of the Acquiring Fund based on the relative net asset values (not the market values) of each respective Fund s common shares. The market value of the common shares of the Combined Fund may be less than the market value of the common shares of your Fund prior to the Reorganizations.

Tax Considerations.

See Material Federal Income Tax Consequences of the Reorganizations for a summary of certain U.S. federal income tax consequences of the Reorganizations.

General Risks of Investing in the Funds

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

Table of Contents

represents an indirect investment in the securities owned by such Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Although the Funds can sell securities of an issuer upon the occurrence of certain events or for tax planning, the Funds generally will not sell securities of issuers solely due to changes in market price. Each Fund s common shares at any point in time may be worth less than a shareholders original investment, even after taking into account the reinvestment of the Fund s dividends and distributions.

Investment Strategy Risk. The types of investments that are selected through application of the Funds investment strategy can be expected to change over time. In pursuing their investment strategy, the Funds may incur adverse tax or brokerage consequences. Particular risks may be elevated during periods in which the Funds investment strategy dictates higher levels of investment in particular types of investments.

Issuer Risk; Market Risk; and Selection Risk. Issuer risk is the risk that the value of the Funds debt securities may decline for a number of reasons which directly relate to the issuer or borrower, such as a real or perceived management performance, financial leverage and reduced demand for the issuer s or borrower s goods and services.

Market risk is the risk that the market values of securities owned by a Fund will decline. There is a risk that the markets in which a Fund invests will go down in value, including the possibility that the market will go down sharply and unpredictably. The prices of debt securities tend to fall as interest rates rise, and such declines tend to be greater among debt securities with longer maturities. Market risk is often greater among certain types of debt securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject a Fund to greater market risk than a fund that does not own these types of securities. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater a Fund s outstanding commitments for these securities, the greater the Fund s exposure to market price fluctuations.

Selection risk is the risk that the securities that a Fund s management selects will underperform the markets in which the Fund invests, the market relevant indices, or other funds with similar investment objectives and investment strategies.

Interest Rate Risk. Interest rate risk is the risk that fixed-income securities such as debt securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. A Fund s investment in such securities means that the net asset value and market price of the common shares will tend to decline if market interest rates rise.

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

Credit Risk. Credit risk is the risk that one or more fixed income securities in a 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. To the extent a Fund invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund which invests in investment grade securities. The prices of lower grade securities are more sensitive to negative developments, such as a decline in the issuer s revenues or a general economic downturn, than are the prices of higher grade securities. Securities of below investment grade quality are predominantly speculative with respect to the issuer s capacity to pay interest and repay principal when due and therefore involve a greater risk of default. In addition, to the extent a Fund uses credit derivatives, such use will expose it to additional risk in the event that the bonds underlying the derivatives default.

Non-Investment Grade Securities Risk. The Funds can invest, under normal market conditions, without limitation in securities rated below investment grade at the time of purchase. Securities of below investment grade quality as described above are regarded as having predominantly speculative characteristics with respect to the issuer s capacity to pay interest and repay principal, and are commonly referred to as junk bonds. The value of high yield, lower quality securities is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of high yield bonds are not 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. 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.

Lower grade securities, though high yielding, are characterized by high risk. These securities are subject to a greater risk of default. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities; adverse conditions could make it difficult at times for the Fund to sell certain securities or could result in lower prices than those used in calculating the Fund s net asset value. Because of the substantial risks associated with lower grade securities, you could lose money on your investment in common shares of a Fund, both in the short term and the long term.

The prices of debt 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. This higher coupon is what the investor receives 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.

The ratings of Moody s, Standard & Poor s (S&P), Fitch 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 (as defined herein) also will independently evaluate these securities and the ability for the issuers of such securities to pay interest and principal. To the extent that a Fund invests in lower grade securities that have not been rated by a rating agency, the Fund s ability to achieve its investment objective(s) will be more dependent on the Advisors credit analysis than would be the case when the Fund invests in rated securities.

Special Risks Related To Preferred Securities. Each Fund is exposed to risks associated with its investments in preferred securities. There are special risks associated with investing in preferred securities, including:

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

Table of Contents

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

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

Limited Voting Rights. Generally, preferred security holders (such as a Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer s board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In the case of trust preferred securities, holders generally have no voting rights, except if (i) the issuer fails to pay dividends for a specified period of time or (ii) a declaration of default occurs and is continuing.

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

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

Mortgage and Asset Backed Securities. Each Fund may invest in a variety of mortgage related and other asset backed securities, including both commercial and residential mortgage securities and other mortgage backed instruments issued on a public or private basis. Mortgage backed securities represent the right to receive a portion of principal and/or interest payments made on a pool of residential or commercial mortgage loans. When interest rates fall, borrowers may refinance or otherwise repay principal on their mortgages earlier than scheduled. When this happens, certain types of mortgage backed securities will be paid off more quickly than originally anticipated and each Fund will have to invest the proceeds in securities with lower yields. This risk is known as prepayment risk. When interest rates rise, certain types of mortgage backed securities will be paid off more slowly than originally anticipated and the value of these securities will fall. This risk is known as extension risk.

Because of prepayment risk and extension risk, mortgage backed securities react differently to changes in interest rates than other fixed income securities. Small movements in interest rates (both increases and decreases) may quickly and significantly reduce the value of certain mortgage backed securities.

Like more traditional fixed income securities, the value of asset backed securities typically increases when interest rates fall and decreases when interest rates rise. Certain asset backed securities may also be subject to the risk of prepayment. In a period of declining interest rates, borrowers may pay what they owe on the underlying assets more quickly than anticipated. Prepayment reduces the yield to maturity and the average life of the asset backed securities. In addition, when a Fund reinvests the proceeds of a prepayment it may receive a lower interest rate than the rate on the security that was prepaid. In a period of rising interest rates, prepayments may occur at a slower rate than expected. As a result, the average maturity of a Fund s portfolio may increase. The value of longer term securities generally changes more widely in response to changes in interest rates than shorter term securities.

Non-U.S. Securities Risk. PSY and PSW may invest without limitation in preferred securities and debt securities of issuers domiciled outside of the United States that are U.S. dollar denominated or provide for

Table of Contents

payment to the Fund in U.S. dollars. PSY and PSW also may invest up to 35% of its total assets in non-U.S. dollar denominated securities. BPP may invest up to 35% of its Managed Assets in U.S. dollar denominated securities of non-U.S. issuers that are traded or listed in U.S. markets. For purposes of BPP s 35% limitation, non-U.S. securities include securities represented by American Depository Receipts. BPP also may invest up to 35% of its Managed Assets in non-U.S. dollar denominated securities. The Acquiring Fund may invest, under normal market conditions, up to 35% of the its Managed Assets in non-U.S. securities.

For the Funds, since non-U.S. securities may be purchased with, and payable in, foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

Investments in non-U.S. securities involve certain risks not involved in domestic investments, including, but not limited to, (i) fluctuations in foreign exchange rates; (ii) future foreign economic, financial, political and social developments; (iii) different legal systems; (iv) the possible imposition of exchange controls or other foreign governmental laws or restrictions, including expropriation; (v) lower trading volume; (vi) much greater price volatility and illiquidity of certain non U.S. securities markets; (vii) different trading and settlement practices; (viii) less governmental supervision; (ix) changes in currency exchange rates; (x) high and volatile rates of inflation; (xi) fluctuating interest rates; (xii) less publicly available information; and (xiii) different accounting, auditing and financial recordkeeping standards and requirements.

Securities markets in foreign countries often are not as developed, efficient or liquid as securities markets in the United States, and therefore, the prices of non-U.S. securities can be more volatile. Certain foreign countries may impose restrictions on the ability of issuers of non-U.S. securities to make payments of principal and interest to investors located outside the country. In addition, a Fund will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Fund to lose money on its investments in non-U.S. Securities. The ability of a foreign sovereign issuer, especially an emerging market country, to make timely payments on its debt obligations will also be strongly influenced by the sovereign issuer s balance of payments, including export performance, its access to international credit facilities and investments, fluctuations of interest rates and the extent of its foreign reserves. The cost of servicing external debt will also generally be adversely affected by rising international interest rates, as many external debt obligations bear interest at rates which are adjusted based upon international interest rates.

Because evidences of ownership of such securities usually are held outside the United States, a Fund will be subject to additional risks if it invests in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the foreign securities to investors located outside the country of the issuer, whether from currency blockage or otherwise. Certain countries in which the Funds may invest, especially emerging market countries, historically have experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. In addition, with respect to certain foreign countries, there is a risk of: (i) the possibility of expropriation or nationalization of assets; (ii) confiscatory taxation; (iii) difficulty in obtaining or enforcing a court judgment; (iv) economic, political or social instability; and (v) diplomatic developments that could affect investments in those countries. Non-U.S. securities may trade on days when a Fund s common shares are not priced.

Because a Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Fund and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Funds net asset value or current income could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. Certain investments in non-U.S. securities also may be subject to foreign withholding taxes. Dividend

Table of Contents

income from non-U.S. corporations may not be eligible for the reduced rate for qualified dividend income. These risks often are heightened for investments in smaller, emerging capital markets. In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as: (i) growth of gross domestic product; (ii) rates of inflation; (iii) capital reinvestment; (iv) resources; (v) self sufficiency; and (vi) balance of payments position.

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

Emerging Markets Risk. Each Fund may invest in issuers in emerging markets. Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of non U.S. issuers to a heightened degree. Emerging market countries generally include every nation in the world except developed countries. Examples of developed countries are the United States, Canada, Japan, Australia, New Zealand and most countries located in Western Europe. These heightened risks include (i) greater risks of expropriation, confiscatory taxation, nationalization and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and an increase in price volatility; and (iii) certain national policies that may restrict a Fund investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

Foreign Currency Risk. Because a Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Fund and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that a Fund s net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. The Advisors may, but are not required to, elect for a Fund to seek to protect itself from changes in currency exchange rates through hedging transactions depending on market conditions. In addition, a Fund may enter into foreign currency transactions in an attempt to enhance total return, which may further expose the Fund to the risks of foreign currency movements and other risks. In addition, certain countries, particularly emerging market countries, may impose foreign currency exchange controls or other restrictions on the transferability, repatriation or convertibility of currency.

Illiquid Securities Risk. Each Fund may invest in instruments that, at the time of investment, are illiquid. BTZ and BPP may only invest up to 10% of their managed assets in illiquid securities. Illiquid securities are securities that are not readily marketable and may include some restricted securities, which are securities that may not be resold to the public without an effective registration statement under the Securities Act of 1933, as amended, if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by a Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

Non-Diversification Risk. Both BPP and the Acquiring Fund are registered as a non-diversified investment company under the 1940 Act. PSW and PSY are each registered as a diversified investment company under the 1940 Act. This means that each of BPP and the Acquiring Fund may invest a greater percentage of its assets in the obligations of a single issuer than PSW or PSY. Since the Acquiring Fund may invest a relatively high percentage of its assets in a limited number of issuers, the Acquiring Fund may be more exposed to any single economic, political or regulatory occurrence than a more widely diversified fund, such as PSW and PSY. Even as a non-diversified fund, however, the Acquiring Fund s investments will be limited so as to qualify the Acquiring Fund as a regulated investment company for purposes of Federal tax laws. Requirements for qualification 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 Acquiring 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

Table of Contents

investment companies), (B) the securities of two or more issuers (other than securities of other regulated investment companies) controlled by the Acquiring 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 Acquiring 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).

Financial Sector Concentration Risk. Each of PSW and PSY currently has an investment policy that requires that the Fund invests at least 25% of its total assets in industries compromising the financial services sector. Each of BPP and the Acquiring Fund currently has an investment policy that requires that the Fund invests at least 25% of its Managed Assets in companies principally engaged in financial services. Each Fund is recommending that shareholders of such Fund approve the removal of such concentration policy. If the removal of such concentration policy is approved for a Fund, then such Fund would not be subject to such concentration policy.

If the removal of such concentration policy is not approved by shareholders for a Fund, then such Fund s emphasis on securities of financial services companies makes it more susceptible to adverse conditions affecting such industries than a fund that does not have its assets invested to a similar degree in such issuers. Issuers in the financial services sector are subject to a variety of factors that may adversely affect their business or operations, including extensive regulation at the federal and/or state level and, to the extent that they operate internationally, in other countries, changes in prevailing interest rates, general economic conditions and other industry specific risks.

Leverage. Although the use of leverage by a Fund may create an opportunity for increased net income and capital appreciation for the common shares, it also results in additional risks and can magnify the effect of any losses. If the income and gains earned on securities purchased with leverage proceeds are greater than the cost of leverage, a Fund s return will be greater than if leverage had not been used. Conversely, if the income or gains from the securities purchased with such proceeds does not cover the cost of leverage, the return to the Fund will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for shareholders of a Fund including:

- the likelihood of greater volatility of net asset value and market price of and dividends on the shares than a comparable portfolio without leverage;
- the risk that fluctuations in interest rates on borrowings and short-term debt or in the dividend rates on any preferred shares that the Fund must pay will reduce the return to the shareholders;
- the effect of leverage in a market experiencing rising interest rates, which is likely to cause a greater decline in the net asset value of the shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the shares;
- when the Fund uses leverage, the fees payable to the Advisors for advisory and sub-advisory services will be higher than if the Fund did not use leverage; and
- leverage may increase operating costs, which may reduce the Fund s total return.

Any requirement that the Fund sell assets at a loss in order to redeem or pay off any leverage or for other reasons would reduce the Fund s net asset value and also make it difficult for the net asset value to recover. The Advisor in its best judgment nevertheless may determine to continue to use leverage if it expects that the benefits to the Fund s shareholders of maintaining the leveraged position will outweigh the current reduced return.

Certain types of borrowings by a Fund may result in the Fund being subject to covenants in credit agreements relating to asset coverage and Fund composition requirements. The Funds may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the

30

short-term corporate debt securities or preferred shares issued by the Funds. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act.

Reverse Repurchase Agreements Risk. Reverse repurchase agreements involve the risks that the interest income earned on the investment of the proceeds will be less than the interest expense of a Fund, that the market value of the securities sold by a Fund may decline below the price of the securities at which such Fund is obligated to repurchase them and that the securities may not be returned to such Fund. There is no assurance that reverse repurchase agreements can be successfully employed.

Strategic Transactions. The Funds may engage in various other portfolio strategies both to seek to increase the return of the Funds and to seek to hedge their portfolio against adverse effects from movements in interest rates and in the securities markets. Strategic transactions in which the Funds may engage for hedging purposes, risk management, or to enhance total return, including engaging in transactions, such as options, futures, swaps, foreign currency transactions (such as forward foreign currency contracts, currency swaps or options on currency and currency futures), and other derivatives transactions (Strategic Transactions) also involve certain risks and special considerations. Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on the Advisors ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require a Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation a Fund can realize on an investment, or may cause a Fund to hold a security that it might otherwise sell. The use of foreign currency transactions can result in a Fund incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of such Fund to deliver or receive a specified currency. Additionally, amounts paid by a Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to such fund for investment purposes.

Derivatives Risk. Derivatives are financial contracts or instruments whose value depend on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indexes). Each Fund may invest in a variety of derivative instruments for hedging purposes or to seek to enhance its return, such as options, futures contracts and swap agreements, and may engage in short sales. Each Fund may also have exposure to derivatives through investment in credit-linked notes, credit-linked trust certificates and other securities issued by special purpose or structured vehicles. Each Fund may use derivatives as a substitute for taking a position in an underlying security or other asset, as part of a strategy designed to reduce exposure to other risks, such as interest rate risk. Each Fund also may use derivatives to add leverage to the portfolio. Each Fund s use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, interest rate risk, credit risk, counterparty risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index. If a Fund invests in a derivative instrument it could lose more than the principal amount invested. The use of derivatives also may increase the amount of taxes payable by stockholders. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that each Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

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

Swaps. Swap agreements are types of derivatives. In order to seek to hedge the value of the Fund s portfolio, to hedge against increases in the Fund s cost associated with the interest payments on its outstanding borrowings or to seek to increase the Fund s return, a Fund may enter into interest rate or credit default swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by a Fund, which would cause the Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. In addition to the risks applicable to swaps generally, credit default swap transactions involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty). A Fund is not required to enter into interest rate or credit default swap transactions for hedging purposes or to enhance its return and may choose not to do so.

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

Short Sales Risk. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the short seller to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Portfolio Turnover Risk. A Fund s annual portfolio turnover rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for a Fund. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by a Fund. High portfolio turnover may result in an increased realization of net short-term capital gains by a Fund which, when distributed to shareholders, will be taxable as ordinary income. Additionally, in a declining market, portfolio turnover may create realized capital losses.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq, instability in Afghanistan, Pakistan and the Middle East, possible terrorist attacks in the United States and around the world, growing social and political discord in the United States, the European debt crisis, potential failure of the Euro, further downgrades of United States government securities and other similar events may result in market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Funds do not know how long the securities markets may be affected by these events and cannot predict the effects of these events or similar events in the future on the U.S. economy and securities markets. Non-investment grade securities tend to be more volatile than investment grade fixed income securities so that these events and other market disruptions may have a greater impact on the prices and volatility of non-investment grade securities than on investment grade fixed income securities. There can be no assurance that these events and other market disruptions will not have other material and adverse implications.

Risks Associated with Recent Market Events. Global stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. The debt and equity capital markets in the United States have been negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the repricing of credit risk in the broadly syndicated market, among other things. These events, along with the downgrade of the United States credit rating, deterioration of the housing market, the failure of major financial institutions and the resulting United States federal government actions have led to worsening general economic conditions, which have materially and

Table of Contents

adversely impacted the broader financial and credit markets and have reduced the availability of debt and equity capital for the market as a whole and financial firms in particular. These events have been adversely affecting the willingness of some lenders to extend credit, in general, which may make it more difficult for issuers of debt securities to obtain financings or refinancings for their investment or lending activities or operations. There is a risk that such issuers will be unable to successfully complete such financings or refinancings. In particular, because of the current conditions in the credit markets, issuers of debt securities may be subject to increased cost for debt, tightening underwriting standards and reduced liquidity for loans they make, securities they purchase and securities they issue. These events may increase the volatility of the value of securities owned by a Fund and/or result in sudden and significant valuation increases or declines in its portfolio. These events also may make it more difficult for a Fund to accurately value its securities or to sell its securities on a timely basis. These events have adversely affected the broader economy, and may continue to do so, which in turn may adversely affect the ability of issuers of securities owned by a Fund to make payments of principal and interest when due, lead to lower credit ratings and increase defaults. There is also a risk that developments in sectors of the credit markets in which a Fund does not invest may adversely affect the liquidity and the value of securities in sectors of the credit markets in which the Fund does invest, including securities owned by the Fund.

General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of debt securities, including municipal bonds, and significant and rapid value decline in certain instances. These conditions resulted, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Fund s securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings.

The recent instability in the financial markets discussed above has led the U.S. government and certain foreign governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity, including through direct purchases of equity and debt securities. Federal, state and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the issuers in which a Fund invests in ways that are unforeseeable. Legislation or regulation may also change the way in which a Fund is regulated. Such legislation or regulation could limit or preclude a Fund s ability to achieve its investment objective.

The Advisors do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on a Fund s portfolio. The Advisors intend to monitor developments and seek to manage each Fund s portfolio in a manner consistent with achieving such Fund s investment objective(s), but there can be no assurance that it will be successful in doing so and the Advisors may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments and trends in new products and services, in the current or future market environment.

United States Credit Rating Downgrade Risk. The events surrounding the recent negotiations regarding the U.S. federal government debt ceiling and the resulting agreement could adversely affect the Advisors ability to achieve a Fund s investment objective(s). On August 5, 2011, S&P lowered its long-term sovereign credit rating on the U.S. to AA+ from AAA with a negative outlook. Moody s affirmed the Aaa long-term sovereign credit rating of the U.S. on November 21, 2011 while maintaining its negative outlook. The downgrade by S&P and any future downgrades by other rating agencies could increase volatility in both stock and bond markets, result in higher interest rates and higher Treasury yields and increase borrowing the costs of all kinds of debt. These events could have significant adverse effects on the economy generally and could result in significant adverse impacts on securities issuers and the Funds. The Advisors cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on a Fund s portfolio.

The Dodd-Frank Act. Congress has enacted sweeping financial legislation, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act), signed into law by President Obama on July 21, 2010, regarding the operation of banks, private fund managers and other financial institutions, which includes provisions regarding the regulation of derivatives. Many provisions of the Dodd-Frank Act will be implemented through regulatory rulemakings and similar processes over a period of time. The impact of the Dodd-Frank Act, and of follow-on regulation, on trading strategies and operations is impossible to predict, and may be adverse. Practices and areas of operation subject to significant change based on the impact, direct or indirect, of the Dodd-Frank Act and follow-on regulation, may change in manners that are unforeseeable, with uncertain effects. By way of example and not limitation, direct and indirect changes from the Dodd-Frank Act and follow-on regulation may occur to a significant degree with regard to, among other areas, financial consumer protection, bank ownership of and involvement with private funds, proprietary trading, registration of investment advisers, and the trading and use of many derivative instruments, including swaps. There can be no assurance that such legislation or regulation will not have a material adverse effect on the Funds. In addition, Congress may address tax policy, which also could have uncertain direct and indirect impact on trading and operations, as well as, potentially, operations and structure of the Funds.

Further, the Dodd-Frank Act created the Financial Stability Oversight Council (FSOC), an interagency body charged with identifying and monitoring systemic risks to financial markets. The FSOC has the authority to require that non-bank financial companies that are predominantly engaged in financial activities, such as the Funds, the Investment Advisor and the Sub-Advisor, whose failure it determines would pose systemic risk, be placed under the supervision of the Board of Governors of the Federal Reserve System (Federal Reserve). The FSOC has the authority to recommend that the Federal Reserve adopt more stringent prudential standards and reporting and disclosure requirements for non-bank financial companies supervised by the Federal Reserve. The FSOC also has the authority to make recommendations to the Federal Reserve on various other matters that may affect the Funds, including requiring financial firms to submit resolution plans, mandating credit exposure reports, establishing concentration limits, and limiting short-term debt. The FSOC may also recommend that other federal financial regulators impose more stringent regulation upon, or ban altogether, financial activities of any financial firm that poses what it determines are significant risks to the financial system. In the event that the FSOC designates the Funds as a systemic risk to be placed under the Federal Reserve s supervision, the Funds could face stricter prudential standards, including risk-based capital requirements, leverage limits, liquidity requirements, concentration requirements, and overall risk management requirements, among other restrictions. Such requirements could hinder a Fund s ability to meet its investment objective(s) and may place the Fund at a disadvantage with respect to its competitors.

Additionally, BlackRock is, for purposes of the Bank Holding Company Act of 1956, as amended, and any rules or regulations promulgated thereunder from time to time, currently considered a subsidiary of The PNC Financial Services Group, Inc. (PNC), which is subject to regulation and supervision as a financial holding company by the Federal Reserve. The Volcker Rule contained in Section 619 of the Dodd-Frank Act will limit the ability of banking entities, which would include BlackRock by virtue of its relationship with PNC, to sponsor, invest in or serve as investment manager of certain private investment funds. Pursuant to the Dodd-Frank Act, the Volcker Rule s effective date was July 21, 2012. Following the effective date of the Volcker Rule, banking entities subject to the Volcker Rule, such as BlackRock, will have at least a two-year period to come into compliance with the provisions of the Volcker Rule. The Volcker Rule could have a significant negative impact on BlackRock and the Advisors. BlackRock may attempt to take certain actions to lessen the impact of the Volcker Rule, although no assurance can be given that such actions would not have a significant negative impact on the Fund. While the U.S. financial regulators have issued proposed rules implementing the Volcker Rule, the Advisors cannot predict the extent to which the Volcker Rule will be subject to modification by rule prior to its effective date, or the impact any such modifications may have on BlackRock or the Advisors.

The implementation of the Dodd-Frank Act could also adversely affect the Advisors and the Funds by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny and the implementation of enhanced and new regulatory requirements may increase the Investment Advisor s, the

Table of Contents

Sub-Advisor s and the Funds exposure to potential liabilities, and in particular liabilities arising from violating any such enhanced and/or new regulatory requirements. Increased regulatory oversight could also impose administrative burdens on the Advisors and the Funds, including, without limitation, responding to investigations and implementing new policies and procedures. The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and the Advisors and the Funds may be affected by the new legislation and regulation in ways that are currently unforeseeable.

Dodd-Frank Act Derivatives Title. Title VII of the Dodd-Frank Act (the Derivatives Title) imposes a new regulatory structure on derivatives markets, with particular emphasis on swaps and security-based swaps (collectively swaps). This new regulatory framework covers a broad range of swap market participants, including banks, non-banks, credit unions, insurance companies, broker-dealers and investment advisers, including the Advisors.

The SEC, CFTC and other U.S. regulators (the Regulators) are in the process of adopting numerous regulations to implement the Derivatives Title. Until the Regulators complete their rulemaking efforts, the extent to which the Derivatives Title and the rules adopted thereunder will impact the Funds is unclear. However, it is possible that the new regulatory structure for swaps may jeopardize certain trades and/or trading strategies employed by the Advisors, or at least make them more costly.

The Derivatives Title empowers the CFTC and SEC to require that certain swaps be submitted for clearing to regulated clearinghouses. Swaps that are required to be submitted for clearing must also, subject to certain exceptions, be executed through regulated markets, including designated contract markets, national securities exchanges and swap execution facilities. If a Fund wishes to trade swaps subject to the clearing and exchange-trading mandates, it may incur additional costs associated with these new requirements. Other Dodd-Frank Act provisions could limit banks ability to engage in swaps, which could decrease liquidity in the swap markets and adversely impact the ability of the Fund to enter into highly-tailored or customized transactions.

The Derivatives Title also requires swap dealers and major swap participants to register with the SEC and/or the CFTC, as appropriate. Swap dealers and major swap participants will be subject to a panoply of new regulations, including among others, capital and margin requirements and business conduct standards. If a Fund is required to post margin for their swap transactions, the cost of executing these transactions could rise substantially. These costs may make certain trades or trading strategies uneconomical. If a Fund or the Advisors are required to register as major swap participant, the Fund would incur costs related to complying with major swap participant regulation. Additionally, it is expected that swap dealers will transfer at least some of their compliance costs to counterparties in the form of higher fees or less favorable marks on swap transactions. This means that a Fund could face increased transaction costs when entering into swaps with a swap dealer. A Fund also may be subject to new requirements, including reporting requirements with respect to position information, use of leverage, identity of investors and counterparty and credit risk exposure.

These new requirements of the Derivatives Title may also increase the cost of certain hedging and other derivatives transactions; additionally, there may be market dislocations due to uncertainty during the extended regulatory implementation period and it is not yet clear how the derivatives market will adjust to new regulations. Until the Regulators complete the rulemaking process for the Derivatives Title, it is unknown the extent to which such risks may materialize.

There can be no assurance that these developments will not adversely affect the business and investment activities of the Funds and the Advisors. In addition, the Advisors may be subject to potential registration requirements or other additional responsibilities under the Derivatives Title, summarized above, and may therefore incur increased cost in conducting the Funds strategies, which may adversely affect the performance of the Funds.

Table of Contents

CFTC Rulemaking Updates. On February 9, 2012, the CFTC adopted certain amendments to the regulations governing commodity pools, commodity pool operators, and commodity trading advisors (the CPO-CTA Rulemaking). As part of the CPO-CTA Rulemaking, the CFTC amended Rule 4.5 under the Commodity Exchange Act to impose additional restrictions on the use of futures, options and swaps by registered investment companies, such as the Funds. These amendments limit the ability of the Funds to use futures, options and swaps without the Funds and the Advisors being subject to full CFTC regulation, which would impose substantial additional regulatory and compliance burdens on the Advisors (who would have to register as commodity pool operators) and the Funds. These amendments have an extended implementation period and their full implementation is dependent upon the completion of other related rulemakings. The ultimate effect these amendments may have on the Advisors and the Funds is thus uncertain; however, it is possible that they may adversely affect a Fund s ability to manage its portfolio and may impair the Fund s ability to achieve its investment objective(s).

The CPO-CTA Rulemaking also imposed additional reporting and disclosure obligations on commodity pool operators and this may too adversely affect a Fund s ability to manage its portfolio and impair the Fund s ability to achieve its investment objective(s). The CPO-CTA Rulemaking may, in particular, substantially increase regulatory compliance costs for the Funds and the Advisors and could have effects on the management of a Fund s portfolio that are currently unforeseeable, that could reduce returns to investors and that could impair a Fund s ability to achieve its investment objective.

Antitakeover Provisions. The Agreement and Declaration of Trust of the Acquiring Fund includes provisions that could limit the ability of other entities or persons to acquire control of the Acquiring Fund or to change the composition of its Board. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Acquiring Fund. See Certain Provisions of the Charter.

EXPENSE TABLE FOR SHAREHOLDERS

Total Expenses Table for Shareholders of the Funds as of April 30, 2012

The following tables illustrate the anticipated reduction in Total Expenses expected as a result of the Reorganizations. The table sets forth (i) the Total Expenses paid by each Fund for the 12-month period ended April 30, 2012, (ii) the *pro forma* Total Expenses for the Combined Fund, assuming all of the Reorganizations had taken place on April 30, 2012, (iii) the *pro forma* Total Expenses for the Combined Fund, assuming the Reorganizations of PSW and BPP into BTZ had taken place on April 30, 2012, and (iv) the *pro forma* Total Expenses for the Combined Fund, assuming only the Reorganization of PSY into BTZ had taken place on April 30, 2012.

The level of expense savings will vary depending on the combination of the proposed Reorganizations. Because each of the Reorganizations may occur whether or not the other Reorganizations are approved, several combinations are possible and the pro forma effects on operating expenses for all possible combinations are not illustrated in the table below. The scenarios presented below, however, capture the range of possible pro forma outcomes. The Reorganizations of PSW and BPP into BTZ is expected to result in the lowest Total Expense Ratio of any of the possible combinations of Reorganizations. The Reorganization of only PSY into BTZ is expected to result in the highest Total Expense Ratio of any of the possible combinations of Reorganizations. The most likely combination is the Reorganization of all of the Funds.

For the 12-month period ended April 30, 2012, the Total Expense Ratios of PSW, PSY, BPP, and BTZ were 1.20%, 1.17%, 1.13% and 1.17%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP,

Table of Contents

and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized.

	PSW	PSY	BPP	BTZ	Pro Forma Combined Fund[(a)] (All Funds)	Pro Forma Combined Fund[(a)] (PSY & BTZ)	Pro Forma Combined Fund[(a)] (PSW, BPP & BTZ)
Shareholder Transaction Expenses							
Maximum Sales Load (as a percentage of the offering price) imposed on purchases of common shares[(b)]	None	None	None	None	None	None	None
Dividend Reinvestment and Cash Purchase Plan Fees	None	None	None	None	None	None	None
Annual Total Expenses (as a percentage of a attributable to common shares)							
Investment Management Fees	0.83%	0.85%	0.87%	0.90%	0.86%	0.87%	0.86%
Other Expenses[(c)]	0.21%	0.17%	0.14%	0.13%	0.12%	0.12%	0.11%
Interest Expense	0.16%	0.15%	0.12%	0.14%	0.14%	0.15%	0.14%
Total Annual Fund Operating Expenses[(d)]	1.20%	1.17%	1.13%	1.17%	1.12%	1.14%	1.11%

(a) Assumes the Reorganization(s) had taken place on April 30, 2012.

(b) No sales load will be charged in connection with the issuance of the Acquiring Fund Shares as part of the Reorganizations. Common shares are not available for purchase from the Funds but may be purchased on the NYSE through a broker-dealer subject to individually negotiated commission rates. Common shares purchased in the secondary market may be subject to brokerage commissions or other charges.

(c) Includes non-recurring expenses relating to professional services.

(d) For the 12-month period ended April 30, 2012, the Total Expense Ratios Excluding Interest Expense of PSW, PSY, BPP, and BTZ were 1.04%, 1.02%, 1.01% and 1.03%, respectively. The Funds estimate that on a historical and pro forma basis for the 12-month period ended April 30, 2012, the completion of all of the Reorganizations would result in a Total Expense Ratio Excluding Interest Expense for the Combined Fund of 0.98%, the Reorganizations of only PSY and BTZ would result in a Total Expense Ratio Excluding Interest Expense for the Combined Fund of 0.99%, and the Reorganizations of only PSW, BPP, and BTZ would result in a Total Expense Ratio Excluding Interest Expense for the Combined Fund of 0.97%.

The following example is intended to help you compare the costs of investing in the common shares of the Combined Fund *pro forma* if the Reorganization is completed with the costs of investing in PSW, PSY, BPP and the Acquiring Fund without the Reorganization. An investor in common shares would pay the following expenses on a $1,000 investment, assuming (1) the Total Expense Ratio (Including Interest Expenses) for each Fund set forth in the total expenses table above and (2) a 5% annual return throughout the period:

	1 Year	3 Years	5 Years	10 Years
PSW	$ 12	$ 38	$ 66	$ 145
PSY	$ 12	$ 37	$ 64	$ 142
BPP	$ 12	$ 36	$ 62	$ 137
BTZ	$ 12	$ 37	$ 64	$ 142
Pro Forma Combined Fund (All Funds)	$ 11	$ 36	$ 62	$ 136
Pro Forma Combined Fund (PSY into BTZ)	$ 12	$ 36	$ 63	$ 139
Pro Forma Combined Fund (PSW and BPP into BTZ)	$ 11	$ 35	$ 61	$ 135

Table of Contents

The examples set forth above assume common shares of each Fund were owned as of the completion of the Reorganizations and the reinvestment of all dividends and distributions and uses a 5% annual rate of return as mandated by SEC regulations. The examples should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the examples.

PSW, BPP, and the Acquiring Fund will bear expenses incurred in connection with the Reorganizations that are not reflected in Other Expenses, including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganizations, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganizations, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate.

Because PSW, BPP, and the Acquiring Fund have already incurred expenses solely and directly attributable to the Reorganizations and because PSW, BPP, and the Acquiring Fund (and not the Investment Advisor) is responsible for paying those expenses, if such Fund s respective shareholders do not approve their Fund s respective Reorganization, such Fund will continue to be responsible for the expenses arising from its proposed Reorganization even though its proposed Reorganization will not occur and those expenses may be material.

Based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. Thus, the Investment Advisor has decided to cover the costs of PSY s reorganization and the costs associated with the PSY Reorganization will not be directly borne by PSY. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein.

The expenses of the Reorganizations (assuming all of the Reorganizations are consummated) are estimated to be $1,390,000 in the aggregate, of which $300,000 is estimated to be attributable to BPP, $240,000 is estimated to be attributable to PSW, $450,000 is estimated to be attributable to BTZ, and $400,000 is estimated to be attributable to PSY (which will be covered by the Investment Advisor). The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein. Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganizations (*e.g.*, expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations).

REASONS FOR THE REORGANIZATIONS

Based on the considerations below, the Board of each Fund, including the Board Members who are not interested persons (as defined in the 1940 Act) of the Funds (the Independent Board Members), has determined that each Reorganization would be in the best interests of the applicable Fund and that the interests of the existing shareholders of the applicable Fund would not be diluted with respect to net asset value as a result of the Reorganization. The Board of each Fund approved its respective Reorganization and the Board of each Target Fund recommends that shareholders of such Target Fund approve its respective Reorganization.

The Board of each Fund considered its respective Reorganization over a series of meetings. In preparation for meetings of the Boards held on July 27, 2012 (collectively, the Meeting) at which the Reorganizations were approved, the Investment Advisor provided the Boards with information regarding the proposed Reorganizations, including the rationale therefor and alternatives considered to the Reorganizations. The Boards considered a

Table of Contents

number of principal factors presented at the time of the Meeting or prior meetings in reaching their determinations, including, but not limited to, the following:

- potential for improved economies of scale and a lower total expense ratio;

The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations.

- alternatives to the Reorganizations for each Fund, if such Fund s Reorganization is not approved;
- the potential effects of the Reorganizations on the earnings and distributions of each Fund;
- the potential effects of the Reorganizations on each Fund s premium/discount to NAV;
- the compatibility of the Funds investment objectives, policies and related risks;
- consistency of portfolio management and portfolio composition;
- potential for improved secondary market trading;
- potential for operating and administrative efficiencies;
- the anticipated tax-free nature of the Reorganization;
- the potential effects on the Funds capital loss carry-forwards;
- the expected costs of the Reorganization;
- the terms of the Reorganizations and whether the Reorganizations would dilute the interests of shareholders of the Funds;
- the effect of the Reorganizations on shareholder rights; and

any potential benefits of the Reorganizations to the Investment Advisor and its affiliates as a result of the Reorganizations.

Potential for Improved Economies of Scale and Potential for a Lower Expense Ratio. The Boards considered the fees and total expense ratios of each of the Funds (including estimated expenses of the Combined Fund after the Reorganizations). It is anticipated that the Funds shareholders will benefit from the Combined Fund s larger asset size as fixed costs are shared over a larger asset base. As a result of the greater economies of scale from the larger asset size of the Combined Fund after the Reorganizations, the Boards noted that although the management fee of the Combined Fund would be higher than that of PSW and PSY prior to the Reorganizations, the total expense ratio of the Combined Fund (assuming all of the Reorganizations are consummated) is expected to be lower than that of each Fund prior to the Reorganizations. The Boards also considered the potential benefits of a larger fund.

The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense

Table of Contents

savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein. There can be no assurance that future expenses will not increase or that any expense savings will be realized. Moreover, the level of expense savings will vary depending on the combination of the proposed Reorganizations.

Alternatives to the Reorganizations. The Boards noted that if the Reorganization of a Fund is not approved, the Investment Advisor may recommend alternative proposals to the Board of such Fund.

Potential Effects of the Reorganizations on Earnings and Distributions. The Boards noted that the Combined Fund s earnings are expected to be comparable (*i.e.*, the same or slightly lower or higher) or higher when compared with that of each Fund prior to the Reorganizations. Consequently, the Combined Fund is expected to allow each Fund s shareholders to maintain a distribution yield on NAV that is expected to be comparable to (*i.e.*, the same or slightly lower or higher) or higher than the distribution yield for each of the Funds prior to the Reorganization, while offering such shareholders a comparable investment experience.

Potential Effects of the Reorganizations on Premium/Discount to NAV. The Boards noted that the common shares of each Fund has historically fluctuated between a discount and a premium. The Boards noted that to the extent PSW, PSY and BPP are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganizations, PSW, PSY and BPP shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. The Boards also noted that to the extent PSW, PSY and BPP are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganizations, PSW, PSY and BPP shareholders may be negatively impacted if the Reorganizations are consummated. The Board of the Acquiring Fund noted that Acquiring Fund shareholders would only benefit from a premium/discount perspective to the extent the post-Reorganization discount (or premium) improves.

Compatibility of the Investment Objectives, Policies and Related Risks. The Boards noted that each Fund s shareholders will remain invested in a NYSE-listed, closed-end management investment company that will have substantially greater net assets and either the same or substantially similar (but not identical) investment objectives and policies and, as a result, the style and risk/return profile of the Acquiring Fund will remain comparable to those of each Target Fund shareholders current investments, subject to the differences described in Comparison of the Funds. The Boards noted that the Acquiring Fund and BPP are each a non-diversified fund subject to non-diversification risk, while PSW and PSY are each a diversified fund.

Consistency of Portfolio Management and Portfolio Composition. The Boards noted that each Fund has the same investment adviser, sub-adviser (except that the Acquiring Fund has an additional sub-adviser) and portfolio managers and that each Fund s shareholders will benefit from the continuing experience and expertise of the portfolio management team. The Boards considered the portfolio composition of each Fund and the impact of the Reorganization on each Fund s portfolio. The Boards noted that it is not anticipated that there will be any significant disposition of the holdings in each Target Fund as a result of the Reorganization because of the similarities among the portfolio guidelines of the Acquiring Fund and each Target Fund.

Potential for Improved Secondary Market Trading. While it is not possible to predict trading levels at the time the Reorganizations close, the Boards considered that the Combined Fund may provide greater secondary market liquidity for its common shares as it would be larger than any of the Funds, which may result in tighter bid-ask spreads, better execution for Fund shareholders when purchasing or selling Fund shares and potential for improved premium/discount levels for the Combined Fund s common shares.

Potential for Operating and Administrative Efficiencies. The Boards noted that the Combined Fund may achieve certain operating and administrative efficiencies from its larger net asset size, including greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, more favorable transaction terms, better trade execution, more consistent implementation of investment strategies, additional research coverage and greater liquidity.

Table of Contents

The Board also noted that the Combined Fund may experience potential benefits from having fewer closed-end funds in the market, including potential benefits from a more efficient secondary market and an increased focus by investors on the remaining funds in the market (including the Combined Fund), and fewer similar funds in the same fund complex, including potential benefits from the elimination of complexities involved with having duplicative funds, easier product differentiation for shareholders (including shareholders of the Combined Fund) and reduced risk of operational, legal and financial errors.

Anticipated Tax-Free Reorganization. The Boards noted that it is anticipated that shareholders of the Funds will recognize no gain or loss for U.S. federal income tax purposes as a result of the Reorganizations (except with respect to cash received in lieu of fractional shares), as each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the United States Internal Revenue Code of 1986, as amended.

Capital Loss Carry-Forwards Considerations. The Boards considered that capital loss carry-forwards of the Combined Fund attributable to each Target Fund that participates in a Reorganization (and, depending on which of the Reorganizations are consummated, potentially to the Acquiring Fund) will be subject to tax loss limitation rules by reason of such Fund undergoing an ownership change in the Reorganization. The Boards also considered that the ability of each Fund to fully utilize its existing capital loss carry-forwards and that the actual effect of the loss limitation rules depends on many variables and assumptions, including projected performance, and is, therefore, highly uncertain.

Expected Costs of the Reorganization. The Boards considered the terms and conditions of each Reorganization Agreement, including the estimated costs associated with each Reorganization and the allocation of such costs among the Funds. The Boards noted, however, that, assuming a Reorganization is consummated the Investment Advisor anticipated that the projected costs of such Reorganization may be recovered over time. The Board of PSY noted that, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations and that the Investment Advisor would bear all of PSY s costs associated with PSY s Reorganization.

Terms of the Reorganization and Impact on Shareholders. The Boards noted that the aggregate net asset value of the shares of the Combined Fund that Target Fund shareholders will receive in the Reorganizations is expected to equal the aggregate net asset value (not the market value) of the Target Fund shares that Target Fund shareholders owned immediately prior to the Reorganizations, and the net asset value of Target Fund shares will not be diluted as a result of the Reorganizations. No fractional common shares of the Acquiring Fund will be issued to shareholders in connection with the Reorganizations, and Target Fund shareholders will receive cash in lieu of such fractional shares.

Effect on Shareholder Rights. The Boards noted that the Acquiring Fund and BPP are each organized as a Delaware statutory trust, while PSW and PSY are each organized as a Maryland corporation. The Boards also noted that the common shareholders of each Fund have substantially similar voting rights and rights with respect to the payment of dividends and distribution of assets upon liquidation of their respective Fund and have no preemptive, conversion or exchange rights.

Potential Benefits to the Adviser and its Affiliates. The Boards recognized that the Reorganizations may result in some benefits and economies for the Investment Advisor and its affiliates. These may include, for example, a reduction in the level of operational expenses incurred for administrative, compliance and portfolio management services as a result of the elimination of a Target Fund as a separate Fund in the BlackRock closed-end fund complex.

Conclusion. The Boards, including the Independent Board Members, approved each Reorganization, concluding that each Reorganization is in the best interests of the Acquiring Fund and the applicable Target Fund and that the interests of existing shareholders of each Fund will not be diluted as a result of its respective

Table of Contents

Reorganization. This determination was made on the basis of each Board Member s business judgment after consideration of all of the factors taken as a whole with respect to each Fund and its shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

PROPOSAL 1: THE REORGANIZATIONS OF THE TARGET FUNDS

The Reorganizations seek to combine four funds that are either the same or substantially similar (but not identical) to achieve certain economies of scale and other operational efficiencies. The primary investment objective of PSW is to provide common shareholders with high current income. The primary investment objective of PSY is to provide common shareholders with current income. The secondary investment objective of both PSW and PSY is to provide common shareholders with capital appreciation. The investment objective of BPP is to seek high current income consistent with capital preservation. The investment objective of BTZ is to seek current income, current gains and capital appreciation. Each Fund s investment objective is a fundamental policy and may not be changed without prior shareholder approval. The Funds have the same investment adviser. Each Fund seeks to achieve its investment objective(s) by investing, under normal market conditions, at least 80% of its assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds (commonly referred to as junk bonds), bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities.

The Board of each Fund, including the Independent Board Members, has unanimously approved each Reorganization Agreement. As part of a Reorganization, the applicable Target Fund will merge with and into the BTZ Merger Subsidiary, and such Target Fund will terminate its registration under the 1940 Act. Following the Reorganizations, the BTZ Merger Subsidiary will dissolve under state law and be liquidated into the Acquiring Fund. The outstanding common shares of each Target Fund will be exchanged for newly-issued Acquiring Fund Shares, par value $0.001 per share. The aggregate net asset value of Acquiring Fund Shares received by Target Fund shareholders in a Reorganization will equal the aggregate net asset value (not the market value) of such Target Fund common shares held by such Target Fund shareholders immediately prior to such Reorganization, less the applicable costs of such Reorganization (although Target Fund shareholders may receive cash for their fractional common shares). The Acquiring Fund will continue to operate as a registered, non-diversified, closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

The Boards have reviewed data presented by the Investment Advisor and believe that the Reorganizations generally would result in a reduced Total Expense Ratio for the Funds, as certain fixed administrative costs would be spread across the Combined Fund s larger asset base. The Reorganizations of all of the Funds are expected to result in a lower Total Expense Ratio for shareholders of each Fund. However, the level of expense savings will vary depending on the combination of the proposed Reorganizations. To the extent that one or more of the Reorganizations is not completed, but the other Reorganization(s) are completed, any expected expense savings by the Combined Fund may be reduced.

The Acquiring Fund currently pays the Investment Advisor a monthly management fee of 0.65% of the Acquiring Fund s average weekly Managed Assets.

If any of the Reorganizations are approved and consummated, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.62% of the Combined Fund s average weekly Managed Assets.

For the 12-month period ended April 30, 2012, the Total Expense Ratios of PSW, PSY, BPP and BTZ were 1.20%, 1.17%, 1.13% and 1.17%, respectively. The Funds estimate that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and *pro forma* basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for PSW, PSY, BPP, and BTZ of 0.08%, 0.05%, 0.01% and 0.05%, respectively, as a percentage of average net

Table of Contents

assets attributable to common shares. However, based on projected expense information, PSY shareholders are not expected to experience significant expense savings, if any, as a result of the Reorganizations. However, it is anticipated that shareholders of each Fund may benefit from certain potential intangible benefits associated with the Reorganizations (including as a result of the Combined Fund s larger size) as more fully discussed herein.

The table below shows the Total Expense Ratios on a historical and *pro forma* basis for (i) the Reorganizations of all the Funds, (ii) the Reorganization of PSW, BPP and BTZ, (iii) the Reorganization of only PSY and BTZ, each for the 12-month period ended April 30, 2012, and shows the projected reduction in the Total Expense Ratio of each Fund, each as a percentage of average net assets attributable to common shares.

	Pro Forma **Combined Fund (All Funds)**	***Pro Forma*** **Combined Fund (PSY & BTZ)**	***Pro Forma*** **Combined Fund (PSW, BPP & BTZ)**
Total Expense Ratios	1.12%	1.14%	1.11%
Change in PSW Total Expense Ratio	(0.08)%		(0.09)%
Change in PSY Total Expense Ratio	(0.05)%	(0.03)%	
Change in BPP Total Expense Ratio	(0.01)%		(0.02)%
Change in BTZ Total Expense Ratio	(0.05)%	(0.03)%	(0.06)%

In approving the proposed Reorganizations, the Board of each Fund, including the Independent Board Members, determined that participation in the Reorganizations is in the best interests of each Fund and its shareholders and that the interests of each Fund s shareholders will not be diluted with respect to the net asset value of such Fund as a result of its Reorganization. Before reaching these conclusions, the Board of each Fund, including the Independent Board Members, engaged in a thorough review process relating to the proposed Reorganizations.

The Boards of the Funds also received a memorandum outlining, among other things, the legal standards and certain other considerations relevant to the Boards deliberations. The Boards of the Funds, including all of the Independent Board Members, approved the Reorganization at a meeting held on July 27, 2012.

Considering these and other reasons, the Board of each Target Fund unanimously concluded that completion of the Reorganizations is in the best interests of each Target Fund and its shareholders and that the interests of the shareholders of each Target Fund will not be diluted as a result of the Reorganizations. This determination was made on the basis of each Board Member s business judgment after consideration of all of the factors taken as a whole with respect to each Target Fund and its shareholders, although individual Board Members may have placed different weight and assigned different degrees of materiality to various factors. See Reasons for the Reorganization.

If a Reorganization is not approved by a Target Fund s shareholders, such Target Fund will continue to operate for the time being as either a stand-alone Maryland corporation or a stand-alone Delaware statutory trust, as the case may be, and will continue to be advised by the Investment Advisor. However, if the Reorganization of a Target Fund is not approved, the Investment Advisor may, in connection with ongoing management of the Funds and its product line, recommend alternative proposals to the Board of such Target Fund. In the event the Acquiring Fund shareholders do not approve the issuance of Acquiring Fund Shares in connection with Reorganization, then the affected Target Fund would continue to exist and operate on a stand-alone basis. An unfavorable vote by one of the Target Funds or the Acquiring Fund with respect to one of the Reorganizations will not affect the implementation of the Reorganizations by the other Funds.

The Target Fund Boards have determined that the Reorganizations are in the best interests of each Target Fund and the shareholders of each Target Fund and that the interests of such shareholders will not be diluted as a result of their Fund s Reorganization. Similarly, the Acquiring Fund Board has determined that each Reorganization is in the best interests of the Acquiring Fund and its shareholders and that the interests of such shareholders will not be diluted as a result of each Reorganization. As a result of the Reorganizations, however, shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds.

Each Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If a Reorganization so qualifies, in general, shareholders of a Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund common shares for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional shares). Additionally, the Target Funds will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to each Reorganization. It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund receive an opinion from Skadden Arps, dated as of the Closing Date, regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code.

The Target Fund Boards request that shareholders of each Target Fund approve their Fund s proposed Reorganization at the Special Meeting to be held on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time).

Shareholder approval of each of the PSW and PSY Reorganizations requires the affirmative vote by PSW and PSY shareholders, respectively, of a majority of the outstanding shares entitled to vote.

Shareholder approval of the BPP Reorganization requires the affirmative vote by BPP shareholders of a majority of the outstanding voting securities as defined under the 1940 Act (such a majority referred to herein as a 1940 Act Majority), which means the affirmative vote of either (i) 67% or more of the voting securities present at the Special Meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (ii) more than 50% of the outstanding voting securities of the Fund, whichever is less. For additional information regarding voting requirements, see Voting Information and Requirements.

Subject to the requisite approval of the shareholders of each Target Fund with respect to each Reorganization, it is expected that the Closing Date will be after the close of business on or about December 7, 2012, but it may be at a different time as described herein.

Investing in the Combined Fund following the Reorganization involves risks. For additional information, see Risk Factors and Special Considerations.

The PSW Board recommends that shareholders of PSW vote **FOR** PSW s proposed Reorganization.

The PSY Board recommends that shareholders of PSY vote **FOR** PSY s proposed Reorganization.

The BPP Board recommends that shareholders of BPP vote **FOR** BPP s proposed Reorganization.

INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The structure, organization and investment policies of the Funds are substantially similar. The primary investment objective of PSW is to provide common stockholders with high current income. The primary investment objective of PSY is to provide common stockholders with current income. The secondary investment objective of both PSW and PSY is to provide common stockholders with capital appreciation. The investment objective of BPP is to seek high current income consistent with capital preservation. The investment objective of the Acquiring Fund is to seek current income, current gains and capital appreciation.

Table of Contents

Credit-Related Securities

Each of the Funds, under normal market conditions, seeks to achieve its investment objective by investing at least 80% of its assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds (commonly referred to as junk bonds), bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities.

The Funds may invest in asset-backed securities. Asset-backed securities are generally issued as pass-through certificates, which represent undivided fractional ownership interests in an underlying pool of assets, or as debt instruments, which are also known as collateralized obligations, and are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. The yield characteristics of certain asset-backed securities may differ from traditional debt securities. One such major difference is that all or a principal part of the obligations may be prepaid at any time because the underlying assets (i.e., loans) may be prepaid at any time. As a result, a decrease in interest rates in the market may result in increases in the level of prepayments as borrowers, particularly mortgagors, refinance and repay their loans. An increased prepayment rate with respect to an asset-backed security subject to such a prepayment feature will have the effect of shortening the maturity of the security. If the Funds have purchased such an asset-backed security at a premium, a faster than anticipated prepayment rate could result in a loss of principal to the extent of the premium paid.

The Funds may purchase certain mortgage pass-through securities. There are a number of important differences among the agencies and instrumentalities of the US government that issue mortgage-related securities and among the securities that they issue. For example, mortgage-related securities guaranteed by Ginnie Mae are guaranteed as to the timely payment of principal and interest by Ginnie Mae and such guarantee is backed by the full faith and credit of the United States. However, mortgage-related securities issued by Freddie Mac and Fannie Mae, including Freddie Mac and Fannie Mae guaranteed Mortgage Pass-Through Certificates, which are solely the obligations of Freddie Mac and Fannie Mae, are not backed by or entitled to the full faith and credit of the United States but are supported by the right of the issuer to borrow from the Treasury.

The Funds may invest in collateralized debt obligations (CDOs), which include collateralized bond obligations (CBOs) and collateralized loan obligations (CLOs). CBOs and CLOs are types of asset-backed securities. A CDO is a bankruptcy remote entity which is backed by a diversified pool of debt securities (CBOs) or syndicated bank loans (CLOs). The cash flows of the CDO can be split into multiple segments, called tranches , which will vary in risk profile and yield. The riskiest segment is the subordinated or equity tranche. This tranche bears the greatest risk of defaults from the underlying assets in the CDO and serves to protect the other, more senior, tranches from default in all but the most severe circumstances. Since it is shielded from defaults by the more junior tranches, a senior tranche will typically have higher credit ratings and lower yields than their underlying securities, and often receive investment grade ratings from one or more of the nationally recognized rating agencies. Despite the protection from the more junior tranches, senior tranches can experience substantial losses due to actual defaults, increased sensitivity to future defaults and the disappearance of one or more protecting tranches as a result of changes in the credit profile of the underlying pool of assets.

The Funds may invest in zero-coupon bonds, which are normally issued at a significant discount from face value and do not provide for periodic interest payments. Zero-coupon bonds may experience greater volatility in market value than similar maturity debt obligations which provide for regular interest payments.

The Funds may invest in capital trusts. These securities are typically issued by corporations, generally in the form of interest-bearing notes with preferred securities characteristics, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The securities can be structured as either fixed or adjustable coupon securities that can have either a perpetual or stated maturity date. Dividends can be deferred without creating an event of default or acceleration, although maturity cannot take place unless all cumulative payment obligations have been met. The deferral of payments does not affect the purchase or sale of these securities in the open market. Payments on these securities are treated as interest rather than dividends for federal income tax purposes. These securities generally are rated below that of the issuing company s senior debt securities.

The Funds may invest in preferred stocks. Preferred stock has a preference over common stock in liquidation (and generally in receiving dividends as well) but is subordinated to the liabilities of the issuer in all respects. As a general rule, the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred stock generally also reflects some element of conversion value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer s board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

Non-Investment Grade Securities

Under normal market conditions, each Fund may invest without limitation in securities rated below investment grade at the time of purchase. However, it is anticipated, under current market conditions, that each Fund will have an average credit quality of at least investment grade.

Securities rated below investment grade include securities that are rated Ba or lower by Moody s and BB or lower by S&P or Fitch or securities comparably rated by other rating agencies or in unrated securities determined by the Advisors to be of comparable quality. Securities rated Ba by Moody s are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C are generally regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D are in default and the payment of interest and/or repayment of principal is in arrears.

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 a Fund to sell certain securities or could result in lower prices than those used in calculating the Fund s net asset value.

The prices of debt 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 coupon of such securities. Accordingly, lower grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower 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 and will be a substantial factor in a Fund s relative share price volatility.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely 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.

Table of Contents

The ratings of Moody s, S&P and the 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 a Fund invests in lower grade securities that have not been rated by a rating agency, the Fund s ability to achieve its investment objective(s) will be more dependent on the Advisors credit analysis than would be the case when the Fund invests in rated securities.

Industry Concentration Policies

Currently, each of the Acquiring Fund and BPP invests at least 25% of its Managed Assets in the securities of companies principally engaged in financial services. A company is principally engaged in financial services if it derives at least 50% of its consolidated revenues from providing financial services. Companies in the financial services sector include commercial banks, industrial banks, savings institutions, finance companies, diversified financial services companies, investment banking firms, securities brokerage houses, investment advisory companies, insurance companies and companies providing similar services.

PSW and PSY each has a similar policy with respect to the financial services sector. Under normal circumstances, each of PSW and PSY will invest at least 25% of its total assets in the industries comprising the financial services sector. For PSW and PSY, the companies in the financial services sector are companies principally engaged in financial services. A company is principally engaged in financial services if it owns financial service related assets that constitute at least 50% of its revenue from providing financial services.

Each Fund is recommending that its shareholders approve the removal of its concentration policy with respect to the financial services sector. See Proposal 3: Removal of Financial Sector Concentration Policies.

Each of PSW and PSY also has a policy restricting such Fund from investing 25% or more of its total assets in the utilities sector. The Acquiring Fund and BPP do not have such a policy, but each Fund has a fundamental investment restriction restricting such Fund from investing more than 25% of its total assets in any one industry.

Non-U.S. Securities

Under normal market conditions, up to 35% of the Acquiring Fund s Managed Assets may be invested in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies or multinational currency units. The Acquiring Fund may also invest in non-U.S. securities of so-called emerging market issuers. A company is deemed to be a non-U.S. company if it meets any of the following tests: (i) such company was not organized in the United States; (ii) such company s primary business office is not in the United States; (iii) the principal trading market for such company s assets is not located in the United States; (iv) less than 50% of such company s assets are located in the United States; or (v) 50% or more of such issuer s revenues are derived from outside the United States.

PSW and PSY may invest without limitation in non-U.S. securities that are U.S. dollar denominated or provide for payment to the Fund in U.S. dollars. PSW and PSY also may invest up to 35% of its total assets in non-U.S. dollar denominated securities.

BPP may invest up to 35% of its Managed Assets in U.S. dollar denominated securities of non-U.S. issuers that are traded or listed in U.S. markets including securities represented by American Depository Receipts. BPP also may invest up to 35% of its Managed Assets in non-U.S. dollar denominated securities.

BPP may invest no more than 10% of its Managed Assets in emerging markets securities. The Acquiring Fund and the other Target Funds are not subject to this limitation.

Non-U.S. securities markets generally are not as developed or efficient as those in the United States. Securities of some non-U.S. issuers are less liquid and more volatile than securities of comparable U.S. issuers.

Table of Contents

Similarly, volume and liquidity in most non-U.S. securities markets are less than in the United States and, at times, volatility of price can be greater than in the United States.

Because evidences of ownership of such securities usually are held outside the United States, the Funds would be subject to additional risks with respect to its investments in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions that might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise.

For the Funds, since non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

Illiquid Securities

The Acquiring Fund and BPP may invest up to 10% of their managed assets in illiquid securities. PSW and PSY may invest in illiquid securities without limitation.

Short Sales

Each Fund may make short sales of securities. However, the Acquiring Fund and BPP may 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 the Acquiring Fund s total assets and BPP s Managed Assets, respectively, or the Fund s aggregate short sales of a particular class of securities exceeds 25% of the outstanding securities of that class. Each 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.

A short sale is a transaction in which a Fund sells a security it does not own in anticipation that the market price of that security will decline. A Fund may make short sales to strategic positions, for risk management, in order to maintain portfolio flexibility or to enhance income or gain.

When a Fund makes a short sale, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. A Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any payments received on such borrowed securities.

A Fund s obligation to replace the borrowed security will be secured by collateral deposited with the broker dealer, usually cash, U.S. Government securities or other liquid securities. A Fund will also be required to designate on its books and records similar collateral with its custodian to the extent, if any, necessary so that the aggregate collateral value is at all times at least equal to the current market value of the security sold short. Depending on arrangements made with the broker dealer from which it borrowed the security regarding payment over of any payments received by a Fund on such security, the Fund may not receive any payments (including interest) on its collateral deposited with such broker dealer.

If the price of the security sold short increases between the time of the short sale and the time a Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. Although a Fund s gain is limited to the price at which it sold the security short, its potential loss is theoretically unlimited.

Table of Contents

Short-Term Debt Securities; Temporary Defensive Position

During periods in which the Advisors determine that they are temporarily unable to follow a Fund s investment strategy or that it is impractical to do so or pending re-investment of proceeds received in connection with the sale of a security, the Fund may deviate from its investment strategy and invest all or any portion of its assets in cash, cash equivalents or short-term debt instruments.

The Advisors determination that they are temporarily unable to follow a Fund s investment strategy or that it is impractical to do so will generally occur only in situations in which a market disruption event has occurred and where trading in the securities selected through application of the Fund s investment strategy is extremely limited or absent. In such a case, shares of the Fund may be adversely affected and the Fund may not pursue or achieve its investment objective. The Advisors currently anticipate that these are the only circumstances in which the Fund will invest in short-term debt securities.

Securities Lending and Delayed Settlement Transactions

Each Fund may also lend the securities it owns to others, which allows the Fund the opportunity to earn additional income. Although the Fund will require the borrower of the securities to post collateral for the loan in accordance with market practice and the terms of the loan will require that the Fund be able to reacquire the loaned securities if certain events occur, the Fund is still subject to the risk that the borrower of the securities may default, which could result in the Fund losing money, which would result in a decline in the Fund s net asset value. The Fund may also purchase securities for delayed settlement. This means that the Fund is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement.

Leverage

Each Fund uses leverage to seek to obtain its investment objective. The Funds may utilize leverage to seek to enhance the yield and NAV of their common shares. However, these objectives cannot be achieved in all interest rate environments.

The Funds may utilize leverage by borrowing through a credit facility or through entering into reverse repurchase agreements. The Funds are permitted to issue senior securities representing indebtedness up to 33 $^{1}/_{3}$% of their Managed Assets (each Fund s net assets plus the proceeds of any outstanding borrowings used for leverage). If the Funds segregate liquid assets having a value not less than the repurchase price (including accrued interest), a reverse repurchase agreement will not be considered a senior security and therefore will not be subject to this limitation. However, PSW and PSY each currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets, and the Acquiring Fund and BPP each currently voluntarily limits its aggregate economic leverage to 33 $^{1}/_{3}$% of its Managed Assets. As of April 30, 2012, the Funds had aggregate economic leverage from reverse repurchase agreements and/or borrowings through a credit facility as a percentage of their total managed assets as follows:

	Percent of Economic Leverage
PSW	28%
PSY	27%
BPP	24%
BTZ	27%

In general, the concept of leveraging is based on the premise that the financing cost of assets to be obtained from leverage, which will be based on short-term interest rates, will normally be lower than the income earned by each Fund on its longer-term portfolio investments. To the extent that the Managed Assets of each Fund are invested in higher-yielding portfolio investments, each Fund s shareholders will benefit from the incremental net income.

Table of Contents

The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV. However, in order to benefit shareholders, the yield curve must be positively sloped; that is, short-term interest rates must be lower than long-term interest rates. If the yield curve becomes negatively sloped, meaning short-term interest rates exceed long-term interest rates, income to shareholders will be lower than if the Funds had not used leverage.

To illustrate these concepts, assume a Fund s capitalization is $100 million and it borrows for an additional $30 million, creating a total value of $130 million available for investment in long-term securities. If prevailing short-term interest rates are 3% and long-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Fund pays borrowing costs and interest expense on the $30 million of borrowings based on the lower short-term interest rates. At the same time, the securities purchased by the Fund with assets received from the borrowings earn income based on long-term interest rates. In this case, the borrowing costs and interest expense of the borrowings is significantly lower than the income earned on the Fund s long-term investments, and therefore the Fund s shareholders are the beneficiaries of the incremental net income.

If short-term interest rates rise, narrowing the differential between short-term and long-term interest rates, the incremental net income pickup will be reduced or eliminated completely. Furthermore, if prevailing short-term interest rates rise above long-term interest rates, the yield curve has a negative slope. In this case, the Fund pays higher short-term interest rates whereas the Fund s total portfolio earns income based on lower long-term interest rates.

Furthermore, the value of the Funds portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the redemption value of the Funds borrowings does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Funds NAV positively or negatively in addition to the impact on Fund performance from borrowings discussed above.

The use of leverage may enhance opportunities for increased income to the Funds and common shareholders, but as described above, it also creates risks as short- or long-term interest rates fluctuate. Leverage also will generally cause greater changes in the Funds NAVs, market prices and dividend rates than comparable portfolios without leverage. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Funds net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, each Fund s net income will be less than if leverage had not been used, and therefore the amount available for distribution to shareholders will be reduced. Each Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause a Fund to incur losses. The use of leverage may limit each Fund s ability to invest in certain types of securities or use certain types of hedging strategies. Each Fund will incur expenses in connection with the use of leverage, all of which are borne by Shareholders and may reduce income.

During periods in which a Fund is using leverage, the fees paid to the Advisors for advisory and sub-advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund s total assets (including leverage), including the proceeds from the issuance of preferred shares and other leverage. Leverage involves greater risks. A Fund s leveraging strategy may not be successful.

Certain types of borrowings may result in a Fund being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. A Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the short-term corporate debt securities or preferred shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Advisors from managing any Fund s portfolio in accordance with that Fund s investment objective and policies.

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

Reverse Repurchase Agreements. Borrowings may be made by each Fund through reverse repurchase agreements under which the Fund sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. Such agreements are considered to be borrowings under the 1940 Act unless the Fund designates on its books and records an amount of assets equal to the amount of the Fund s obligations under the reverse repurchase agreements. Each Fund may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction.

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

Preferred Shares. Each Fund is able to issue preferred shares in an amount up to 50% of its Managed Assets. The preferred shares would have complete priority upon distribution of assets over the common shares. Any issuance of preferred shares would leverage the common shares. So long as a Fund s portfolio is invested in securities that provide a higher rate of return than the dividend rate of the preferred shares, after taking expenses into consideration, the leverage will cause you to receive a higher rate of income than if the Fund were not leveraged.

Under the 1940 Act, a Fund is not permitted to issue preferred shares unless immediately after such issuance the value of the Fund s total assets is at least 200% of the liquidation value of the outstanding preferred shares (i.e., the liquidation value may not exceed 50% of the Fund s total assets). In addition, a Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the value of the Fund s total assets is at least 200% of such liquidation value. If preferred shares are issued, each Fund intends, to the extent possible, to purchase or redeem preferred shares from time to time to the extent necessary in order to maintain coverage of any preferred shares of at least 200%. In addition, as a condition to obtaining ratings on the preferred shares, the terms of any preferred shares issued are expected to include asset coverage maintenance provisions which will require the redemption of the preferred shares in the event of non-compliance by a Fund and may also prohibit dividends and other distributions on the common shares in such circumstances. In order to meet redemption requirements, a Fund may have to liquidate portfolio securities. Such liquidations and redemptions would cause the Fund to incur related transaction costs and could result in capital losses to the Fund. Prohibitions on dividends and other distributions on the common shares could impair a Fund s ability to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the Code). If a Fund has preferred shares outstanding, two of the Fund s board members will be elected by the holders of preferred shares voting separately as a class. The remaining board members of a Fund will be elected by holders of common shares and preferred shares voting together as a single class. In the event a Fund fails to pay dividends on preferred shares for two years, holders of preferred shares would be entitled to elect a majority of the board members of the Fund.

Table of Contents

Interest Rate Transactions

The Funds may enter into interest rate swap or cap transactions. Interest rate swaps involve a Fund s agreement with the swap counterparty to pay a fixed rate payment on a notional amount in exchange for the counterparty paying the Fund a variable rate payment on a notional amount that is intended to approximate the Fund s variable rate payment obligation on any variable rate borrowing. The payment obligation would be based on the notional amount of the swap.

Each Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. Each Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on common share net earnings as a result of leverage. Each Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Each Fund intends to designate on its books and records cash or liquid securities having a value at least equal to the Fund s net payment obligations under any swap transaction, marked to market daily.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, a Fund s use of interest rate swaps or caps could enhance or harm the overall performance or the common shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the common shares. In addition, if short-term interest rates are lower than a Fund s fixed rate of payment on the interest rate swap, the swap will reduce common share net earnings. If, on the other hand, short-term interest rates are higher than the fixed rate of payment on the interest rate swap, the swap will enhance common share net earnings. Buying interest rate caps could enhance the performance of the common shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net earnings of the common shares in the event that the premium paid a Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement. A Fund would not enter into interest rate swap or cap transactions in an aggregate notional amount that exceeds the outstanding amount of the Fund s leverage.

Interest rate swaps and caps generally do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest or premium payments that a Fund is contractually obligated to make. If the counterparty defaults, a Fund would not be able to use the anticipated net receipts under the swap or cap to offset the dividend payments on its preferred shares or interest payments on borrowing. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the common shares.

Although this will not guarantee that the counterparty does not default, a Fund will not enter into an interest rate swap or cap transaction with any counterparty that BlackRock believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, BlackRock will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Funds investments.

In addition, at the time the interest rate swap or cap transaction reaches its schedule termination date, there is a risk that a Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transactions. If this occurs, it could have a negative impact on the performance of the common shares.

Table of Contents

Early termination of a swap could result in termination payment by or to a Fund. An early termination of a cap could result in a termination payment to a Fund.

In addition, a Fund may use interest rate transactions in connection with the management of its portfolio securities.

Strategic Transactions

Each Fund may, but is not required to, use various strategic transactions described below to facilitate portfolio management, mitigate risks and enhance total return. Such strategic transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds, closed-end funds and other institutional investors. Although the Advisors seek to use the practices to further a Fund s investment objective(s), no assurance can be given that these practices will achieve this result.

Each Fund may purchase and sell derivative instruments such as exchange listed and over-the-counter put and call options on securities, financial futures, equity indices and other financial instruments, purchase and sell financial futures contracts and options thereon and engage in swaps. These derivative instruments may be transacted on an exchange or OTC. Each Fund also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as Strategic Transactions.

Each Fund generally seeks to use Strategic Transactions as a portfolio management or hedging technique to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Fund s portfolio, protect the value of the Fund s portfolio, facilitate the sale of certain securities for investment purposes, or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. Each Fund may use Strategic Transactions to enhance potential total returns although the Fund will commit variation margin for Strategic Transactions that involve futures contracts only in accordance with the rules of the Commodity Futures Trading Commission. Certain provisions of the Code may also restrict or affect the ability of a Fund to engage in Strategic Transactions. See Appendix D of the Statement of Additional Information for additional information regarding Strategic Transactions.

Financial Futures Contracts. The Funds purchase or sell financial futures contracts and options on financial futures contracts to gain exposure to, or economically hedge against, changes in interest rates (interest rate risk). Financial futures contracts are agreements between a Fund and a counterparty to buy or sell a specific quantity of an underlying instrument at a specified price and at a specified date. Depending on the terms of the particular contract, financial futures contracts are settled either through physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized appreciation or depreciation. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The use of financial futures contracts involves the risk of an imperfect correlation in the movements in the price of financial futures contracts, interest rates and the underlying assets.

Foreign Currency Exchange Contracts. The Funds enter into foreign currency exchange contracts as an economic hedge against either specific transactions or portfolio instruments or to obtain exposure to foreign currencies (foreign currency exchange rate risk). A foreign currency exchange contract is an agreement between two parties to buy and sell a currency at a set exchange rate on a future date. Foreign currency exchange contracts, when used by a Fund, help to manage the overall exposure to the currencies, in which some of the investments held by the Fund are denominated. The contract is marked-to-market daily and the change in market value is recorded by the Fund as an unrealized gain or loss. When the contract is closed, the Funds record a realized gain or loss equal to the difference between the value at the time it was opened and the value at the time it was closed. The use of foreign currency exchange contracts involves the risk that the value of a foreign currency exchange contract changes unfavorably due to movements in the value of the referenced foreign currencies and the risk that a counterparty to the contract does not perform its obligations under the agreement.

Options. The Funds purchase and write call and put options to increase or decrease their exposure to underlying instruments (including credit risk, equity risk and/or interest rate risk) and/or, in the case of options written, to generate gains from options premiums. A call option gives the purchaser (holder) of the option the right (but not the obligation) to buy, and obligates the seller (writer) to sell (when the option is exercised), the underlying instrument at the exercise or strike price at any time or at a specified time during the option period. A put option gives the holder the right to sell and obligates the writer to buy the underlying instrument at the exercise or strike price at any time or at a specified time during the option period. When a Fund purchases (writes) an option, an amount equal to the premium paid (received) by the Fund is reflected as an asset (liability). The amount of the asset (liability) is subsequently marked-to-market to reflect the current market value of the option purchased (written). When an instrument is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the instrument acquired or deducted from (or added to) the proceeds of the instrument sold. When an option expires (or the Fund enters into a closing transaction), the Fund realize a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premiums received or paid). When a Fund writes a call option, such option is covered, meaning that the Funds holds the underlying instrument subject to being called by the option counterparty. When a Fund writes a put option, such option is covered by cash in an amount sufficient to cover the obligation.

In purchasing and writing options, the Funds bear the risk of an unfavorable change in the value of the underlying instrument or the risk that a Fund may not be able to enter into a closing transaction due to an illiquid market. Exercise of a written option could result in a Fund purchasing or selling a security at a price different from the current market value.

Swaps. The Funds enter into swap agreements, in which the Funds and a counterparty agree to either make periodic net payments on a specified notional amount or net payment upon termination. Swap agreements are privately negotiated in the OTC market and may be executed on a registered financial and commodities exchange (centrally cleared swaps). In a centrally cleared swap, a Fund typically enters into an agreement with a counterparty; however, performance is guaranteed by the central clearing-house reducing or eliminating the Fund s exposure to the credit risk of the counterparty. These payments received or made by the Funds are recorded in the Statements of Operations as realized gains or losses, respectively. Any upfront fees paid are recorded as assets and any upfront fees received are recorded as liabilities and amortized over the term of the swap. Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). The daily change in valuation of centrally cleared swaps, if any, is recorded as a receivable or payable for variation margin in the Statements of Assets and Liabilities. When the swap is terminated, the Funds will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Funds basis in the contract, if any. Generally, the basis of the contracts is the premium received or paid. Swap transactions involve, to varying degrees, elements of interest rate, credit and market risk in excess of the amounts recognized in the Statements of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavorable changes in interest rates and/or market values associated with these transactions.

Credit default swaps. The Funds enter into credit default swaps to manage their exposure to the market or certain sectors of the market, to reduce its risk exposure to defaults of corporate and/or sovereign issuers or to create exposure to corporate and/or sovereign issuers to which they are not otherwise exposed (credit risk). The Funds enter into credit default swap agreements to provide a measure of protection against the default of an issuer (as buyer of protection) and/or gain credit exposure to an issuer to which it is not otherwise exposed (as seller of protection). The Funds may either buy or sell (write) credit default swaps on single-name issuers (corporate or sovereign), a combination or basket of single-name issuers or traded indexes. Credit default swaps on single-name issuers are agreements in which the buyer pays fixed periodic payments to the seller in consideration for a guarantee from the seller to make a specific payment should a negative credit event take place with respect to the referenced entity (e.g., bankruptcy, failure to pay, obligation accelerators, repudiation, moratorium or restructuring). Credit default swaps on traded indexes are agreements in which the buyer pays fixed periodic payments to the seller in consideration for a guarantee from the seller to make a specific payment should a write-down, principal or interest shortfall or default of all or individual underlying securities included in the index occurs. As a buyer, if an underlying credit event occurs, the Funds will either receive from the seller an amount equal to the notional amount of the swap and deliver the referenced security or underlying securities comprising the index or receive a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising the index. As a seller (writer), if an underlying credit event occurs, the Funds will either pay the buyer an amount equal to the notional amount of the swap and take delivery of the referenced security or underlying securities comprising the index or pay a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising the index.

Interest rate swaps. The Funds enter into interest rate swaps to gain or reduce exposure to interest rates or to manage duration, the yield curve or interest rate risk by economically hedging the value of the fixed rate bonds which may decrease when interest rates rise (interest rate risk). Interest rate swaps are agreements in which one party pays a stream of interest payments, either fixed or floating rate, for another party s stream of interest payments, either fixed or floating, on the same notional amount for a specified period of time. Interest rate floors, which are a type of interest rate swap, are agreements in which one party agrees to make payments to the other party to the extent that interest rates fall below a specified rate or floor in return for a premium. In more complex swaps, the notional principal amount may decline (or amortize) over time.

Risks Associated with Strategic Transactions. The ability to use Strategic Transactions successfully depends on the Advisors ability predict pertinent market movements as well as sufficient correlation among the instruments, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require a Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell. Additionally, amounts paid by a Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Fund for investment purposes.

The principal risks relating to the use of Strategic Transactions are: (a) less than perfect correlation between the prices of the instrument and the market value of the securities in a Fund s portfolio; (b) possible lack of a liquid secondary market for closing out a position in such instruments; (c) losses resulting from interest rate or other market movements not anticipated by the Advisors; and (d) the obligation to meet additional variation margin or other payment requirements, all of which could result in the Fund being in a worse position than if such techniques had not been used.

Strategic Transactions are also subject to counterparty risk. The Funds maximum risk of loss from counterparty credit risk on OTC derivatives is generally the aggregate unrealized gain netted against any collateral pledged by/posted to the counterparty. For OTC options purchased, the Funds bear the risk of loss in the amount of the premiums paid plus the positive change in market values net of any collateral received on the options should the counterparty fail to perform under the contracts. Options written by the Funds do not give rise to counterparty credit risk, as options written obligate the Funds to perform and not the counterparty. Counterparty risk related to exchange-traded financial futures contracts and options and centrally cleared swaps is deemed to be minimal due to the protection against defaults provided by the exchange on which these contracts trade.

The Funds may mitigate counterparty risk by procuring collateral and through netting provisions included within an International Swaps and Derivatives Association, Inc. master agreement (ISDA Master Agreement) implemented between a Fund and each of its respective counterparties. An ISDA Master Agreement allows each

Table of Contents

Fund to offset with each separate counterparty certain derivative financial instrument s payables and/or receivables with collateral held. The amount of collateral moved to/from applicable counterparties is generally based upon minimum transfer amounts of up to $500,000. To the extent amounts due to the Funds from their counterparties are not fully collateralized, contractually or otherwise, the Funds bear the risk of loss from counterparty non-performance.

In cases in which the 1940 Act and the interpretive positions of the Securities and Exchange Commission (SEC) require that the Funds either deliver collateral or segregate assets in connection with certain investments (e.g., financial futures contracts, foreign currency exchange contracts, swaps, and options written), or certain borrowings (e.g., reverse repurchase agreements and loan payable), the Funds will, consistent with SEC rules and/or certain interpretive letters issued by the SEC, segregate collateral or designate on their books and records cash or liquid securities having a market value at least equal to the amount that would otherwise be required to be physically segregated. Furthermore, based on requirements and agreements with certain exchanges and third party broker-dealers, each party to such transactions has requirements to deliver/deposit securities as collateral for certain investments.

The Funds manage counterparty risk by entering into agreements only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Certain ISDA Master Agreements allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event a Funds net assets decline by a stated percentage or the Funds fail to meet the terms of their ISDA Master Agreements, which would cause the Funds to accelerate payment of any net liability owed to the counterparty.

There is no assurance that Strategic Transactions will be available at any time or that the Investment Advisors will determine to use them for hedging or risk management purposes or, if used, that the strategies will be successful. A more complete discussion of Strategic Transactions and their risks is contained in the Statement of Additional Information.

Other Investment Policies

See Investment Objectives and Policies of the Funds Other Investment Policies in the Statement of Additional Information for a discussion of the Funds other investment policies.

COMPARISON OF THE FUNDS

Investment Objectives

The Funds have substantially similar (but not identical) investment objectives. The primary investment objective of PSW is to provide common stockholders with high current income. The primary investment objective of PSY is to provide common stockholders with current income. The secondary investment objective of both PSW and PSY is to provide common stockholders with capital appreciation. The investment objective of BPP is to seek high current income consistent with capital preservation. The investment objective of BTZ is to seek current income, current gains and capital appreciation.

Investment Strategies and Restrictions

The Funds have the same or substantially similar (but not identical) investment strategies and restrictions. A comparison of the significant investment strategies and operating policies used by the Funds is set forth in the table below. The investment strategies and significant operating policies of the Combined Fund will be those of the Acquiring Fund.

Table of Contents

Each of PSW and PSY is a Maryland corporation and a diversified investment management company registered under the 1940 Act, while each of BPP and the Acquiring Fund is a Delaware statutory trust and a non-diversified investment management company registered under the 1940 Act. As a non-diversified investment management company, the Acquiring Fund is not limited by the 1940 Act in the proportion of its assets that it may invest in securities of a single issuer. However, each 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 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). A fund that is classified as diversified under the 1940 Act (*i.e.*, PSW and PSY) must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Acquiring Fund assumes large positions in the securities of a small number of issuers, the Acquiring Fund s net asset value may fluctuate to a greater extent than that of PSW and PSY as a result of changes in the financial condition or in the market s assessment of the issuers.

PSW	PSY	BPP	BTZ
Credit-Related Securities	**Credit-Related Securities**	**Credit-Related Securities**	**Credit-Related Securities**
Same as BTZ	Same as BTZ	Same as BTZ	Under normal market conditions, the Fund will invest at least 80% of its total assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds, bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities (the 80% Policy).
Investment Grade Policy	**Investment Grade Policy**	**Investment Grade Policy**	**Investment Grade Policy**
Same as BTZ	Same as BTZ	Same as BTZ	Under normal market conditions, the Fund may invest without limitation in securities rated below investment grade at the time of purchase.

57

Table of Contents

PSW Industry Concentration*	PSY Industry Concentration*	BPP Industry Concentration*	BTZ Industry Concentration*
Under normal circumstances, the Fund will invest at least 25% of its total assets in the industries comprising the financial services sector. The companies in the financial services sector are companies principally engaged in financial services. A company is principally engaged in financial services if it owns financial service related assets that constitute at least 50% of its revenue from providing financial services. The Fund also may emphasize investments in the industries comprising the utilities sector; however, the Fund will not invest 25% or more of its total assets in any one of the industries comprising the utilities sector.	Same as PSW	Same as BTZ	The Fund will invest at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services. A company is principally engaged in financial services if it derives at least 50% of its consolidated revenues from providing financial services.

* See Proposal 3: Removal of Financial Sector Concentration Policies, which proposes the removal of the financial sector concentration policy.

Table of Contents

PSW **Non-U.S. Securities**	**PSY** **Non-U.S. Securities**	**BPP** **Non-U.S. Securities**	**BTZ** **Non-U.S. Securities**
The Fund may invest without limitation in securities of issuers domiciled outside the United States that are U.S. dollar denominated investments or otherwise provide for payment to the Fund in U.S. dollars.	Same as PSW	The Fund may invest up to 35% of its Managed Assets in U.S. dollar denominated securities of non-U.S. issuers that are traded or listed in U.S. markets. For purposes of this 35% limitation, non-U.S. securities include securities represented by American Depository Receipts.	Under normal market conditions, the Fund may invest up to 35% of its Managed Assets in non-U.S. securities. Non-U.S. securities may include securities denominated in U.S. dollars or in non-U.S. currencies or multinational current units.
The Fund also may invest up to 35% of its total assets in non-U.S. dollar denominated securities.		The Fund also may invest up to 35% of its Managed Assets in non-U.S. dollar denominated securities.	The Fund may invest in non-U.S. securities of so-called emerging market issuers.

59

Table of Contents

PSW	PSY	BPP	BTZ
		The Fund may invest in any region of the world and invests in companies operating in developed countries such as Canada, Japan, Australia, New Zealand and most Western European countries. The Fund does not intend to invest in companies based in emerging markets such as the Far East, Latin America and Eastern Europe, but if it did, may invest no more than 10% of its managed assets in emerging markets securities.	For purposes of the Fund, a company is deemed to be a non-U.S. company if it meets any of the following tests: (i) such company was not organized in the United States; (ii) such company s primary business office is not in the United States; (iii) the principal trading market for such company s assets is not located in the United States; (iv) less than 50% of such company s assets are located in the United States; or (v) 50% or more of such issuer s revenues are derived from outside the United States.

60

Table of Contents

PSW	PSY	BPP	BTZ
Common Stock	**Common Stock**	**Common Stock**	**Common Stock**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may invest in common stocks, subject to the 80% Policy.
Illiquid Securities	**Illiquid Securities**	**Illiquid Securities**	**Illiquid Securities**
The Fund may invest in preferred securities, debt securities and other securities that lack a secondary trading market or are otherwise considered illiquid.	Same as PSW	Same as BTZ	The Fund may invest up to 10% of its managed assets in illiquid securities
Defensive Measures	**Defensive Measures**	**Defensive Measures**	**Defensive Measures**
The Fund for temporary defensive purposes may invest up to 100% of its total assets in securities issued or guaranteed by the United States Government or its instrumentalities or agencies, certificates of deposit, bankers acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency, or other debt securities deemed by the Investment Advisor to be consistent with a defensive posture, or may hold its assets in cash.	Same as PSW	Substantially the same as BTZ	For temporary defensive purposes or to keep cash on hand, the Fund may invest up to 100% of its Managed Assets in cash equivalents and short-term debt securities.
Leverage	**Leverage**	**Leverage**	**Leverage**
The Fund may not issue senior securities or borrow money other than as permitted by Section 18 of the 1940 Act or otherwise as permitted by applicable law.	The Fund may not issue senior securities or borrow money except as permitted by Section 18 of the 1940 Act.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act.	The Fund may not issue senior securities or borrow money other than as permitted by the 1940 Act.

Table of Contents

PSW	PSY	BPP	BTZ
		The Fund may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques as BlackRock may from time to time determine.	
The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. The Fund at times may borrow from affiliates of the Investment Advisor, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.	The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. The Fund at times may borrow from affiliates of the Investment Advisor, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.	The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.	The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.
The Fund currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets.	The Fund currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets.	The Fund currently voluntarily limits its aggregate economic leverage to 33 $^1/_3$% of its Managed Assets.	The Fund currently voluntarily limits its aggregate economic leverage to 33 $^1/_3$% of its Managed Assets.

62

Table of Contents

PSW	PSY	BPP	BTZ
Reverse Repurchase Agreements	**Reverse Repurchase Agreements**	**Reverse Repurchase Agreements**	**Reverse Repurchase Agreements**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may engage in reverse repurchase agreements.
When-Issued and Forward Commitment Securities	**When-Issued and Forward Commitment Securities**	**When-Issued and Forward Commitment Securities**	**When-Issued and Forward Commitment Securities**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may purchase securities on a when-issued basis and may purchase or sell securities on a forward commitment basis.
Options	**Options**	**Options**	**Options**
The Fund may purchase call options on any of the types of securities in which it may invest. The Fund also may purchase and sell call options on indices.	Same as PSW	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.	The Fund may purchase call options on any of the types of individual securities, indices or instruments in which it may invest.

63

Table of Contents

PSW	PSY	BPP	BTZ
The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options.		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 segregation and coverage requirements).	The Fund is also authorized to write (i.e., sell) covered call options on the individual securities, indices or instruments in which it may invest and to enter into closing purchase transactions with respect to certain of such options.
The Fund is authorized to write (i.e., sell) uncovered call options on securities in which it may invest but that are not currently held by the Fund.		As with calls, the Fund may purchase put options (puts) on securities (whether or not it holds such securities in its portfolio).	The Fund also is authorized to write (i.e., sell) uncovered call options on individual securities, indices or instruments in which it may invest but that are not currently held by the Fund.
The Fund is authorized to purchase put options. The Fund may also purchase uncovered put options.		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.	The Fund is authorized to purchase put options. The Fund also may purchase uncovered put options.

64

Table of Contents

PSW	PSY	BPP	BTZ
The Fund also has authority to write (i.e., sell) put options on the types of securities that may be held by the Fund, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. 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 obligations under its hedging and other investment transactions. The Fund also has authority to write (i.e., sell) put options on the types of securities that may be held by the Fund, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. 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 obligations under its hedging and other investment transactions.			The Fund has authority to write (i.e., sell) put options on the types of securities or instruments that may be held by the Fund, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. The Fund will not sell put options if, as a result, more than 50% of the Fund s total assets would be required to cover its potential obligations under the put options and under any other transactions (excluding calls) that would be treated as senior securities under the 1940 Act.

PSW	PSY	BPP	BTZ
The Fund is also authorized to write (i.e., sell) uncovered put options on securities in which it may invest but that the Fund does not currently have a corresponding short position or has not deposited cash equal to the exercise value of the put option with the broker dealer through which it made the uncovered put option as collateral.			The Fund is also authorized to write (i.e., sell) uncovered put options on securities or instruments in which it may invest but that the Fund does not currently have a corresponding short position or has not deposited cash equal to the exercise value of the put option with the broker dealer through which it made the uncovered put option as collateral.
The Fund will engage in transactions in OTC options only with banks or dealers which have capital of at least $50 million or whose obligations are guaranteed by an entity having capital of at least $50 million.			
Interest Rate Transactions	**Interest Rate Transactions**	**Interest Rate Transactions**	**Interest Rate Transactions**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund may engage in interest rate swap, cap or floor transactions.

66

Table of Contents

PSW	PSY	BPP	BTZ
Credit Derivatives	**Credit Derivatives**	**Credit Derivatives**	**Credit Derivatives**
The Fund may enter into credit default swap agreements. The Fund will enter into credit default swap agreements only with counterparties who are rated investment grade quality by at least one nationally recognized statistical rating organization at the time of entering into such transaction or whose creditworthiness is believed by the Investment Advisor to be equivalent to such rating.	Same as PSW	Same as BTZ	The Fund may engage in credit derivative transactions.
Futures	**Futures**	**Futures**	**Futures**
The Fund is authorized to engage in transactions in financial futures contracts and related options on such futures contracts.	Same as PSW	Same as BTZ	The Fund may enter into futures contracts of securities, aggregates of securities or indices or prices thereof, other financial indices and U.S. Government debt securities or options on the above.

67

Table of Contents

PSW	PSY	BPP	BTZ
Short Sales	**Short Sales**	**Short Sales**	**Short Sales**
The Fund may make short sales of securities. The Fund also may make short sales against the box.	Same as PSW	Substantially the Same as BTZ	The Fund may make short sales of securities. 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 total 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.
Securities Lending	**Securities Lending**	**Securities Lending**	**Securities Lending**
Same as BTZ	Same as BTZ	Same as BTZ	The Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 $^1/_3$% of the value of the Fund s total assets (including such loans).
Indexed and Inverse Floating Obligations	**Indexed and Inverse Floating Obligations**	**Indexed and Inverse Floating Obligations**	**Indexed and Inverse Floating Obligations**
The Fund may invest in securities whose potential returns are directly related to changes in an underlying index or interest rate, known as indexed securities. The Fund also may invest in securities whose return is inversely related to changes in an interest rate.	Same as PSW	No Stated Policy	No Stated Policy

68

The Funds investment restrictions differ in some respects, as discussed below. The fundamental investment restrictions of each Fund may not be changed without the approval of the holders of a majority of the outstanding common shares of that Fund. (For this purpose and under the 1940 Act, majority means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). The following investment restrictions of the Acquiring Fund will apply to the Combined Fund. Under its fundamental investment restrictions, the Acquiring Fund may not:

1) invest 25% or more of the value of its total assets in securities of issuers in any one industry; provided that the Fund will invest 25% or more of its total assets in securities of issuers in the financial services sector; provided, further, that such limitation shall not apply to obligations issued or guaranteed by the U.S. Government or by its agents or instrumentalities;

2) issue senior securities or borrow money other than as permitted by the 1940 Act or pledge its assets other than to secure such issuances or in connection with hedging transactions, short sales, when issued and forward commitment transactions and similar investment strategies;

3) make loans of money or property to any person, except through loans of portfolio securities, the purchase of debt securities or the entry into repurchase agreements;

4) underwrite the securities of other issuers, except to the extent that, in connection with the disposition of portfolio securities or the sale of its own securities, the Fund may be deemed to be an underwriter;

5) purchase or sell real estate, except that the Fund may invest in securities of companies that deal in real estate or are engaged in the real estate business, including REITs and real estate operating companies, and instruments secured by real estate or interests therein and the Fund may acquire, hold and sell real estate acquired through default, liquidation, or other distributions of an interest in real estate as a result of the Fund s ownership of such other assets; or

6) purchase or sell commodities or commodity contracts for any purposes except as, and to the extent, permitted by applicable law without the Fund becoming subject to registration with the Commodity Futures Trading Commission (the CFTC) as a commodity pool.

Each Fund s shareholders separately are being asked to remove the same or substantially similar references to the financial sector concentration requirements in (1). See Proposals 3: Removal of Financial Sector Concentration Policies.

Additional investment restrictions adopted by the Acquiring Fund, which may be changed by its Board without shareholder approval, provide that the Acquiring Fund may not:

A) 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 total 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;

B) purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act or any rules promulgated or exemptive relief obtained thereunder. As a shareholder in any investment company, the Fund may bear its ratable share of that investment company s expenses, and may remain subject to payment of the Fund s advisory fees and other expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the securities of other investment companies may be leveraged and will therefore be subject to the risks of leverage. The net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares; and

Table of Contents

C) under normal market conditions, invest at least 80% of its total assets in credit-related securities, including, but not limited to, investment grade corporate bonds, high yield bonds, bank loans, preferred securities or convertible bonds or derivatives with economic characteristics similar to these credit-related securities.

In addition, to comply with U.S. federal tax requirements for qualification as a regulated investment company, the Acquiring Fund s investments will be limited in a manner such that at the close of each quarter of each taxable year, (a) no more than 25% of the value of the Acquiring Fund s total assets are invested (i) in the securities (other than U.S. Government securities or securities of other regulated investment companies) of a single issuer or two or more issuers controlled by the Acquiring Fund and determined to be engaged in the same, similar or related trades or businesses or (ii) in the securities of one or more qualified publicly traded partnerships (as defined under Section 851(h) of the Internal Revenue Code of 1986, as amended (the Code)) and (b) with regard to at least 50% of the value of the Acquiring Fund s total assets, no more than 5% of the value of its total assets are invested in the securities (other than U.S. Government securities or securities of other regulated investment companies) of a single issuer and no investment represents more than 10% of the outstanding voting securities of such issuer. These tax-related limitations may be changed by the board members to the extent appropriate in light of changes to applicable tax requirements.

Each Target Fund s fundamental and non-fundamental investment restrictions are substantially similar to the Acquiring Fund s fundamental and non-fundamental investment restrictions described above, subject to the differences noted below.

PSW and PSY each have a fundamental investment restriction providing that such Fund will not make any investment inconsistent with the Fund s classification as a diversified company. The Acquiring Fund and BPP are non-diversified investment companies; thus, the Acquiring Fund and BPP do not have this investment restriction.

PSW and PSY each have a fundamental investment restriction providing that such Fund will not make any investment for the purpose of exercising control or management. BPP has a substantially similar non-fundamental investment restriction. The Acquiring Fund is not subject to this investment restriction.

PSW and PSY each have a non-fundamental investment restriction providing that such Fund will not mortgage, pledge, hypothecate or transfer, as security for indebtedness, any securities owned by the Fund except as may be necessary in connection with the issuance of senior securities, as permitted by Section 18 of the 1940 Act, or in connection with transactions permitted by such Fund s investment policies. The Acquiring Fund has a fundamental investment restriction providing that it will not pledge its assets other than to secure issuances of senior securities or in connection with hedging transactions, short sales, when issued and forward commitment transactions and similar investment strategies. BPP is not subject to this investment restriction.

PSW and PSY each have a non-fundamental investment restriction providing that such Fund may not purchase any securities on margin, except with the clearance of purchases and sales of portfolio securities. The Acquiring Fund and BPP are not subject to this investment restriction.

The Acquiring Fund and BPP each have a non-fundamental investment restriction providing that such Fund may not make any short sale of securities if the market value of all securities sold short exceeds 25% of the value of the Fund s total assets (managed assets for BPP) or 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. PSW and PSY are not subject to this investment restriction.

The percentage limitations applicable to the Funds portfolio described in the prospectus and this Joint Proxy Statement/Prospectus apply only at the time of investment 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, and the Funds are not required to sell securities due to subsequent changes in the value of securities it owns.

Table of Contents

Any policies of the Acquiring Fund not described as fundamental in this Joint Proxy Statement/Prospectus may be changed by its Board without shareholder approval.

MANAGEMENT OF THE FUNDS

The Boards

The Board of each Fund is responsible for the overall supervision of the operations of its respective Fund and performs the various duties imposed on the directors of investment companies by the 1940 Act and under applicable state law. A list of the Board Members, a brief biography for each Board Member and additional information relating to the Boards are included in the Statement of Additional Information.

The Advisors

BlackRock Advisors, LLC acts as the investment adviser for each Fund. PSW and PSY each pays the Investment Advisor a monthly management fee of 0.60% based on an aggregate of (i) the Fund s average daily Net Assets and (ii) the proceeds of any outstanding debt securities or borrowings used for leverage. Net Assets means the total assets of the Fund minus the sum of the accrued liabilities. The liquidation preference of any outstanding preferred stock (other than accumulated dividends) is not considered a liability in determining the Fund s Net Asset Value.

BPP and BTZ each pays the Investment Advisor a monthly management fee of 0.65% based on the Fund s average weekly Managed Assets. Managed Assets means the total assets of the Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage).

If any of the Reorganizations are approved and consummated, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.62% of the Combined Fund s average weekly Managed Assets

BlackRock Financial Management, Inc. acts as the sub-advisor for each Fund and BlackRock Investment Management, LLC also acts as the sub-advisor for BTZ (each, a Sub-Advisor and together with the Investment Advisor, the Advisors). BlackRock Advisors, LLC and each Fund has entered into a separate sub-advisory agreement with each Sub-Advisor under which the BlackRock Advisors, LLC pays the Sub-Advisor for services it provides, a monthly fee that is a percentage of the investment advisory fees paid by each Fund to BlackRock Advisors, LLC.

A discussion regarding the basis for the approval of the Investment Management Agreement and the Sub-Investment Advisory Agreement by the Board of each Fund is provided in such Fund s Form N-CSR for such Fund s most recent fiscal year end available at www.sec.gov or by visiting www.blackrock.com.

BlackRock Advisors, LLC, located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and each Sub-Advisor, located at 55 East 52nd Street, New York, New York 10055, are wholly owned subsidiaries of BlackRock, Inc. (BlackRock). BlackRock is one of the world s largest publicly-traded investment management firms. As of June 30, 2012, BlackRock s assets under management were approximately $3.560 trillion. BlackRock has over 20 years of experience managing closed-end products and, as of June 30, 2012 advised a registered closed-end family of 92 exchange-listed active funds with approximately $42.7 billion in assets. In addition, BlackRock advised six non-exchange-listed closed-end funds with approximately $303.8 million in assets.

BlackRock offers products that span the risk spectrum to meet clients needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. Headquartered in New York City, as of June 30, 2012, the firm has approximately 9,900 employees in 27 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa.

Portfolio Management

The Investment Advisor serves as the investment adviser for each of the Funds and is expected to continue to serve as investment adviser for the Combined Fund. Each Fund is managed by a team of investment professionals comprised of Jeffrey Cucunato, Managing Director at BlackRock, Mitchell S. Garfin, Managing Director at BlackRock, and Stephan Bassas, Director at BlackRock. Each is a member of BlackRock s Corporate Credit Group within BlackRock s Fundamental Fixed Income portfolio management group. Each is jointly responsible for the day-to-day management of each Fund s portfolio, which includes setting each Fund s overall investment strategy, overseeing the management of each Fund and/or selection of its investments. Messrs. Cucunato, Bassas and Garfin have been members of each Fund s portfolio management team since 2011.

Mr. Cucunato has held several key roles at BlackRock. Prior to joining the corporate bond team, Mr. Cucunato focused on interest rate products, including government and agency securities. He was also involved in the day-to-day management of BlackRock s inflation-linked bond portfolios. He began his career at BlackRock in 1995 as an analyst in the Global Client Group, working with international clients and alternative investments, and became a portfolio manager in 1997. Mr. Cucunato earned a BA degree, cum laude, in history from Dartmouth College in 1995.

Mr. Garfin joined BlackRock in 1997 as an analyst in the Account Management Group working with taxable financial institutional clients. He joined the Portfolio Management Group in 2000 as a credit research analyst and in 2005 moved to portfolio management. Mr. Garfin moved to his current role in 2007. Mr. Garfin earned a BBA degree, with distinction, in finance from the University of Michigan in 1997, and an MBA degree in finance and economics from New York University s Stern School of Business in 2005.

Mr. Bassas service with the firm dates back to 2000, including his years with Merrill Lynch Investment Managers (MLIM), which merged with BlackRock in 2006. At MLIM, Mr. Bassas managed European corporate bond portfolios. Prior to joining MLIM in 2000, Mr. Bassas worked as a portfolio manager and asset swap proprietary trader for Paribas Asset Management and Paribas Capital Markets in Luxembourg and London. Mr. Bassas earned an MBA degree from the University of Lyon, France in 1993 and attended the Investment Management Program at the London Business School in 2000.

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

Portfolio Transactions with Affiliates

The Advisors may place portfolio transactions, to the extent permitted by law, with brokerage firms affiliated with the Funds 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. None of the Funds paid brokerage commissions to affiliated broker-dealers during their three most recent fiscal years.

Legal Proceedings

On July 29, 2010, the Investment Advisor announced that a derivative complaint had been filed by Roy Curbow and other plaintiffs, including shareholders of PSY and BTZ on July 27, 2010 in the Supreme Court of the State of New York, New York County. The complaint names the Investment Advisor, BlackRock, Inc. and certain of the directors/trustees, officers and portfolio managers of PSY and BTZ as defendants. The complaint alleges, among other things, that the parties named in the complaint breached fiduciary duties owed to PSY and BTZ and their common shareholders by redeeming auction-market preferred shares, auction rate preferred securities, auction preferred shares and auction rate securities (collectively, AMPS) at their liquidation preference. The complaint seeks unspecified damages for losses purportedly suffered by PSY and BTZ as a result of the prior redemptions and injunctive relief preventing PSY and BTZ from redeeming AMPS at their liquidation preference in the future. On March 15, 2012, the Supreme Court of the State of New York, New York County entered an order consolidating the above-referenced derivative complaint with another derivative complaint, containing almost identical allegations, already pending in that court. The court on March 15, 2012, also granted plaintiffs permission to file an amended complaint. On April 16, 2012, the plaintiffs filed a Consolidated Shareholder Derivative Complaint. Defendants moved to dismiss the Consolidated Shareholder Derivative Complaint on July 20, 2012. Plaintiffs on September 14, 2012 moved to hold the defendants motion to dismiss in abeyance and allow plaintiffs limited discovery of the Demand Review Committee of the Board of Directors/Trustees, including depositions of its members and documents upon which they relied. The Investment Advisor, BlackRock, Inc. and the other defendants named in the complaint believe that the claims asserted in the complaint are without merit and intend to vigorously defend themselves in the litigation.

On November 15, 2010, the Investment Advisor announced the intention to redeem all of the outstanding AMPS issued by five of its taxable closed-end funds: PSW, PSY, BPP, BTZ, and BGT. All such outstanding AMPS were subsequently redeemed. The redemptions encompass all remaining taxable AMPS issued by BlackRock closed-end funds and total approximately $569 million. The AMPS were redeemed with available cash or proceeds from reverse repurchase agreement financing or a credit facility on a fund-by-fund basis and, in each case, the refinancing resulted in a lower cost of financing for each fund under then-existing market conditions.

In exchange for the shareholder plaintiff s agreement to withdraw a previously filed motion for preliminary injunction enjoining any further redemptions of AMPS, each of these funds agreed to provide the plaintiffs in those actions with 30 days prior notice of any additional redemptions. On November 24, 2010, the Investment Advisor announced that counsel for the plaintiffs filed a motion for a preliminary injunction enjoining PSY and BTZ from redeeming outstanding AMPS pending final resolution of the underlying shareholder derivative suit. On December 23, 2010, the court denied plaintiffs motion for a preliminary injunction.

On June 3, 2011, a putative class action lawsuit was brought by Hinda Wachtel against PSY, certain former and current directors of PSY, BlackRock, Inc., and certain other financial institutions in the Circuit Court for Baltimore City. The complaint alleges that the redemptions at par of certain AMPS issued by PSY constituted a breach of the fiduciary duties purportedly owed to the common shareholders of PSY; that PSY allegedly aided and abetted breaches of fiduciary duties by the directors; and that PSY, BlackRock, Inc., and others were unjustly enriched. The Complaint requests a declaratory judgment that PSY aided and abetted breaches of fiduciary duties by the directors and that PSY, BlackRock, Inc. and certain other financial institutions were unjustly enriched; seeks to enjoin BlackRock, Inc. from serving as investment adviser to PSY or otherwise earning fees for services rendered to PSY; and claims unquantified damages, attorneys fees, interest and punitive damages. On June 5, 2012, the plaintiff voluntarily dismissed the complaint without prejudice.

On June 9, 2011, a putative class action lawsuit was brought by Sydell Protas against BTZ, certain former and current trustees of BTZ, BlackRock, Inc., and certain other financial institutions, in the Court of Chancery of the State of Delaware. On August 31, 2011, Plaintiff filed an Amended Verified Derivative and Class Action Complaint (the Amended Complaint), which purports to assert certain of the claims derivatively on behalf of BTZ and certain of the claims directly as class claims. The Amended Complaint alleges that the redemptions at par of certain AMPS issued by BTZ constituted a breach of the fiduciary duties purportedly owed to the common shareholders of BTZ; that BTZ allegedly aided and abetted breaches of fiduciary duties by the trustees; and that BTZ, BlackRock, Inc., and others were unjustly enriched. The Amended Complaint requests a declaratory judgment that BTZ aided and abetted breaches of fiduciary duties by the trustees and that BTZ, BlackRock, Inc. and certain other financial institutions were unjustly enriched; seeks to enjoin BlackRock, Inc. from serving as

Table of Contents

investment adviser to BTZ or otherwise earning fees for services rendered to BTZ; and claims unquantified damages, attorneys fees, interest and punitive damages. On May 4, 2012, the court dismissed the Amended Complaint with prejudice. On June 4, 2012, the Plaintiff appealed the Delaware Chancery Courts decision to the Delaware Supreme Court. On July 23, 2012, the Plaintiff voluntarily dismissed her appeal.

Other Service Providers

The professional service providers for the Funds are as follows:

Service	Service Providers to the Funds
Investment Advisor	BlackRock Advisors, LLC
Sub-Advisor	BlackRock Financial Management, Inc.
	BlackRock Investment Management, LLC*
Custodian	State Street Bank and Trust Company
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company N.A.
Accounting Services Provider	State Street Bank and Trust Company
Independent Registered Public Accounting Firm	Deloitte & Touche LLP
Fund Counsel	Skadden, Arps, Slate, Meagher & Flom LLP
Counsel to the Independent Board Members	Debevoise & Plimpton LLP

* Sub-Advisor only to the Acquiring Fund

All securities owned by each Fund and all cash, including proceeds from the sale of securities in each Fund s investment portfolio, are held by State Street Bank and Trust Company, 1 Lincoln Street, Boston Massachusetts 02111, as custodian. Computershare Trust Company N.A. 250 Royall Street, Canton, Massachusetts 02021 serves as each Fund s transfer agent with respect to each Fund s common shares.

It is not anticipated that the Reorganizations will result in any change in the organizations providing services to Acquiring Fund as set forth above. As a result of the Reorganizations, the service providers to Acquiring Fund are anticipated to be the service providers to the Combined Fund.

Capitalization

The Board of each Fund may authorize separate classes of shares together with such designation of preferences, rights, voting powers, restrictions, limitations, qualifications or terms as may be determined from time to time by the Board of such Fund. The tables below set forth the capitalization of the Funds as of April 30, 2012 and the *pro forma* capitalization of the Combined Fund as if the proposed Reorganizations of all of the Funds had occurred on that date, as if the proposed Reorganization of only PSY into BTZ had occurred on that date and as if the proposed Reorganizations of PSW and BPP into BTZ had occurred on that date.

Capitalization as of April 30, 2012 (Unaudited)

Reorganization of All the Funds

	BTZ	PSW	PSY	BPP	Adjustments	*Pro forma* Combined Fund (All Funds)
Net assets(a)	$ 748,315,500	$ 111,635,672	$ 476,527,034	$ 230,722,424	$ (990,000)(b)	$ 1,566,210,630
Common Shares Outstanding	51,828,157	10,311,941	40,807,418	18,467,785	(12,874,635)(c)	108,540,666
Net asset value	$ 14.44	$ 10.83	$ 11.68	$ 12.49		$ 14.43

Table of Contents

(a) Based on the number of outstanding common shares listed in Outstanding Common Shares as of April 30, 2012 table below.
(b) Reflects non-recurring aggregate estimated reorganization expenses of $990,000 of which $450,000 was attributable to BTZ, $240,000 was attributable to PSW, and $300,000 was attributable to BPP. Because of the expected benefits outlined above for each Fund, and because, over time, the savings attributable to BTZ, PSW and BPP s participation in each Reorganization outweigh the costs associated with such Reorganization, the Investment Advisor recommended, and the Boards have approved, that BTZ, PSW and BPP be responsible for its own Reorganization expenses. See Reasons for the Reorganizations. The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.
(c) Reflects adjustments of 2,592,061 for PSW shares of common stock, 7,783,403 for PSY shares of common stock and 2,499,171 for BPP shares of common stock due to differences in per share NAV.

Reorganization of PSY and BTZ

	BTZ	PSY	Adjustments	***Pro forma*** **Combined Fund (PSY & Acquiring Fund)**
Net assets(a)	$ 748,315,500	$ 476,527,034	$ (450,000)(b)	$ 1,224,392,534
Common Shares outstanding	51,828,157	40,807,418	(7,783,403)(c)	84,852,172
Net asset value	$ 14.44	$ 11.68		$ 14.43

(a) Based on the number of outstanding common shares listed in Outstanding Common Shares as of April 30, 2012 table below.
(b) Reflects non-recurring aggregate estimated reorganization expenses of $450,000 attributable to BTZ. Because of the expected benefits outlined above for BTZ, and because, over time, the savings attributable to BTZ s participation in the Reorganization outweigh the costs associated with such Reorganization, the Investment Advisor recommended, and the Boards have approved, that BTZ be responsible for its own Reorganization expenses. See Reasons for the Reorganizations. The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.
(c) Reflects adjustments due to differences in per share NAV.

Reorganization of PSW and BPP into BTZ

	BTZ	PSW	BPP	Adjustments	***Pro forma*** **Combined Fund (PSW, BPP & Acquiring Fund)**
Net assets(a)	$ 748,315,500	$ 111,635,672	$ 230,722,424	$ (990,000)(b)	$ 1,089,683,596
Common Shares outstanding	51,828,157	10,311,941	18,467,785	(5,091,232)(c)	75,516,651
Net asset value	$ 14.44	$ 10.83	$ 12.49		$ 14.43

(a) Based on the number of outstanding common shares listed in Outstanding Common Shares as of April 30, 2012 table below.
(b) Reflects non-recurring aggregate estimated reorganization expenses of $990,000 of which $450,000 was attributable to BTZ, $240,000 was attributable to PSW and $300,000 was attributable to BPP, respectively. Because of the expected benefits outlined above for each Fund, and because, over time, the savings attributable to each Fund s participation in the Reorganization outweigh the costs associated with such Reorganization, the Investment Advisor recommended, and the Boards have approved, that each Fund be responsible for its own Reorganization expenses. See Reasons for the Reorganizations. The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.
(c) Reflects adjustments due to differences in per share NAV.

ADDITIONAL INFORMATION ABOUT THE COMMON SHARES OF THE FUNDS

General

Shareholders of a Fund are entitled to share equally in dividends declared by the Fund s Board as payable to holders of the Fund s common shares and in the net assets of the Fund available for distribution to holders of the common shares. Shareholders do not have preemptive or conversion rights and a Fund s common shares are not redeemable. The outstanding common shares of each Fund are fully paid and nonassessable, except as provided under such Fund s charter.

Table of Contents

Purchase and Sale

Purchase and sale procedures for the common shares of each of the Funds are identical. Investors typically purchase and sell common shares of the Funds through a registered broker-dealer on the NYSE, thereby incurring a brokerage commission set by the broker-dealer. Alternatively, investors may purchase or sell common shares of the Funds through privately negotiated transactions with existing shareholders.

Outstanding Common Shares as of April 30, 2012

Fund	Title of Class	Amount Authorized	Amount Held by Fund for its Own Account	Amount Outstanding Exclusive of Amount Shown in Previous Column
PSW	Common Shares	199,994,540	None	10,311,941
PSY	Common Shares	199,978,000	None	40,807,418
BPP	Common Shares	Unlimited	None	18,467,785
BTZ	Common Shares	Unlimited	None	51,828,157

Share Price Data

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

PSW	Market Price		Net Asset Value		Premium/(Discount) to Net Asset Value	
Period Ended	High	Low	High	Low	High	Low
July 31, 2012	$ 10.50	$ 9.75	$ 11.13	$ 10.62	(4.98)%	(8.45)%
April 30, 2012	$ 10.28	$ 9.79	$ 10.88	$ 10.64	(5.08)%	(8.99)%
January 31, 2012	$ 9.81	$ 8.90	$ 10.64	$ 10.06	(7.80)%	(13.23)%
October 31, 2011	$ 9.41	$ 8.59	$ 10.88	$ 9.88	(9.15)%	(18.05)%
July 31, 2011	$ 9.47	$ 9.24	$ 10.90	$ 10.59	(11.63)%	(14.42)%
April 30, 2011	$ 9.28	$ 8.97	$ 10.80	$ 10.43	(13.17)%	(15.09)%
January 31, 2011	$ 9.83	$ 8.70	$ 10.85	$ 10.24	(8.59)%	(15.04)%
October 31, 2010	$ 9.92	$ 9.49	$ 10.90	$ 10.40	(7.50)%	(10.87)%
July 31, 2010	$ 9.54	$ 8.64	$ 10.46	$ 9.91	(7.74)%	(17.40)%
April 30, 2010	$ 9.36	$ 8.34	$ 10.40	$ 9.57	(8.81)%	(14.29)%
January 31, 2010	$ 8.70	$ 8.00	$ 9.78	$ 9.22	(9.46)%	(14.89)%

PSY	Market Price		Net Asset Value		Premium/(Discount) to Net Asset Value	
Period Ended	High	Low	High	Low	High	Low
July 31, 2012	$ 11.14	$ 10.50	$ 12.01	$ 11.49	(6.50)%	(9.54)%
April 30, 2012	$ 10.80	$ 10.34	$ 11.70	$ 11.46	(6.98)%	(10.17)%
January 31, 2012	$ 10.44	$ 9.42	$ 11.46	$ 10.84	(8.22)%	(14.06)%
October 31, 2011	$ 10.20	$ 9.16	$ 11.66	$ 10.61	(10.61)%	(15.95)%
July 31, 2011	$ 10.30	$ 9.96	$ 11.72	$ 11.41	(10.20)%	(13.65)%
April 30, 2011	$ 10.08	$ 9.61	$ 11.63	$ 11.25	(12.81)%	(15.34)%
January 31, 2011	$ 10.60	$ 9.39	$ 11.70	$ 11.01	(8.23)%	(14.87)%
October 31, 2010	$ 10.67	$ 10.21	$ 11.69	$ 11.16	(6.28)%	(11.22)%
July 31, 2010	$ 10.37	$ 9.24	$ 11.37	$ 10.75	(7.67)%	(18.30)%
April 30, 2010	$ 10.46	$ 9.71	$ 11.35	$ 10.51	(2.35)%	(9.20)%

January 31, 2010	$ 10.17	$ 8.85	$ 10.66	$ 9.91	(4.24)%	(12.12)%

Table of Contents

BPP Period Ended	Market Price High	Market Price Low	Net Asset Value High	Net Asset Value Low	Premium/(Discount) to Net Asset Value High	Premium/(Discount) to Net Asset Value Low
July 31, 2012	$ 11.76	$ 11.14	$ 12.82	$ 12.25	(7.28)%	(10.06)%
April 30, 2012	$ 11.43	$ 11.11	$ 12.55	$ 12.27	(8.29)%	(10.36)%
January 31, 2012	$ 11.09	$ 10.05	$ 12.27	$ 11.58	(8.96)%	(13.88)%
October 31, 2011	$ 10.86	$ 9.79	$ 12.54	$ 11.35	(11.18)%	(17.60)%
July 31, 2011	$ 10.97	$ 10.66	$ 12.62	$ 12.26	(11.40)%	(14.75)%
April 30, 2011	$ 10.75	$ 10.30	$ 12.51	$ 12.05	(13.46)%	(15.62)%
January 31, 2011	$ 11.27	$ 10.11	$ 12.50	$ 11.79	(8.62)%	(14.52)%
October 31, 2010	$ 11.42	$ 10.84	$ 12.52	$ 11.90	(6.79)%	(10.38)%
July 31, 2010	$ 10.80	$ 9.70	$ 11.95	$ 11.35	(8.12)%	(18.14)%
April 30, 2010	$ 10.83	$ 10.14	$ 11.95	$ 11.20	(6.53)%	(10.92)%
January 31, 2010	$ 10.53	$ 9.93	$ 11.38	$ 10.92	(5.24)%	(10.70)%

BTZ Period Ended	Market Price High	Market Price Low	Net Asset Value High	Net Asset Value Low	Premium/(Discount) to Net Asset Value High	Premium/(Discount) to Net Asset Value Low
July 31, 2012	$ 13.80	$ 12.90	$ 14.81	$ 14.15	(5.63)%	(10.03)%
April 30, 2012	$ 13.27	$ 12.87	$ 14.51	$ 14.20	(7.67)%	(10.00)%
January 31, 2012	$ 12.92	$ 11.79	$ 14.20	$ 13.37	(8.69)%	(13.95)%
October 31, 2011	$ 12.50	$ 11.26	$ 14.47	$ 13.10	(10.94)%	(17.82)%
July 31, 2011	$ 12.74	$ 12.30	$ 14.54	$ 14.13	(11.28)%	(14.38)%
April 30, 2011	$ 12.36	$ 11.95	$ 14.41	$ 13.92	(13.15)%	(15.49)%
January 31, 2011	$ 13.18	$ 11.72	$ 14.56	$ 13.69	(8.22)%	(14.96)%
October 31, 2010	$ 13.37	$ 12.52	$ 14.71	$ 13.94	(6.14)%	(11.47)%
July 31, 2010	$ 12.66	$ 11.57	$ 14.01	$ 13.17	(8.04)%	(16.32)%
April 30, 2010	$ 12.63	$ 11.41	$ 13.97	$ 12.89	(8.01)%	(12.57)%
January 31, 2010	$ 11.86	$ 10.91	$ 13.23	$ 12.55	(10.29)%	(14.61)%

As of July 31, 2012, the net asset value per common share of BTZ was $14.81 and the market price per common share was $13.80, representing a discount to net asset value of (6.82)%, the net asset value per common share of PSW was $11.13 and the market price per common share was $10.37, representing a discount to net asset value of (6.83)%, the net asset value per common share of PSY was $12.01 and the market price per common share was $11.14, representing a discount to net asset value of (7.24)%, and the net asset value per common share of BPP was $12.82 and the market price per common share was $11.76, representing a discount to net asset value of (8.27)%. For the periods shown in the tables above, common shares of BTZ, PSW, PSY and BPP traded at a discount to net asset value.

Performance Information

The performance table below illustrates the past performance of an investment in common shares of each Fund by setting forth the average total returns for the Funds for the periods indicated. A Fund s past performance does not necessarily indicate how its common shares will perform in the future.

Average Annual Total Returns as of April 30, 2012

Fund	Trailing 12-month Distribution Yield based on April 30, 2012 NAV	One Year ended April 30, 2012 based on NAV	One Year ended April 30, 2012 based on Market Price	Life of Fund ended April 30, 2012 based on NAV	Life of Fund ended April 30, 2012 based on Market Price	Inception Date
PSW	6.11%	7.98%	16.86%	(0.05)%	(1.39)%	08/01/03
PSY	5.93%	7.55%	14.64%	1.20%	(0.19)%	03/28/03
BPP	5.67%	6.72%	13.67%	1.92%	0.43%	02/28/03

BTZ	6.15%	7.59%	15.19%	0.82%	(1.63)%	12/27/06

77

Table of Contents

DIVIDENDS AND DISTRIBUTIONS

The dividend and distribution policy of the Acquiring Fund will be the dividend and distribution policy for the Combined Fund. The dividend and distribution policies of the Target Funds are substantially the same as those of the Acquiring Fund. The Acquiring 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 Acquiring Fund s net investment income consists of all interest income accrued on portfolio assets less all expenses of the Fund. The Acquiring Fund is required to allocate net capital gains and other taxable income, if any, received by the Fund among its stockholders on a *pro rata* basis in the year for which such capital gains and other income are realized.

The tax treatment and characterization of the Acquiring Fund s distributions may vary significantly from time to time because of the varied nature of the Fund s investments. The Acquiring Fund will indicate the proportion of its capital gains distributions that constitute long-term and short-term gains annually. The ultimate tax characterization of the Acquiring Fund s distributions made in a calendar or fiscal year cannot finally be determined until after the end of that fiscal year. As a result, there is a possibility that the Acquiring Fund may make total distributions during a calendar or fiscal year in an amount that exceeds the Acquiring Fund s earnings and profits (as determined for U.S. federal income tax purposes), if any, for the relevant fiscal year and its previously undistributed earnings and profits from prior years, if any. In such situations, the amount by which the Acquiring Fund s total distributions exceed its earnings and profits generally will be treated as a tax-free return of capital reducing the amount of a shareholder s tax basis in such shareholder s shares, with any amounts exceeding such basis treated as gain from the sale of shares.

Various factors will affect the level of the Acquiring Fund s net investment income, such as its asset mix, its level of retained earnings, the amount of leverage utilized by the Fund and the effects thereof and the movement of interest rates for debt securities. These factors, among others, may result in the Combined Fund s level of net investment income being different from the level of net investment income for any of the Target Funds or the Acquiring Fund if the Reorganizations were not completed. To permit the Acquiring Fund to maintain more stable monthly distributions and to the extent consistent with the distribution requirements imposed on regulated investment companies by the Code, the Acquiring Fund may from time to time distribute less than the entire amount earned in a particular period. The income would be available to supplement future distributions. As a result, the distributions paid by the Acquiring Fund for any particular month may be more or less than the amount actually earned by the Acquiring Fund during that month. Undistributed earnings will increase the Acquiring Fund s net asset value and, correspondingly, distributions from undistributed earnings and from capital, if any, will reduce the Acquiring Fund s net asset value. Holders of the Acquiring Fund s common shares will automatically have all dividends and distributions reinvested in common shares issued by the Acquiring Fund or common shares of the Acquiring Fund purchased in the open market in accordance with the Acquiring Fund s Automatic Dividend Reinvestment Plan, unless an election is made to receive cash. For information concerning the manner in which dividends and distributions to holders of the Acquiring Fund s common shares may be reinvested automatically in the Acquiring Fund s common shares, see Automatic Dividend Reinvestment Plan as follows.

AUTOMATIC DIVIDEND REINVESTMENT PLAN

The automatic dividend reinvestment plan (the Plan) of the Acquiring Fund will be the automatic dividend reinvestment plan of the Combined Fund. The automatic dividend reinvestment plan of each Target Fund is the same as the Acquiring Fund s Plan. Shareholders of the Acquiring Fund are automatically enrolled to have all distributions of dividends and capital gains reinvested by Computershare Trust Company, N.A. (the Plan Agent), agent for shareholders in administering the Plan, in the Acquiring Fund s Shares. Shareholders who do not participate in the Plan receive all distributions in cash paid by check and mailed directly to the shareholders of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent.

Table of Contents

After the Acquiring Fund declares a dividend or determines to make a capital gain distribution, the Plan Agent will acquire shares for the participants accounts, depending upon the circumstances described below, either (i) through receipt of unissued but authorized shares from the Fund (newly issued shares), or (ii) by purchase of outstanding shares on the open market or on the Fund s primary exchange (open-market purchases). If, on the dividend payment date, the net asset value per share (NAV) is equal to or less than the market price per share plus estimated brokerage commissions (such condition being referred to herein as market premium), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participants. The number of newly issued shares to be credited to each participant s account will be determined by dividing the dollar amount of the dividend by the NAV on the dividend payment date. However, if the NAV is less than 95% of the market price on the dividend payment date, the dollar amount of the dividend will be divided by 95% of the market price on the dividend payment date. If, on the dividend payment date, the NAV is greater than the market value per share plus estimated brokerage commissions (such condition being referred to herein as market discount), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participants in open market purchases.

In the event of a market discount on the payment date for any dividend, the Plan Agent will have until the last business day before the next date on which the common shares trade on an ex-dividend basis or 30 days after the payment date for such dividend, whichever is sooner (the last purchase date), to invest the dividend amount in common shares acquired in open-market purchases. It is contemplated that the Combined Fund will pay monthly dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next ex-dividend date, which typically will be approximately ten days. If the Plan Agent is unable to invest the full dividend amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any un-invested portion in newly issued shares. Investments in newly issued shares made in this manner would be made pursuant to the same process described above and the date of issue for such newly issued shares will substitute for the dividend payment date.

Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Agent prior to the dividend record date. Additionally, the Plan Agent seeks to process notices received after the record date but prior to the payable date and such notices often will become effective by the payable date. Where late notices are not processed by the applicable payable date, such termination or resumption will be effective with respect to any subsequently declared dividend or distribution.

The Plan Agent s fees for the handling of the reinvestment of dividends are paid by the Acquiring Fund. However, each participant will pay a *pro rata* share of brokerage commissions incurred with respect to the Plan Agent s open-market purchases in connection with the reinvestment of dividends and distributions. The automatic reinvestment of dividends and distributions will not relieve participants of any U.S. federal income tax that may be payable on such dividends or distributions. Participants should consult their own tax advisors regarding the U.S. federal income tax consequences of the automatic reinvestment of dividends and distributions, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

The Acquiring Fund reserves the right to amend or terminate its Plan. There is no direct service charge to participants in its Plan; however, the Acquiring Fund reserves the right to amend its Plan to include a service charge payable by the participants. Participants who request a sale of shares through the Plan Agent are subject to a $2.50 sales fee and a $0.15 per share sold brokerage commission.

All correspondence concerning the Plan, including any questions about the Plan, should be directed to the Plan Agent at Computershare Trust Company, N.A., through the internet at www.computershare.com/investor, by calling 1-800-699-1236 or in writing to Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078.

All overnight correspondence should be directed to the Plan Agent at 250 Royall Street, Canton, MA 02021.

Table of Contents

CERTAIN PROVISIONS OF THE CHARTER

Each Fund s charter includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board. This could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control over the Fund. Such attempts could have the effect of increasing the expenses of the Fund and disrupting the normal operation of the Fund.

The Board of each of BPP and BTZ is divided into three classes, with the terms of one class expiring at each annual meeting of shareholders. At each annual meeting, one class of trustees is elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the Board of each of BPP and BTZ. The Boards of PSW and PSY are not classified. With respect to BPP and BTZ, a director may only be removed from office for cause and only by action taken by the holders of at least 75% of the shares of capital stock entitled to be voted on the matter. With respect to PSW and PSY, a director may be removed from office with or without cause by vote of the holders of $66\,^{2}/_{3}\%$ of the votes entitled to be voted on the matter.

The charters of PSW and PSY require the favorable vote of $66\,^{2}/_{3}\%$ of the outstanding shares of capital stock of the Fund entitled to be voted on the matter, unless such action has been approved, adopted or authorized by the affirmative vote of at least two-thirds of the total number of directors fixed in accordance with the bylaws, in which case the affirmative vote of a majority of all of the outstanding shares entitled to vote on the matter is required, and the charters of BPP and BTZ require the favorable vote of a 1940 Act Majority, to approve, adopt or authorize the following:

- a merger or consolidation or statutory share exchange of the Fund with any other corporation or entity,
- a sale of all or substantially all of the Fund s assets (other than in the regular course of the Fund s investment activities), or
- a liquidation or dissolution of the Fund.

The Board of each Fund has determined that the voting requirements described above, which are, in the case of PSW and PSY, greater than the minimum requirements under the 1940 Act or, in certain circumstances, Maryland law are in the best interests of shareholders generally. Reference should be made to the charter of each Fund on file with the SEC for the full text of these provisions.

GOVERNING LAW

Each of BPP and BTZ is organized as a Delaware statutory trust pursuant to its Agreement and Declaration of Trust governed by the laws of the State of Delaware. BPP was organized on January 8, 2003 and commenced investment operations on February 28, 2003. BTZ was organized on November 15, 2005 and commenced investment operations on December 27, 2006.

Each of PSW and PSY is incorporated as a Maryland corporation pursuant to its Articles of Incorporation governed by the laws of the State of Maryland. PSW was incorporated on May 2, 2003 and commenced operations on August 1, 2003. PSY was incorporated on January 23, 2003 and commenced operations on March 28, 2003.

In general, a Delaware statutory trust provides greater flexibility with respect to procedural matters and a corporation provides greater certainty with respect to limitation of personal liability. In contrast to the Maryland General Corporation Law, the Delaware Statutory Trust Act allows the parties to define their business relationships and provide rules only in situations where the parties have failed to agree. The Delaware Statutory Trust Act gives maximum effect to the principle of freedom of contract and to the enforceability of a statutory trust s governing instrument.

Table of Contents

As noted above, a Maryland corporation provides greater certainty with respect to limitation of personal liability. Shareholders of a Maryland corporation currently have no personal liability for the corporation s acts or obligations, except that a shareholder may be liable to the extent that (i) the shareholder knowingly accepted a distribution in violation of such Maryland corporation s charter or the Maryland General Corporation Law or (ii) the subscription price or other agreed upon consideration for stock subscribed for has not been paid. Under the Delaware Statutory Trust Act, shareholders of a Delaware statutory trust are entitled to the same limitation of personal liability as is extended to shareholders of a private corporation organized for profit under the General Corporation Law of the State of Delaware. However, there is a remote possibility that shareholders of a Delaware statutory trust could, under certain circumstances be held liable for the Delaware statutory trust s liabilities to the extent the courts of another state refused to recognize such limited liability in a controversy involving a Delaware statutory trust s obligations. Each of BPP s and BTZ s governing document disclaims shareholder liability for acts or obligations of such Fund. Thus, a Delaware statutory trust shareholder s risk of incurring financial loss due to shareholder liability is limited to circumstances in which a court refuses to recognize the Delaware Statutory Trust Act and the complaining party is held not bound by the Delaware statutory trust s disclaimer regarding shareholder liability.

Shareholders of each of BPP and BTZ do not have appraisal rights for their common shares because the Delaware Statutory Trust Act and their respective governing documents do not provide for appraisal rights. By contrast, shareholders are entitled to demand and receive payment of the fair value of their shares under Maryland law, except under certain circumstances, one of which is if such shares are publicly traded on a national securities exchange. Since PSW and PSY common shares are traded on NYSE, common shareholders of PSW and PSY do not have appraisal rights. See Appraisal Rights for additional information about appraisal rights.

Other differences between Maryland and Delaware law relate to the authorized shares of a Fund. Consistent with Maryland law, PSW and PSY have authorized a specific number of shares, while BPP and BTZ, consistent with Delaware law, have authorized the issuance of an unlimited number of shares.

The foregoing is only a summary of certain differences between PSW and PSY under Maryland law and BPP and BTZ under Delaware law. It is not intended to be a complete list of differences and shareholders should refer to the provisions of each Fund s applicable organizational documents for a more thorough comparison. Such documents are filed as part of each Fund s registration statement with the SEC, and shareholders may obtain copies of such documents as described on page iv of this Joint Proxy Statement/Prospectus.

CONVERSION TO OPEN-END FUND

To convert PSW to an open-end investment company, PSW s charter requires the affirmative vote of the holders of at least $66\frac{2}{3}$% of PSW s outstanding shares of capital stock entitled to be voted on the matter (or a majority of such shares if the amendment was previously approved, adopted or authorized by the affirmative vote of at least two-thirds of the total number of directors fixed in accordance with the bylaws).

To convert PSY to an open-end investment company, PSY s charter requires the affirmative vote of the holders of at least $66\frac{2}{3}$% of PSY s outstanding shares of capital stock entitled to be voted on the matter (or a majority of such shares if the amendment was previously approved, adopted or authorized by the affirmative vote of at least two-thirds of the total number of directors fixed in accordance with the bylaws).

To convert BPP to an open-end investment company, BPP s charter requires the affirmative vote not less than seventy-five percent (75%) of the shares of each affected class or series outstanding (or a 1940 Act Majority if the amendment was previously approved, adopted or authorized by the affirmative vote of at least eighty percent (80%) of the board members of the Fund).

Table of Contents

To convert BTZ to an open-end investment company, BTZ s charter requires the favorable vote of the holders of not less than seventy-five percent (75%) of the shares outstanding (or a 1940 Act Majority if the amendment was previously approved, adopted or authorized by the affirmative vote of at least eighty percent (80%) of the board members of the Fund).

The foregoing votes would satisfy a separate requirement in the 1940 Act that any conversion of a Fund to an open-end investment company be approved by the shareholders. If approved in the foregoing manners, we anticipate conversion of a Fund to an open-end investment company might not occur until 90 days after the shareholders meeting at which such conversion was approved and would also require at least 10 days prior notice to all shareholders. Following any such conversion, it is possible that certain of the Fund s investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In the event of conversion, the common shares would cease to be listed on the NYSE. Shareholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the 1940 Act, at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. An open-end investment company expects to pay all such redemption requests in cash, but reserves the right to pay redemption requests in a combination of cash and securities. If such partial payment in securities were made, investors may incur brokerage costs in converting such securities to cash. If a Fund were converted to an open-end investment company, it is likely that new shares would be sold at net asset value plus a sales load. The Boards believe, however, that the Funds closed-end structure is desirable in light of the Funds investment objectives and policies. Therefore, shareholders should assume that it is not likely that the Boards would vote to convert any of the Funds to an open-end fund.

VOTING RIGHTS

Voting rights are identical for the shareholders of each Fund. The shareholders of each Fund are entitled to one vote for each share held by them. The shareholders of each Fund do not have any preemptive or preferential right to purchase or subscribe to any shares of such Fund.

Each Fund s common shares do not have cumulative voting rights, which means that the holders of more than 50% of a Fund s common shares voting for the election of directors can elect all of the directors standing for election by such holders, and, in such event, the holders of the Fund s remaining common shares will not be able to elect any directors.

APPRAISAL RIGHTS

Shareholders of each of BPP and BTZ do not have appraisal rights for their common because such Funds are organized as Delaware statutory trusts and their governing documents do not provide for appraisal rights. Under Maryland law, shareholders of an investment company whose shares are traded publicly on a national securities exchange are not entitled to demand the fair value of their shares in connection with a reorganization. Thus, shareholders of PSW and PSY will not have appraisal rights.

Table of Contents

FINANCIAL HIGHLIGHTS

BlackRock Credit Allocation Income Trust I, Inc. (PSW)

The Financial Highlights table is intended to help you understand PSW s financial performance for the periods shown. Certain information reflects the financial results for a single Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in PSW (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six months ended April 30, 2012 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, PSW s independent registered public accounting firm. Financial statements for the fiscal year ended October 31, 2011 and the Report of the Independent Registered Public Accounting Firm thereon appear in PSW s Annual Report for the fiscal year ended October 31, 2011, which is available upon request.

BlackRock Credit Allocation Income Trust I, Inc. (PSW)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	2007	2006	2005	2004	Period August 1, 2003[1] to October 31, 2003
Per Share Operating Performance										
Net asset value, beginning of period	$ 10.52	$ 10.75	$ 9.31	$ 7.43	$ 19.54	$ 22.25	$ 22.36	$ 23.69	$ 24.38	$ 23.88
Net investment income	0.35[2]	0.69[2]	0.63[2]	0.86[2]	1.70[2]	2.01[2]	2.14[2]	2.16	2.19	0.39
Net realized and unrealized gain (loss)	0.35	(0.30)	1.58	2.06	(12.06)	(2.41)	0.07	(1.09)	(0.70)	0.67
Dividends to Preferred Shareholders from net investment income		(0.01)	(0.06)	(0.08)	(0.48)	(0.71)	(0.63)	(0.40)	(0.18)	(0.03)
Net increase (decrease) from investment operations	$ 0.70	$ 0.38	$ 2.15	$ 2.84	$ (10.84)	$ (1.11)	$ 1.58	$ 0.67	$ 1.31	$ 1.03
Dividends and distributions to Common Shareholders from:										
Net investment income	(0.39)	(0.61)	(0.62)	(0.83)	(1.22)	(1.18)	(1.69)	(2.00)	(2.00)	(0.33)
Tax return of capital			(0.09)	(0.13)	(0.05)	(0.42)				
Total dividends and distributions	(0.39)	(0.61)	(0.71)	(0.96)	(1.27)	(1.60)	(1.69)	(2.00)	(2.00)	(0.33)
Capital charge with respect to issuance of:										
Common Shares										(0.04)
Preferred Shares										(0.16)
Net asset value, end of period	$ 10.83	$ 10.52	$ 10.75	$ 9.31	$ 7.43	$ 19.54	$ 22.25	$ 22.36	$ 23.69	$ 24.38
Market price, end of period	$ 10.08	$ 9.25	$ 9.67	$ 8.24	$ 7.00	$ 17.29	$ 21.26	$ 21.03	$ 22.84	$ 23.60
Total Investment Return Applicable to Common Shareholders[3]										

Based on net asset value	7.14%[4]	4.55%	24.77%[5]	46.46%	(58.09)%	(5.03)%	7.97%	3.25%	5.86%	3.53%[4]
Based on market price	13.41%[4]	2.20%	26.81%	37.59%	(55.38)%	(12.05)%	9.69%	0.73%	5.44%	(4.33)%[4]
Ratios to Average Net Assets Applicable to Common Shareholders										
Total expenses[6]	1.24%[7]	1.14%	1.16%	1.61%	2.00%	1.32%	1.29%	1.26%	1.27%	1.11%[7]
Total expenses after fees waived and paid indirectly[6]	1.24%[7]	1.14%	1.14%	1.59%	2.00%	1.32%	1.29%	1.26%	1.26%	0.49%[7]
Total expenses after fees waived and paid indirectly and excluding interest expense[6]	1.08%[7]	1.02%	1.13%	1.44%	1.48%	1.29%	1.29%	1.26%	1.26%	0.49%[7]
Net investment income[6]	6.79%[7]	6.56%	6.28%	12.45%	10.79%	9.38%	9.70%	9.23%	9.04%	6.79%[7]
Dividends to Preferred Shareholders		0.06%	0.59%	1.09%	3.03%	3.29%	2.84%	1.71%	0.76%	0.50%[7]
Net investment income to Common Shareholders	6.79%[7]	6.50%	5.69%	11.36%	7.76%	6.09%	6.86%	7.52%	8.28%	6.29%[7]

Table of Contents

BlackRock Credit Allocation Income Trust I, Inc. (PSW)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	2007	2006	2005	2004	Period August 1, 2003[1] to October 31, 2003
Supplemental Data										
Net assets applicable to Common Shareholders, end of period (000)	$ 111,636	$ 108,529	$ 110,808	$ 96,048	$ 76,430	$ 201,155	$ 228,734	$ 229,850	$ 243,492	$ 250,631
Preferred Shares outstanding at $25,000 liquidation preference, end of period (000)			$ 40,250	$ 40,250	$ 68,250	$ 136,500	$ 136,500	$ 136,500	$ 136,500	$ 136,500
Borrowings outstanding, end of period (000)	$ 42,901	$ 53,268	$ 6,083	$ 4,972	$ 4,024	$ 590				
Average borrowings outstanding, during the period (000)	$ 47,208	$ 34,952	$ 5,269	$ 5,321	$ 25,692	$ 2,690				
Portfolio turnover	19%	53%	66%	36%	119%	88%	19%	25%	27%	12%
Asset coverage per Preferred Share at $25,000 liquidation preference, end of period			$ 93,831	$ 84,663	$ 53,009[8]	$ 61,846[8]	$ 66,907[8]	$ 67,115[8]	$ 69,600[8]	
Asset coverage, end of period per $1,000	$ 3,602	$ 3,037								$ 2,836

1 Commencement of operations.
2 Based on average shares outstanding.
3 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Where applicable, total investment returns exclude the effects of any sales charges and include the reinvestment of dividends and distributions.
4 Aggregate total investment return.
5 Includes proceeds from a settlement litigation which impacted the Fund. Not including these proceeds the Fund s total return would have been 24.54%.
6 Do not reflect the effect of dividends to Preferred Shareholders.
7 Annualized.
8 Prior year amounts have been recalculated to conform to current year presentation.

84

Table of Contents

BlackRock Credit Allocation Income Trust II, Inc. (PSY)

The Financial Highlights table is intended to help you understand PSY s financial performance for the periods shown. Certain information reflects the financial results for a single Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in PSY (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six months ended April 30, 2012 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, PSY s independent registered public accounting firm. Financial statements for the fiscal year ended October 31, 2011 and the Report of the Independent Registered Public Accounting Firm thereon appear in PSY s Annual Report for the fiscal year ended October 31, 2011, which is available upon request.

BlackRock Credit Allocation Income Trust II, Inc (PSY)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	2007	2006	2005	2004	Period March 28, 2003[1] to October 31, 2003
Per Share Operating Performance										
Net asset value, beginning of period	$ 11.25	$ 11.59	$ 10.03	$ 7.96	$ 19.93	$ 22.36	$ 22.26	$ 23.48	$ 24.53	$ 23.88
Net investment income	0.39[2]	0.73[2]	0.72[2]	1.11[2]	1.73[2]	2.02[2]	2.03[2]	2.09[2]	2.14[2]	1.14
Net realized and unrealized gain (loss)	0.41	(0.40)	1.74	2.17	(11.84)	(2.35)	0.32	(0.91)	(0.78)	0.61
Dividends and distributions to Preferred Shareholders from:										
Net investment income		(0.01)	(0.06)	(0.09)	(0.49)	(0.73)	(0.65)	(0.40)	(0.18)	(0.07)
Net realized gain									(0.01)	
Net increase (decrease) from investment operations	0.80	0.32	2.40	3.19	(10.60)	(1.06)	1.70	0.78	1.17	1.68
Dividends and distributions to Common Shareholders from:										
Net investment income	(0.37)	(0.66)	(0.71)	(1.12)	(1.15)	(1.16)	(1.51)	(2.00)	(2.13)	(0.87)
Net realized gain									(0.09)	
Tax return of capital			(0.13)	(0.00)[3]	(0.22)	(0.21)	(0.09)			
Total dividends and distributions	(0.37)	(0.66)	(0.84)	(1.12)	(1.37)	(1.37)	(1.60)	(2.00)	(2.22)	(0.87)
Capital charge with respect to issuance of:										
Common Shares										(0.01)
Preferred Shares										(0.15)
Net asset value, end of period	$ 11.68	$ 11.25	$ 11.59	$ 10.03	$ 7.96	$ 19.93	$ 22.36	$ 22.26	$ 23.48	$ 24.53
Market price, end of period	$ 10.79	$ 9.74	$ 10.39	$ 8.90	$ 8.10	$ 16.94	$ 20.12	$ 21.20	$ 22.87	$ 23.69
Total Investment Return Applicable to Common Shareholders[4]										
Based on net asset value	7.57%[5]	3.71%	25.70%[6]	48.36%	(55.71)%	(4.35)%	8.77%	3.73%	5.22%	6.47%[5]

Based on market price	14.78%[5]	0.16%	26.99%	29.37%	(46.97)%	(9.65)%	2.77%	1.43%	6.12%	(1.80)%[5]
Ratios to Average Net Assets Applicable to Common Shareholders										
Total expenses[7]	1.11%[8]	1.12%	1.04%	1.41%	1.90%	1.27%	1.23%	1.20%	1.19%	1.05%[8]
Total expenses after fees waived and paid indirectly[7]	1.11%[8]	1.12%	1.03%	1.41%	1.90%	1.27%	1.23%	1.20%	1.19%	0.79%[8]
Total expenses after fees waived and paid indirectly and excluding interest expense[7]	0.96%[8]	1.01%	1.02%	1.33%	1.40%	1.23%	1.23%	1.20%	1.19%	0.79%[8]
Net investment income[7]	6.87%[8]	6.42%	6.66%	15.05%	10.71%	9.29%	9.26%	8.96%	8.93%	8.31%[8]
Dividends to Preferred Shareholders		0.11%	0.58%	1.19%	3.04%	3.34%	2.96%	1.73%	0.74%	0.49%[8]
Net investment income to Common Shareholders	6.87%[8]	6.31%	6.08%	13.86%	7.67%	5.95%	6.30%	7.23%	8.19%	7.82%[8]

Table of Contents

BlackRock Credit Allocation Income Trust II, Inc (PSY)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	2007	2006	2005	2004	Period March 28, 2003[1] to October 31, 2003
Supplemental Data										
Net assets applicable to Common Shareholders, end of period (000)	$ 476,527	$ 459,279	$ 472,984	$ 409,293	$ 323,132	$ 809,411	$ 907,897	$ 903,601	$ 952,973	$ 995,722
Preferred Shares outstanding at $25,000 liquidation preference, end of period (000)			$ 169,025	$ 169,025	$ 275,000	$ 550,000	$ 550,000	$ 550,000	$ 550,000	$ 550,000
Borrowings outstanding, end of period (000)	$ 179,538	$ 213,033	$ 4,020	$ 9,511	$ 54,369					
Average borrowings outstanding, during the period (000)	$ 194,349	$ 137,824	$ 13,407	$ 15,842	$ 94,908	$ 14,375				
Portfolio turnover	19%	50%	73%	16%	120%	81%	18%	28%	23%	27%
Asset coverage per Preferred Share at $25,000 liquidation preference, end of period			$ 94,968	$ 85,547	$ 54,408[9]	$ 61,817[9]	$ 66,294[9]	$ 66,077[9]	$ 68,319[9]	
Asset coverage, end of period per $1,000	$ 3,654	$ 3,156								$ 2,810

1 Commencement of operations.
2 Based on average shares outstanding.
3 Amount is less than $(0.01) per share.
4 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Where applicable, total investment returns exclude the effects of any sales charges and include the reinvestment of dividends and distributions.
5 Aggregate total investment return.
6 Includes proceeds from a settlement litigation which impacted the Fund. Not including these proceeds the Fund s total return would have been 25.37%.
7 Do not reflect the effect of dividends to Preferred Shareholders.
8 Annualized.
9 Prior year amounts have been recalculated to conform to current year presentation.

Table of Contents

BlackRock Credit Allocation Income Trust III (BPP)

The Financial Highlights table is intended to help you understand BPP s financial performance for the periods shown. Certain information reflects the financial results for a single Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in BPP (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six months ended April 30, 2012 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, BPP s independent registered public accounting firm. Financial statements for the fiscal year ended October 31, 2011 and the Report of the Independent Registered Public Accounting Firm thereon appear in BPP s Annual Report for the fiscal year ended October 31, 2011, which is available upon request.

BlackRock Credit Allocation Income Trust III (BPP)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	Period January 1, 2008 to October 31, 2008	Year Ended December 31, 2007	2006	2005	2004	Period February 28, 2003[1] to December 31, 2003
Per Share Operating Performance										
Net asset value, beginning of period	$ 12.07	$ 12.41	$ 11.05	$ 8.77	$ 19.47	$ 24.52	$ 24.43	$ 25.88	$ 25.58	$ 23.88[2]
Net investment income	0.38[3]	0.70[3]	0.73[3]	1.09[3]	1.48[3]	2.05	2.05	2.11	2.22	1.72
Net realized and unrealized gain (loss)	0.42	(0.37)	1.48	2.40	(10.74)	(4.72)	0.62	(0.82)	0.33	1.93
Dividends and distributions to Preferred Shareholders from:										
Net investment income		(0.00)[4]	(0.01)	(0.03)	(0.31)	(0.62)	(0.46)	(0.26)	(0.16)	(0.10)
Net realized gain							(0.12)	(0.13)	(0.02)	
Net increase (decrease) from investment operations	$ 0.80	$ 0.33	$ 2.20	$ 3.46	$ (9.57)	$ (3.29)	$ 2.09	$ 0.90	$ 2.37	$ 3.55
Dividends and distributions to Common Shareholders from:										
Net investment income	(0.38)	(0.67)	(0.76)	(0.95)	(0.83)	(1.59)	(1.58)	(1.74)	(2.00)	(1.66)
Net realized gain						(0.02)	(0.42)	(0.61)	(0.07)	
Tax return of capital			(0.08)	(0.23)	(0.30)	(0.15)				
Total dividends and distributions	(0.38)	(0.67)	(0.84)	(1.18)	(1.13)	(1.76)	(2.00)	(2.35)	(2.07)	(1.66)
Capital charge with respect to issuance of:										
Common Shares										(0.05)
Preferred Shares										(0.14)
Total capital charges										(0.19)
Net asset value, end of period	$ 12.49	$ 12.07	$ 12.41	$ 11.05	$ 8.77	$ 19.47	$ 24.52	$ 24.43	$ 25.88	$ 25.58
	$ 11.43	$ 10.53	$ 11.23	$ 9.94	$ 8.51	$ 17.31	$ 26.31	$ 24.20	$ 25.39	$ 24.83

Market price, end of period										
Total Investment Return Applicable to Common Shareholders[5]										
Based on net asset value	7.12%[6]	3.56%	21.52%	47.16%	(51.22)%[6]	(13.86)%	8.89%	3.81%	10.15%	14.65%[6]
Based on market price	12.37%[6]	(0.16)%	22.25%	36.42%	(46.76)%[6]	(28.62)%	17.98%	4.83%	11.01%	6.28%[6]
Ratios to Average Net Assets Applicable to Common Shareholders										
Total expenses[7]	1.15%[8]	1.05%	1.09%	1.66%	1.96%[8]	1.46%	1.62%	1.51%	1.44%	1.52%[8]
Total expenses after fees waived and paid indirectly[7]	1.15%[8]	1.05%	1.08%	1.64%	1.96%[8]	1.45%	1.62%	1.51%	1.44%	1.52%[8]
Total expenses after fees waived and paid indirectly and excluding interest expense[7]	1.02%[8]	0.96%	1.07%	1.39%	1.39%[8]	1.24%	1.25%	1.22%	1.19%	1.16%[8]
Net investment income[7]	6.39%[8]	5.78%	6.31%	13.08%	10.53%[8]	8.90%	8.46%	8.37%	8.66%	8.35%[8]
Dividends to Preferred Shareholders		0.01%	0.10%	0.38%	2.19%[8]	2.70%	1.89%	1.27%	0.62%	0.48%[8]
Net investment income to Common Shareholders	6.39%[8]	5.77%	6.21%	12.70%	8.34%[8]	6.20%	6.58%	7.10%	8.04%	7.87%[8]

[Table of Contents](#)

BlackRock Credit Allocation Income Trust III (BPP)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	Period January 1, 2008 to October 31, 2008	Year Ended December 31, 2007	2006	2005	2004	Period February 28, 2003[1] to December 31, 2003
Supplemental Data										
Net assets applicable to Common Shareholders, end of period (000)	$ 230,722	$ 222,939	$ 229,098	$ 204,133	$ 161,311	$ 358,017	$ 449,995	$ 447,190	$ 473,809	$ 468,243
Preferred Shares outstanding at $25,000 liquidation preference, end of period (000)			$ 70,425	$ 70,425	$ 110,400	$ 220,800	$ 220,800	$ 220,800	$ 220,800	$ 220,841
Borrowings outstanding, end of period (000)	$ 73,925	$ 92,971		$ 13,235	$ 44,281					$ 3,486
Average borrowings outstanding, during the period 000)	$ 80,114	$ 51,264	$ 2,121	$ 16,330	$ 51,995	$ 903	$ 1,303	$ 2,904	$ 782	$ 19,822
Portfolio turnover	18%	48%	67%	16%	121%	97%	91%	77%	88%	98%
Asset coverage per Preferred Share at $25,000 liquidation preference, end of period			$ 106,328	$ 97,465	$ 61,540	$ 65,554	$ 75,965	$ 75,642	$ 78,650	$ 78,021
Asset coverage, end of period per $1,000	$ 4,121	$ 3,398								

1 Commencement of operations.
2 Net asset value, beginning of period, reflects a deduction of $1.12 per share sales charge from initial offering price of $25.00 per share.
3 Based on average shares outstanding.
4 Amount is less than $(0.01) per share.
5 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Where applicable, total investment returns exclude the effects of any sales charges and include the reinvestment of dividends and distributions.
6 Aggregate total investment return.
7 Do not reflect the effect of dividends to Preferred Shareholders.
8 Annualized.

Table of Contents

BlackRock Credit Allocation Income Trust IV (BTZ)

The Financial Highlights table is intended to help you understand BTZ s financial performance for the periods shown. Certain information reflects the financial results for a single Fund share. The total returns in the table represent the rate an investor would have earned or lost on an investment in BTZ (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six months ended April 30, 2012 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, BTZ s independent registered public accounting firm. Financial statements for the fiscal year ended October 31, 2011 and the Report of the Independent Registered Public Accounting Firm thereon appear in BTZ s Annual Report for the fiscal year ended October 31, 2011, which is available upon request.

BlackRock Credit Allocation Income Trust IV (BTZ)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	Period December 27, 2006[1] to October 31, 2007
Per Share Operating Performance						
Net asset value, beginning of period	$ 13.94	$ 14.46	$ 12.64	$ 10.59	$ 21.39	$ 23.88[2]
Net investment income	0.47[3]	0.88[3]	0.85[3]	0.99[3]	1.33[3]	1.25
Net realized and unrealized gain (loss)	0.50	(0.54)	2.14	2.54	(10.06)	(1.86)
Dividends to Preferred Shareholders from net investment income		(0.01)	(0.07)	(0.07)	(0.33)	(0.31)
Net increase (decrease) from investment operations	0.97	0.33	2.92	3.46	(9.06)	(0.92)
Dividends and distributions to Common Shareholders from:						
Net investment income	(0.47)	(0.85)	(0.81)	(0.93)	(0.90)	(0.93)
Tax return of capital			(0.29)	(0.48)	(0.84)	(0.47)
Total dividends and distributions	(0.47)	(0.85)	(1.10)	(1.41)	(1.74)	(1.40)
Capital charge with respect to issuance of:						
Common Shares						(0.04)
Preferred Shares						(0.13)
Total capital charges						(0.17)
Net asset value, end of period	$ 14.44	$ 13.94	$ 14.46	$ 12.64	$ 10.59	$ 21.39
Market price, end of period	$ 13.26	$ 12.08	$ 13.02	$ 10.96	$ 9.36	$ 18.65
Total Investment Return Applicable to Common Shareholders[4]						
Based on net asset value	7.46%[5]	3.28%	25.16%	41.06%	(44.27)%	(4.42)%[5]
Based on market price	13.87%[5]	(0.60)%	29.98%	38.38%	(43.51)%	(20.34)%[5]
Ratios to Average Net Assets Applicable to Common Shareholders						
Total expenses[6]	1.14%[7]	1.09%	1.12%	1.60%	1.65%	1.90%[7]
Total expenses after fees waived and paid indirectly[6]	1.14%[7]	1.09%	1.11%	1.58%	1.65%	1.88%[7]

Total expenses after fees waived and paid indirectly and excluding interest expense[6]	1.01%[7]	0.99%	1.07%	1.24%	1.21%	1.04%[7]
Net investment income[6]	6.82%[7]	6.25%	6.33%	9.93%	7.63%	6.50%[7]
Dividends to Preferred Shareholders		0.09%	0.50%	0.74%	1.89%	1.64%[7]
Net investment income to Common Shareholders	6.82%[7]	6.16%	5.83%	9.19%	5.74%	4.86%[7]

Table of Contents

BlackRock Credit Allocation Income Trust IV (BTZ)	Six Months Ended April 30, 2012 (Unaudited)	Year Ended October 31, 2011	2010	2009	2008	Period December 27, 2006[1] to October 31, 2007
Supplemental Data						
Net assets applicable to Common Shareholders, end of period (000)	$ 748,316	$ 722,337	$ 749,360	$ 654,999	$ 548,612	$ 1,108,534
Preferred Shares outstanding at $25,000 liquidation preference, end of period (000)			$ 231,000	$ 231,000	$ 231,000	$ 462,000
Borrowings outstanding, end of period (000)	$ 282,005	$ 339,303	$	$ 61,576	$ 223,512	$ 88,291
Average borrowings outstanding, during the period (000)	$ 300,482	$ 182,843	$ 63,660	$ 76,521	$ 107,377	$ 96,468
Portfolio turnover	20%	54%	64%	30%	126%	35%
Asset coverage per Preferred Share at $25,000 liquidation preference, end of period			$ 106,104	$ 95,892	$ 84,384	$ 89,737
Asset coverage, end of period per $1,000	$ 3,654	$ 3,129				

1 Commencement of operations.
2 Net asset value, beginning of period, reflects a deduction of $1.12 per share sales charge from initial offering price of $25.00 per share.
3 Based on average shares outstanding.
4 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Where applicable, total investment returns exclude the effects of any sales charges and include the reinvestment of dividends and distributions.
5 Aggregate total investment return.
6 Do not reflect the effect of dividends to Preferred Shareholders.
7 Annualized.

Table of Contents

INFORMATION ABOUT THE REORGANIZATION

General

Under the Reorganization Agreements (a form of which is attached as Appendix A to the Statement of Additional Information), each Target Fund will merge with and into the BTZ Merger Subsidiary. Target Fund common shares will be exchanged for Acquiring Fund Shares pursuant to each Reorganization. The Acquiring Fund Shares issued to the Target Funds common shareholders will have an aggregate net asset value equal to the aggregate net asset value (not the market value) of the Target Funds common shares, less the applicable costs of the Reorganizations (though cash may be paid in lieu of any fractional common shares). In connection with the Reorganizations, the Acquiring Fund subsequently will issue to the Target Funds common shareholders book entry interests for the Acquiring Fund Shares registered in the name of such shareholder. As soon as practicable after the Closing Date for the Reorganizations, the Target Funds will deregister as investment companies under the 1940 Act and the BTZ Merger Subsidiary will dissolve under state law and be liquidated into the Acquiring Fund.

Acquiring Fund Shares will be distributed pro rata to the holders of record of the Target Funds common shares, as applicable. Such distribution of Acquiring Fund Shares to the Target Funds shareholders will be accomplished by opening new accounts on the books of Acquiring Fund in the names of the shareholders of the Target Funds and transferring to those shareholder accounts Acquiring Fund Shares. Each newly-opened account on the books of the Acquiring Fund for the former shareholders of the Target Funds will represent the respective pro rata number of Acquiring Fund Shares (rounded down, in the case of fractional common shares held other than in a Plan account, to the next largest number of whole common shares) due such shareholder. No fractional Acquiring Fund Shares will be issued (except for common shares held in a Plan account). In the event there are fractional common shares in an account other than a Plan account, the Acquiring Fund s transfer agent will aggregate all such fractional Acquiring Fund Shares and sell the resulting whole common shares on the NYSE, for the account of all holders of such fractional interests, and each such holder will be entitled to the pro rata share of the proceeds from such sale upon surrender of Target Fund common share certificates. See Terms of the Reorganization Agreement Surrender and Exchange of Share Certificates below for a description of the procedures to be followed by the Target Funds shareholders to obtain their Acquiring Fund Shares (and cash in lieu of fractional common shares, if any).

As a result of the Reorganizations, each shareholder of a Target Fund will own Acquiring Fund Shares that (except for cash payments received in lieu of fractional common shares) will have an aggregate net asset value immediately after the Closing Date equal to the aggregate net asset value (not the market value) of that shareholder s Target Fund common shares immediately prior to the Closing Date. Since the Acquiring Fund Shares will be issued at net asset value in exchange for the common shares of each Target Fund having a value equal to the aggregate net asset value of those Acquiring Fund Shares, the net asset value per share of Acquiring Fund Shares should remain virtually unchanged by the Reorganizations except for its share of the applicable costs of the Reorganizations. Thus, the Reorganizations will result in no dilution of the net asset value of the Acquiring Fund Shares, other than to reflect the applicable costs of the Reorganization. However, as a result of the Reorganizations, a shareholder of any of the Funds will hold a reduced percentage of ownership in the Combined Fund than he or she did in any of the Target Funds. No sales charge or fee of any kind will be charged to shareholders of the Target Funds in connection with their receipt of Acquiring Fund Shares in the Reorganizations.

TERMS OF THE REORGANIZATION AGREEMENT

The following is a summary of the significant terms of the Reorganization Agreement. This summary is qualified in its entirety by reference to the Form of Reorganization Agreement attached as Appendix A to the Statement of Additional Information.

Table of Contents

Valuation of Assets and Liabilities

The respective assets of each of the Funds will be valued on the business day prior to the Closing Date (the Valuation Time). The valuation procedures are the same for each Fund: The net asset value per common share of each Fund will be determined after the close of business on the NYSE (generally, 4:00 p.m., Eastern Time) at the Valuation Time. For the purpose of determining the net asset value of a common share of each Fund, the value of the securities held by the such Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses) of such Fund is divided by the total number of common shares of such Fund outstanding at such time. Daily expenses, including the fees payable to the Investment Advisor, will accrue at the Valuation Time.

Amendments and Conditions

The Reorganization Agreements may be amended at any time prior to the Closing Date with respect to any of the terms therein upon mutual agreement. However, no amendment or modification may be made which by law requires further approval by such shareholders without such further approval. The obligations of each Fund pursuant to the Reorganization Agreements are subject to various conditions, including a registration statement on Form N-14 being declared effective by the SEC, approval of the Reorganization Agreements by the shareholders of the Target Funds, approval of the issuance of additional Acquiring Fund Shares by the shareholders of the Acquiring Fund, receipt of an opinion of counsel as to tax matters, receipt of an opinion of counsel as to corporate and securities matters and the continuing accuracy of various representations and warranties of the Funds being confirmed by the respective parties.

Postponement; Termination

Under the Reorganization Agreements, the Board of any Fund or the BTZ Merger Subsidiary may cause a Reorganization to be postponed or abandoned under certain circumstances should such Board determine that it is in the best interests of the shareholders of its respective Fund or the BTZ Merger Subsidiary to do so. The Reorganization Agreements may be terminated, and the Reorganizations abandoned at any time (whether before or after adoption thereof by the shareholders of either of the Funds) prior to the Closing Date, or the Closing Date may be postponed: (i) by mutual consent of the Boards of the Funds and (ii) by the Board of either Fund or the Board of the BTZ Merger Subsidiary if any condition to that Fund s or the BTZ Merger Subsidiary s obligations set forth in the pertinent Reorganization Agreement has not been fulfilled or waived by such Board.

Surrender and Exchange of Share Certificates

The Acquiring Fund will issue to Target Fund shareholders book entry interests for the Acquiring Fund Shares registered in the name of on the basis of each holder s proportionate interest in the aggregate net asset value (not the market value) of Target Fund common shares. With respect to any Target Fund shareholder holding certificates evidencing ownership of Target Fund shares as of the Closing Date, and subject to the Acquiring Fund being informed thereof in writing by the Target Fund, the Acquiring Fund will not permit such shareholder to receive new book entry interests of the Acquiring Fund Shares, until notified by the Target Fund or its agent that such shareholder has surrendered his or her outstanding certificates evidencing ownership of Target Fund shares or, in the event of lost certificates, posted adequate bond. The Target Fund, at its own expense, will request its shareholders to surrender their outstanding certificates evidencing ownership of Target Fund shares or post adequate bond.

Please do not send in any share certificates at this time. Upon consummation of the Reorganizations, shareholders of the Target Funds will be furnished with instructions for exchanging their share certificates for Acquiring Fund share certificates and, if applicable, cash in lieu of fractional common shares.

From and after the Closing Date, there will be no transfers on the stock transfer books of the Target Funds. If, after the Closing Date, certificates representing common shares of the Target Funds are presented to the

Table of Contents

Acquiring Fund, they will be cancelled and exchanged for book entry interests representing Acquiring Fund Shares and cash in lieu of fractional common shares, if applicable, distributable with respect to the Target Funds common shares in the Reorganization.

Expenses of the Reorganization

PSW, BPP and the Acquiring Fund will bear expenses incurred in connection with the Reorganization, including, but not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreements and the registration statement on Form N-14, the printing and distribution of this Joint Proxy Statement/Prospectus and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganization, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, rating agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganization, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate. The estimated expenses of the Reorganizations attributable to PSW, PSY, BPP and BTZ are estimated to be $240,000, $400,000, $300,000 and $450,000, respectively. The Investment Advisor has decided to cover PSY s costs of the Reorganization because PSY is not expected to experience any significant cost savings from the Reorganizations. Therefore, the costs associated with PSY s Reorganization will not be directly borne by PSY. Neither the Funds nor the Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganization (*e.g.*, expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganizations or other action taken by the shareholder in connection with the Reorganizations). The actual costs associated with the proposed Reorganizations may be more or less than the estimated costs discussed herein.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE REORGANIZATIONS

The following is a summary of certain U.S. federal income tax consequences of the Reorganizations. The discussion is based upon the Code, Treasury regulations, court decisions, published positions of the Internal Revenue Service (IRS) and other applicable authorities, all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). The discussion is limited to U.S. persons who hold common shares of a Target Fund as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This summary does not address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder or to shareholders who may be subject to special treatment under U.S. federal income tax laws. No ruling has been or will be obtained from the IRS regarding any matter relating to the Reorganizations. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects described below. This summary of U.S. federal income tax consequences is for general information only. The Funds shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganizations, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax law.

It is a condition to the closing of each Reorganization that the respective Target Fund and the Acquiring Fund each receive an opinion from Skadden Arps, dated as of the Closing Date, regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code. The opinion of Skadden Arps will be based on U.S. federal income tax law in effect on the Closing Date. In rendering its opinion, Skadden Arps will also rely upon certain representations of the management of the respective Target Fund and the Acquiring Fund and assume, among other things, that the Reorganization will be consummated in accordance with the applicable Reorganization Agreement and other operative documents and as described herein. An opinion of counsel is not binding on the IRS or any court.

As a reorganization, the U.S. federal income tax consequences of each Reorganization can be summarized as follows:

- No gain or loss will be recognized by a Target Fund or the Acquiring Fund by reason of the Reorganization.

- No gain or loss will be recognized by a shareholder of a Target Fund who exchanges all of its Target Fund Stock solely for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of a fractional Acquiring Fund Share, as discussed below).

- The aggregate tax basis of Acquiring Fund Shares received by a shareholder of a Target Fund pursuant to the Reorganization will be the same as the aggregate tax basis of the shareholder s Target Fund common shares surrendered in exchange therefor (reduced by any amount of tax basis allocable to a fractional Acquiring Fund common share for which cash is received).

- The holding period of Acquiring Fund Shares received by a shareholder of a Target Fund pursuant to the Reorganization will include the holding period of the shareholder s Target Fund common shares surrendered in exchange therefor.

- A shareholder of a Target Fund that receives cash in lieu of a fractional Acquiring Fund common share in connection with the Reorganization will be treated as having received cash in redemption of such fractional Acquiring Fund common share. A Target Fund shareholder that receives cash in lieu of a fractional Acquiring Fund common share will recognize capital gain or loss equal to the difference between the amount of cash deemed received for the fractional Acquiring Fund common share and the Target Fund shareholder s tax basis in Target Fund common shares allocable to the fractional Acquiring Fund common share. The capital gain or loss will be a long-term capital gain or loss if the Target Fund shareholder s holding period for Target Fund common shares is more than one year as of the date the Reorganization is consummated.

- The Acquiring Fund s tax basis in a Target Fund s assets received by the Acquiring Fund pursuant to the Reorganization will, in each instance, equal the tax basis of such assets in the hands of such Target Fund immediately prior to the Reorganization, and the Acquiring Fund s holding period for such assets will, in each instance, include the period during which the assets were held by a Target Fund

The Acquiring Fund intends to continue to be taxed under the rules applicable to regulated investment companies as defined in Section 851 of the Code, which are the same rules currently applicable to each Fund and its shareholders.

None of the Funds intend to sell any assets in connection with the Reorganizations other than in the ordinary course of business. If, however, assets of the Target Funds were to be sold in connection with the Reorganization, or if such assets were required to be marked to market as a result of the termination of the Target Fund s taxable year or as a result of the transfer of certain assets in the Reorganization, the tax impact of any such sales (or deemed sales) would depend on the difference between the price at which such portfolio assets are sold and the Target Fund s basis in such assets. Any capital gains recognized in these sales (or deemed sales) on a net basis will be distributed to the Target Fund shareholders as capital gain dividends (to the extent of net realized long-term capital gains) and/or ordinary dividends (to the extent of net realized short-term capital gains) during or with respect to the year of sale (or deemed sale) and prior to or on the date of the Reorganization, and such distributions will be taxable to shareholders of the Target Fund.

Prior to the Closing Date, each Target Fund will declare and pay a distribution to its shareholders, which together with all previous distributions, will have the effect of distributing to the shareholders of such Target Fund all of such Target Fund s investment company taxable income (computed without regard to the deduction for dividends paid), if any, through the Closing Date, net capital gains, if any, through the Closing Date, and all of its net tax-exempt interest income through Closing Date. Such distribution will be taxable to shareholders for U.S. federal income tax purposes.

Table of Contents

The Acquiring Fund will succeed to capital loss carryforwards (and certain unrealized built-in losses, if any) of each of the acquired Target Funds, which will be subject to the tax loss limitation rules described below because each Target Fund will undergo an ownership change for U.S. federal income tax purposes, and such limitations might be significant. Depending on which of the Reorganizations are consummated, the Acquiring Fund s own capital loss carryforwards (and certain unrealized built-in losses, if any) may also be subject to the tax loss limitation rules described below because the Acquiring Fund may also undergo an ownership change for U.S. federal income tax purposes, and such limitation might be significant. For each Fund that undergoes an ownership change, the Code generally limits the amount of pre-ownership change losses that may be used to offset post-ownership change gains to a specific annual loss limitation amount (generally the product of (i) the fair market value of the stock of such Fund, with certain adjustments, immediately prior to the Reorganization and (ii) a rate established by the IRS). Subject to certain limitations, any unused portion of these losses may be available in subsequent years, subject to the remaining portion of any applicable capital loss carryforward limit, as measured from the date of recognition.

Although the capital loss carryforwards of the Combined Fund attributable to each Target Fund that participates in a Reorganization (and to the Acquiring Fund, if it undergoes an ownership change as a result of the Reorganizations) are subject to tax loss limitation rules (as outlined above), it is currently expected that such tax loss limitation rules should not have a material adverse effect on the Combined Fund s utilization of each such Fund s capital loss carryforward as compared with what each such Fund s utilization of its own capital loss carryforward would be without the Reorganization. The ability of each Fund (and the Combined Fund) to utilize any capital loss carryforwards now or in the future depends on many variables and assumptions, including but not limited to, projected performance of a Fund, the unrealized gain/loss position of a Fund, the types of securities held by a Fund, the current and future market environment (including the level of interest rates), portfolio turnover and applicable law (including the requirement that capital loss carryforwards without expiration dates be utilized before capital loss carryforwards that have expiration dates), and is, therefore, highly uncertain. Information with respect to the Funds capital loss carryforwards as of April 30, 2012 is set forth below:

	Capital Loss Amount*			
Expiration	**BTZ**	**BPP**	**PSY**	**PSW**
10/31/2013			(17,911,331)	(5,058,900)
10/31/2014			(12,145,117)	(8,481,628)
10/31/2015	(44,682,537)	(16,673,715)	(19,582,978)	(6,724,694)
10/31/2016	(113,355,213)	(58,197,929)	(140,413,242)	(40,232,230)
10/31/2017	(223,939,227)	(108,996,120)	(194,970,854)	(55,825,534)
10/31/2018	(15,223,841)	(15,245,888)	(37,285,625)	(4,498,024)
10/31/2019	(10,353,275)	(2,683,880)	(11,730,113)	(2,118,889)
	(407,554,093)	(201,797,532)	(434,039,260)	(122,939,899)

* The Funds anticipate that approximately $803 million of capital loss carryforwards will be lost/forfeited as a result of the tax loss limitation rules described above. No assurances can be given, however, that this estimate will be correct and the actual amount of forfeited capital loss carryforwards could be higher or lower than such estimate, depending on the circumstances. The Funds believe that the potential loss of capital loss carryforwards as a result of the Reorganizations is not a material factor in evaluating the Reorganizations in light of several factors, including (1) the difficulty of projecting the likelihood of utilization of some or all of the capital loss carryforwards prior to their expiration, and (2) the potentially limited opportunity for capital gains in light of the Funds investment policy of investing primarily in debt securities and instruments.

Due to the operation of these tax loss limitation rules, it is possible that shareholders of the Target Funds and shareholders of the Acquiring Fund would receive taxable distributions of short-term and long-term capital gains earlier than they would have in the absence of the Reorganizations. Such taxable distributions will be treated either as ordinary income (and not as favorably taxed qualified dividend income) if such capital gains are short term or as favorably taxed capital gain dividends if such capital gains are long term. The actual financial

Table of Contents

effect of the loss limitation rules on a shareholder of a Fund whose losses are subject to the loss limitation rules would depend on many variables, including such Fund s expected growth rate if the relevant Reorganization were not to occur (i.e., whether, in the absence of the Reorganization, the Fund would generate sufficient capital gains against which to utilize its capital loss carryforwards prior to their expiration (and certain realized built-in losses), in excess of what would have been the annual loss limitation amount had the relevant Reorganization occurred), the timing and amount of future capital gains recognized by the Combined Fund if the relevant Reorganization were to occur, and the timing of a historic Fund shareholder s disposition of its shares (the tax basis of which might, depending on the facts, reflect that shareholder s share of such Fund s capital losses). Shareholders of all of the Funds should consult their own tax advisors in this regard.

In addition, for five years beginning on the Closing Date of a Reorganization, the Combined Fund will not be allowed to offset certain pre-Reorganization built-in gains attributable to a Fund that is a gain corporation with capital loss carryforwards (and certain built-in losses) attributable to another Fund.

PROPOSAL 2: ISSUANCES OF ADDITIONAL ACQUIRING FUND SHARES

Pursuant to the Reorganization Agreements, which are described more fully under Proposal 1: Reorganizations of the Target Funds above, the Acquiring Fund will issue Acquiring Fund Shares and list them for trading on the NYSE. The Acquiring Fund will issue to the Target Funds common shareholders book entry interests for the Acquiring Fund Shares registered in the name of such shareholder. Each Target Fund will then terminate its registration under the 1940 Act. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that each Reorganization will benefit the holders of Acquiring Fund Shares.

The aggregate net asset value of Acquiring Fund Shares issued in each Reorganization will equal the aggregate net asset value (not the market value) of the Target Fund s common shares held immediately prior to the Reorganization, less the applicable costs of the Reorganization (although shareholders may receive cash for their fractional common shares). The Reorganizations will result in no reduction of the net asset value of the Acquiring Fund Shares, other than to reflect the costs of each Reorganization, as applicable. No gain or loss for U.S. federal income tax purposes will be recognized by the Acquiring Fund or its shareholders in connection with any Reorganization. The Acquiring Fund will continue to operate as a registered, diversified, closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

In connection with each proposed Reorganization described under Proposal 1: The Reorganizations of the Target Funds, the Acquiring Fund will issue additional Acquiring Fund Shares and list such common shares on the NYSE. All other things being equal, the Reorganizations will result in no reduction of the net asset value of the Acquiring Fund Shares, other than to reflect the applicable costs of the Reorganizations.

The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganizations will benefit shareholders of the Acquiring Fund. In particular, the Acquiring Fund Board reviewed data presented by the Investment Advisor showing that the Acquiring Fund will experience a reduced management fee and a reduced Total Expense Ratio as a result of the proposed Reorganizations.

The Acquiring Fund pays the Investment Advisor a monthly management fee of 0.65% based on the Acquiring Fund s average weekly Managed Assets. Managed Assets means the total assets of the Acquiring Fund minus the sum of the accrued liabilities (other than the aggregate indebtedness constituting financial leverage). If any of the Reorganizations are approved and consummated, the Combined Fund will pay the Investment Advisor a monthly fee at an annual rate of 0.62% of the Combined Fund s average weekly Managed Assets.

Table of Contents

For the 12-month period ended April 30, 2012, the Total Expense Ratio of the Acquiring Fund was 1.17%. The Acquiring Fund estimates that the completion of all of the Reorganizations would result in a Total Expense Ratio for the Combined Fund of 1.12% on a historical and pro forma basis for the 12-month period ended April 30, 2012, representing a reduction in the Total Expense Ratio for the Acquiring Fund of 0.05%, as a percentage of average net assets attributable to common shares.

The Acquiring Fund Board requests that shareholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Shares in connection with the Reorganizations (the Issuances) at the Special Meeting to be held on Friday, November 2, 2012 at 9:00 a.m. (Eastern Time). The Issuances must be approved by an affirmative vote of a majority of votes cast, where total votes cast represented over 50% of all securities entitled to vote. Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be after the close of business on or about December 7, 2012, but it may be at a different time as described herein. For additional information regarding voting requirements, see Voting Information and Requirements.

The Acquiring Fund Board recommends that shareholders of the Acquiring Fund vote **FOR** the Issuances of additional Acquiring Fund Shares in connection with each Reorganization.

PROPOSAL 3: REMOVAL OF FINANCIAL SECTOR CONCENTRATION POLICIES

Each Fund is currently subject to an investment policy that requires such Fund to invest at least 25% of its total or managed assets in the financial services sector (each, a Concentration Policy).

The Board of PSW has approved, and recommends that shareholders of PSW approve, the removal of PSW s investment policy requiring that PSW invests at least 25% of its total assets in the industries comprising the financial services sector and amending PSW s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the PSW Policy Amendment). PSW s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any one industry; provided that this limitation shall not apply with respect to obligations issued or guaranteed by the U.S. government or by its agencies or instrumentalities.

The Board of PSY has approved, and recommends that shareholders of PSY approve, the removal of PSY s investment policy requiring that PSY invests at least 25% of its total assets in the industries comprising the financial services sector and amending PSY s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the PSY Policy Amendment). PSY s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any one industry; provided that this limitation shall not apply with respect to obligations issued or guaranteed by the U.S. government or by its agencies or instrumentalities.

The Board of BPP has approved, and recommend that shareholders of BPP approve, the removal of BPP s investment policy requiring that BPP invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending BPP s fundamental investment restriction regarding industry concentration to remove the exception for the financial services industry (the BPP Policy Amendment). BPP s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest more than 25% of its Managed Assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to obligations issued or guaranteed by the U.S. Government or by its agencies or instrumentalities.

The Board of BTZ has approved, and recommends that shareholders of BTZ approve, the removal of BTZ s investment policy requiring that BTZ invests at least 25% of its Managed Assets in securities of companies principally engaged in providing financial services and amending BTZ s fundamental investment restriction regarding industry concentration to reflect the removal of such investment policy (the BTZ Policy Amendment and together with the PSW Policy Amendment, PSY Policy Amendment and BPP Policy Amendment, the Policy Amendments). BTZ s fundamental investment restriction regarding industry concentration as proposed to be amended is set forth below.

The Fund may not:

Invest 25% or more of the value of its total assets in securities of issuers in any one industry; provided, however, that such limitation shall not apply to obligations issued or guaranteed by the U.S. Government or by its agents or instrumentalities.

The Board of each Fund anticipates that such Fund s Policy Amendment would benefit such Fund s shareholders by providing the Funds investment advisor and sub-advisors with increased flexibility in managing such Fund s portfolio and by reducing such Fund s exposure to financial sector risk. As former preferred stock funds, each Fund formerly emphasized its investments in the preferred stock of companies from the financial sector. Such concentration policies are no longer relevant to the Funds and unduly restrictive given the Funds broad focus on credit-related securities. If the Policy Amendments are approved by shareholders, the Funds will be less exposed to financial sector risk and will have greater capital available for other investment and diversification purposes.

Approval of a Fund s Policy Amendment is not contingent upon the approval of any Reorganization or the Issuance, as applicable, and vice versa. A Fund s shareholders would have the benefit of a Policy Amendment regardless of whether such Fund s Reorganization or Issuance is approved so long as such Fund s Policy Amendment was approved by such Fund s shareholders. In the event a Fund s Policy Amendment is not approved by such Fund s shareholders, the Investment Advisor will continue to manage the Fund under its Concentration Policy.

In the event any of the Reorganizations are consummated, shareholders of the Combined Fund, including former shareholders of the applicable Target Funds, would be subject to the Concentration Policy of the Acquiring Fund following the Reorganizations. If Acquiring Fund shareholders do not approve the BTZ Policy Amendment, then the Combined Fund would operate under Acquiring Fund s Concentration Policy and shareholders of the Combined Fund, including former shareholders of the Target Funds, would not have the benefit of a Policy Amendment. In such an event, Target Fund shareholders would not have the benefit of any Policy Amendment even if Target Fund shareholders had previously approved its respective Target Fund s Policy Amendment. If Acquiring Fund shareholders approve the BTZ Policy Amendment, then the Combined Fund would operate under the BTZ Policy Amendment and shareholders of the Combined Fund, including former shareholders of the applicable Target Funds, would have the benefit of a Policy Amendment. In such an event, shareholders of the applicable Target Funds would be subject to a Policy Amendment even if such Target

Table of Contents

Fund shareholders had not previously approved its respective Target Fund s Policy Amendment. There can be no assurance that Acquiring Fund shareholders will approve the BTZ Policy Amendment.

At the Special Meeting, each Fund s shareholders will be asked to approve their respective Fund s Policy Amendment. Each Fund s Policy Amendment will take effect immediately upon approval by such Fund s shareholders. Each Fund s Policy Amendment requires approval by an affirmative vote of a 1940 Act Majority of such Fund.

The PSW Board recommends that shareholders of PSW vote **FOR** the PSW Policy Amendment.

The PSY Board recommends that shareholders of PSY vote **FOR** the PSY Policy Amendment.

The BPP Board recommends that shareholders of BPP vote **FOR** the BPP Policy Amendment.

The BTZ Board recommends that shareholders of BTZ vote **FOR** the BTZ Policy Amendment.

VOTING INFORMATION AND REQUIREMENTS

General

A list of the Funds shareholders of record as of the Record Date will be available at the shareholder meeting.

Record Date

The Funds have fixed the close of business on September 4, 2012 as the record date (the Record Date) for the determination of shareholders entitled to notice of, and to vote at, the Special Meeting or any adjournment thereof. Shareholders on the Record Date will be entitled to one vote for each share held, with no shares having cumulative voting rights.

At the Record Date, the Funds had outstanding the following amount of common shares:

Title of Class	PSW	PSY	BPP	BTZ
Common Shares	10,311,941	40,807,418	18,467,785	51,828,156

Proxies

Shareholders may vote by appearing in person at the Special Meeting, by returning the enclosed proxy card or by casting their vote via telephone or the Internet using the instructions provided on the enclosed proxy card and more fully described below. Shareholders of each Fund have the opportunity to submit their voting instructions via the Internet or by touch-tone telephone voting. The giving of such a proxy will not affect your right to vote in person should you decide to attend the Special Meeting. To use the Internet, please access the Internet address found on your proxy card. To record your voting instructions by automated telephone, please call the toll-free number listed on your proxy card. The Internet and automated telephone voting instructions are designed to authenticate shareholder identities, to allow shareholders to give their voting instructions, and to confirm that shareholders instructions have been recorded properly. Shareholders submitting their voting instructions via the Internet should understand that there may be costs associated with Internet access, such as usage charges from Internet access providers and telephone companies that must be borne by the shareholders. Any person giving a proxy may revoke it at any time prior to its exercise by giving written notice of the revocation to the Secretary of the Fund at the address indicated above, by delivering a duly executed proxy bearing a later date, by recording later-dated voting instructions via the Internet or automated telephone or by attending the Special Meeting and voting in person. The giving of a proxy will not affect your right to vote in person if you attend the Special Meeting and wish to do so.

Table of Contents

Votes cast by proxy or in person at the Special Meeting will be tabulated by the inspectors of election appointed for the Special Meeting. For PSW and PSY, the holders of at least one-third of the shares entitled to vote on the proposal must be present in person or by proxy to have a quorum to conduct business at the Special Meeting. For BPP and BTZ, the holders of a majority of the shares entitled to vote on the proposal must be present in person or by proxy to have a quorum to conduct business at the Special Meeting. The inspectors of election, who may be employees of BlackRock, will determine whether or not a quorum is present at the Special Meeting. The inspectors of election will generally treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which proxies have been returned but (a) instructions have not been received from the beneficial owners or persons entitled to vote and (b) the broker or nominee does not have discretionary voting power or elects not to exercise discretion on a particular matter) as present for purposes of determining a quorum, subject to any applicable rules of the stock exchange on which a Fund s shares are listed.

If you hold your shares directly (not through a broker-dealer, bank or other financial institution) and if you return a properly executed proxy card that does not specify how you wish to vote on a proposal, your shares will be voted FOR each Proposal on which you are entitled to vote.

Broker-dealer firms holding shares of a Fund in street name for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on Proposals 1-3 before the Special Meeting. Proposals 1-3 are not routine matters and shareholder instructions are required for broker-dealers to vote a beneficial owner s shares.

If you hold shares of a Fund through a bank or other financial institution or intermediary (called a service agent) that has entered into a service agreement with the Fund or a distributor of the Fund, the service agent may be the record holder of your shares. At the Special Meeting, a service agent will vote shares for which it receives instructions from its customers in accordance with those instructions. A properly executed proxy card or other authorization by a shareholder that does not specify how the shareholder s shares should be voted on a proposal may be deemed to authorize a service provider to vote such shares in favor of the proposal. Depending on its policies, applicable law or contractual or other restrictions, a service agent may be permitted to vote shares with respect to which it has not received specific voting instructions from its customers. In those cases, the service agent may, but may not be required to, vote such shares in the same proportion as those shares for which the service agent has received voting instructions. This practice is commonly referred to as echo voting.

All properly executed proxies received prior to the Special Meeting will be voted in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted FOR the approval of each proposal. Abstentions and broker non-votes are not treated as votes FOR a proposal.

With respect to Proposal 1(A), 1(B) and 1(C), abstentions and broker non-votes will have the same effect as votes AGAINST the proposal.

With respect to Proposal 2(A), 2(B) and 2(C), abstentions will be counted as votes cast and will therefore have the same effect as votes AGAINST the proposal and broker non-votes will have the same effect as votes AGAINST the proposal; provided, that, if more than 50% of all securities entitled to vote on the proposal cast votes, than broker non-votes will not have any effect on the result of the vote.

With respect to Proposal 3(A), 3(B), 3(C) and 3(D), abstentions and broker non-votes will have the same effect as votes AGAINST the proposals.

As used herein, a 1940 Act Majority means the affirmative vote of either (i) 67% or more of the voting securities present at the Special Meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (ii) more than 50% of the outstanding voting securities of the Fund, whichever is less.

Table of Contents

Voting Requirement for Proposal 1: The Reorganizations of the Target Funds

Target Funds	Proposals	Required Approval of Target Fund Shareholders
PSW	Proposal 1(A): The shareholders of PSW are being asked to approve the Agreement and Plan of Reorganization among PSW, BTZ and the BTZ Merger Subsidiary and the termination of PSW s registration under the 1940 Act.	A majority of the outstanding shares entitled to vote.
PSY	Proposal 1(B): The shareholders of PSY are being asked to approve the Agreement and Plan of Reorganization among PSY, BTZ and the BTZ Merger Subsidiary and the termination of PSY s registration under the 1940 Act.	A majority of the outstanding shares entitled to vote.
BPP	Proposal 1(C): The shareholders of BPP are being asked to approve the Agreement and Plan of Reorganization among BPP, BTZ and the BTZ Merger Subsidiary and the termination of BPP s registration under the 1940 Act.	A 1940 Act Majority

Voting Requirement for Proposal 2: Issuances of Acquiring Fund Shares

Target Funds	Proposals	Required Approval of Acquiring Fund Shareholders
PSW	Proposal 2(A): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the Agreement and Plan of Reorganization among PSW, BTZ and the BTZ Merger Subsidiary.	A majority of votes cast, provided that the total votes cast on the proposal represents over 50% in interest of all shares entitle to vote on the proposal
PSY	Proposal 2(B): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the Agreement and Plan of Reorganization among PSY, BTZ and the BTZ Merger Subsidiary.	A majority of votes cast, provided that the total votes cast on the proposal represents over 50% in interest of all shares entitle to vote on the proposal
BPP	Proposal 2(C): The shareholders of BTZ are being asked to approve the issuance of additional common shares of BTZ in connection with the Agreement and Plan of Reorganization among BPP, BTZ and the BTZ Merger Subsidiary.	A majority of votes cast, provided that the total votes cast on the proposal represents over 50% in interest of all shares entitle to vote on the proposal

Table of Contents

Funds	Proposals	Required Approval of Fund Shareholders
PSW	Proposal 3(A): The PSW Policy Amendment	1940 Act Majority
PSY	Proposal 3(B): The PSY Policy Amendment	1940 Act Majority
BPP	Proposal 3(C): The BPP Policy Amendment	1940 Act Majority
BTZ	Proposal 3(D): The BTZ Policy Amendment	1940 Act Majority

SHAREHOLDER INFORMATION

As of July 31, 2012, the officers and directors of each Fund, as a group, beneficially owned less than 1% of the outstanding common shares of each such Fund. Unless otherwise indicated, the information set forth below is as of July 31, 2012. To each Fund s knowledge, no person beneficially owned more than 5% of the Fund s respective outstanding shares of common stock, except as set forth below.

Title of Share Class	Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership	Percentage of Share Class
PSW			
Common shares	Sit Investment Associates, Inc.[1] 3300 IDS Center 80 South Eighth Street Minneapolis, MN 55402	843,992	8.18%
	Spectrum Asset Management, Inc.[2] 2 High Ridge Park Stamford, CT 06905	857,000	8.33%
	Principal Financial Group, Inc.[2] 711 High Street Des Moines, IA 50392-0088		
PSY			
Common shares	Spectrum Asset Management, Inc.[2] 2 High Ridge Park Stamford, CT 06905	2,565,283	6.29%
	Principal Financial Group, Inc.[2] 711 High Street Des Moines, IA 50392-0088		

BPP

Common shares	Sit Investment Associates, Inc.[1] 3300 IDS Center 80 South Eighth Street Minneapolis, MN 55402	1,270,848	6.93%
	Morgan Stanley[3] 1585 Broadway New York, NY 10036	923,566	5.00%

102

Table of Contents

Title of Share Class	Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership	Percentage of Share Class
***Pro Forma* Combined Fund**[4]			
Common shares	Spectrum Asset Management, Inc.[2] 2 High Ridge Park Stamford, CT 06905	2,724,339	2.51%
	Principal Financial Group, Inc.[2] 711 High Street Des Moines, IA 50392-0088		
	Sit Investment Associates, Inc.[1] 3300 IDS Center 80 South Eighth Street Minneapolis, MN 55402	1,734,362	1.60%
	Morgan Stanley[3] 1585 Broadway New York, NY 10036	799,468	0.74%

(1) Sit Investment Associates, Inc. and its affiliated entities filed their Schedule 13G jointly and did not differentiate holdings as to each entity.

(2) Spectrum Asset Management, Inc. and Principal Financial Group, Inc. filed their Schedule 13G jointly and did not differentiate holdings as to each entity.

(3) Morgan Stanley s Schedule 13G filing reflects the securities beneficially owned, or that may be deemed to be beneficially owned, by certain operating units (collectively, the MS Reporting Units) of Morgan Stanley and its subsidiaries and affiliates (collectively, MS). The filing did not reflect securities, if any, beneficially owned by any operating units of MS whose ownership of securities is disaggregated from that of the MS Reporting Units in accordance with the Securities and Exchange Commission Release No. 34-39538 (January 12, 1998).

(4) Assumes the completion of all the proposed Reorganizations.

SHAREHOLDER PROPOSALS

To be considered for presentation at a shareholder s meeting, rules promulgated by the SEC generally require that, among other things, a shareholder s proposal must be received at the offices of the relevant Fund a reasonable time before solicitation is made. In addition, each Fund s bylaws provide for advance notice provisions, which require shareholders to give timely notice in proper written form to the Secretary of the Fund. Shareholders should review each Fund s bylaws for additional information regarding the Funds advance notice provisions. The bylaws of BTZ and BPP were filed with the SEC on October 29, 2010 as part of the Funds 8-Ks and the bylaws of PSW and PSY were filed with the SEC on September 17, 2010 as part of the Funds 8-Ks, and shareholders may obtain copies of such documents as described on page ii of this Joint Proxy Statement/Prospectus.

Timely submission of a proposal does not necessarily mean that such proposal will be included. Any shareholder who wishes to submit a proposal for consideration at a meeting of such shareholder s Fund should send such proposal to the relevant Fund at Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055, Attention: Janey Ahn.

Table of Contents

SOLICITATION OF PROXIES

Solicitation of proxies is being made primarily by the mailing of this Notice and Joint Proxy Statement/Prospectus with its enclosures on or about September 26, 2012. Shareholders of the Funds whose shares are held by nominees such as brokers can vote their proxies by contacting their respective nominee. In addition to the solicitation of proxies by mail, employees of the Advisors and their affiliates as well as dealers or their representatives may solicit proxies in person or by mail, telephone, fax or the internet. The Funds and the Advisors have retained Georgeson Inc. 199 Water Street, 26th Floor New York, New York, 10038 (Georgeson), a proxy solicitation firm, to assist with the distribution of proxy materials and the solicitation and tabulation of proxies. The cost of Georgeson s services in connection with the proxy is anticipated to be approximately $18,000, $55,000, $32,000 and $74,000 for PSW, PSY, BPP and BTZ, respectively. In addition, Broadridge Financial Solutions, Inc. 51 Mercedes Way, Edgewood NY 11717 (Broadridge) will assist the Funds in the distribution of proxy materials. The cost of Broadridge s services in connection with the proxy is anticipated to be approximately $35,000, $134,000, $71,000 and $184,000 for PSW, PSY, BPP and BTZ, respectively.

LEGAL MATTERS

Certain legal matters concerning the U.S. federal income tax consequences of the Reorganization and the issuances of additional Acquiring Fund common shares will be passed upon by Skadden, Arps, Slate, Meagher & Flom LLP, which serves as special counsel to the Funds.

OTHER MATTERS WITH RESPECT TO THE MEETING

A representative of the Independent Registered Public Accounting Firm may attend the Special Meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to answer appropriate questions.

A list of shareholders entitled to be present and to vote at the meeting will be available at the offices of the Funds, 1 University Square Drive Princeton, NJ 08540-6455, for inspection by any shareholder during regular business hours beginning ten days prior to the date of the meeting.

Shareholders who want to communicate with the Board or any individual director should write the Fund to the attention of the Secretary, Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055. Shareholders may communicate with the Board electronically by sending an email to closedendfundsbod@blackrock.com. The communication should indicate that you are a Fund shareholder. If the communication is intended for a specific director and so indicates, it will be sent only to that director. If a communication does not indicate a specific director, it will be sent to the Chair of the Governance and Nominating Committee and the outside counsel to the Independent Board Members for further distribution as deemed appropriate by such persons.

Additionally, shareholders with complaints or concerns regarding accounting matters may address letters to the Fund s Chief Compliance Officer, Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055. Shareholders who are uncomfortable submitting complaints to the Chief Compliance Officer may address letters directly to the Chair of the Audit Committee of the Board. Such letters may be submitted on an anonymous basis.

Table of Contents

PRIVACY PRINCIPLES OF THE FUNDS

The Funds are committed to maintaining the privacy of its current and former shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Funds collect, how the Funds protect that information and why, in certain cases, the Funds may share such information with select parties.

The Funds obtain or verify personal non-public information from and about you from different sources, including the following: (i) information the Funds receive from you or, if applicable, your financial intermediary, on applications, forms or other documents; (ii) information about your transactions with the Funds, their affiliates or others; (iii) information the Funds receive from a consumer reporting agency; and (iv) from visits to the Funds or their affiliates websites.

The Funds do not sell or disclose to non-affiliated third parties any non-public personal information about their respective current and former shareholders, except as permitted by law or as is necessary to respond to regulatory requests or to service shareholder accounts. These non-affiliated third parties are required to protect the confidentiality and security of this information and to use it only for its intended purpose.

The Funds may share information with their respective affiliates to service your account or to provide you with information about other BlackRock products or services that may be of interest to you. In addition, the Funds restrict access to nonpublic personal information about their respective current and former shareholders to those BlackRock employees with a legitimate business need for the information. The Funds maintain physical, electronic and procedural safeguards that are designed to protect the non-public personal information of their respective current and former shareholders, including procedures relating to the proper storage and disposal of such information.

If you are located in a jurisdiction where specific laws, rules or regulations require the Funds to provide you with additional or different privacy-related rights beyond what is set forth above, then the Funds will comply with those specific laws, rules or regulations.

OTHER INFORMATION

BlackRock is independent in ownership and governance, with no single majority shareholder and a majority of independent directors. As of June 30, 2012, the PNC Financial Services Group, Inc. (PNC) owned 21.7% of BlackRock and institutional investors, employees and the public held economic interest of 78.3%. With regard to voting stock, PNC owned 21.0% and institutional investors, employees and the public owned 79.0% of voting shares.

Prior to the June 30, 2012 closing of the secondary stock offering and repurchase of Barclays PLC s (Barclays) ownership interest in BlackRock, PNC owned 20.9% of BlackRock, Barclays owned 19.6% and institutional investors, employees and the public held economic interest of 59.5%. With regard to voting stock, PNC owned 23.8%, Barclays owned 2.2%, and institutional investors, employees and the public owned 74.0% of voting shares.

If you cannot be present in person at the Special Meeting, please fill in, sign and return the enclosed proxy card or please record your voting instructions by telephone or via the Internet promptly. No postage is necessary if the enclosed proxy card is mailed in the United States.

John M. Perlowski

President and Chief Executive Officer

BlackRock Credit Allocation Income Trust I, Inc.

BlackRock Credit Allocation Income Trust II, Inc.

BlackRock Credit Allocation Income Trust III

BlackRock Credit Allocation Income Trust IV

September 18, 2012

Table of Contents

STATEMENT OF ADDITIONAL INFORMATION

RELATING TO THE REORGANIZATION OF

BLACKROCK CREDIT ALLOCATION INCOME TRUST I, INC.,

BLACKROCK CREDIT ALLOCATION INCOME TRUST II, INC.,

BLACKROCK CREDIT ALLOCATION INCOME TRUST III AND

BLACKROCK CREDIT ALLOCATION INCOME TRUST IV

Dated September 18, 2012

This Statement of Additional Information is available to the shareholders of BlackRock Credit Allocation Income Trust I, Inc. (PSW), BlackRock Credit Allocation Income Trust II, Inc. (PSY), BlackRock Credit Allocation Income Trust III (BPP) (each a Target Fund and, collectively, the Target Funds) in connection with the proposed reorganizations (each a Reorganization and, collectively, the Reorganizations) whereby each Target Fund will merge with and into a new direct, wholly-owned subsidiary (the BTZ Merger Subsidiary) of BlackRock Credit Allocation Income Trust IV (BTZ or the Acquiring Fund, and together with the Target Funds, the Funds). Following the Reorganizations, the BTZ Merger Subsidiary will dissolve under state law and be liquidated into BTZ. Each Target Fund will then terminate its registration under the Investment Company Act of 1940 (the 1940 Act). In each Reorganization, the outstanding common shares of each Target Fund will be exchanged for newly-issued common shares of the Acquiring Fund, par value $0.001 per share (Acquiring Fund Shares). The aggregate net asset value of Acquiring Fund Shares received by the shareholders of the Target Fund in each Reorganization will equal the aggregate net asset value of the Acquiring Fund Common Shares held by such shareholders immediately prior to such Reorganization, less the direct costs of such Reorganization (though shareholders may receive cash for their fractional common shares). A copy of a form of the Agreement and Plan of Reorganization between each Target Fund and the Acquiring Fund is attached hereto as Appendix A. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Joint Proxy Statement/Prospectus.

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Joint Proxy Statement/Prospectus dated September 18, 2012 relating to the proposed Reorganizations. A copy of the Joint Proxy Statement/Prospectus may be obtained, without charge, by writing to the Fund at 1 University Square Drive Princeton, NJ 08540-6455, or by calling (800) 882-0052.

The Acquiring Fund will provide, without charge, upon the written or oral request of any person to whom this Statement of Additional Information is delivered, a copy of any and all documents that have been incorporated by reference in the registration statement of which this Statement of Additional Information is a part.

TABLE OF CONTENTS

Table of Contents

INVESTMENT OBJECTIVES AND POLICIES OF THE FUNDS

The following information supplements the discussion of the Funds investment objectives, policies and techniques that are described in the Joint Proxy Statement/Prospectus.

Cash Equivalents and Short-Term Debt Securities

For temporary defensive purposes or to keep cash on hand, a Fund may invest up to 100% of its total assets in cash equivalents and short-term debt securities. Cash equivalents and short-term debt investments for the Acquiring Fund are defined to include, without limitation, the following:

(1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities. U.S. Government securities include securities issued by (a) the Federal Housing Administration, Farmers Home Administration, Export Import Bank of the United States, Small Business Administration and Government National Mortgage Association, whose securities are supported by the full faith and credit of the United States; (b) the Federal Home Loan Banks, Federal Intermediate Credit Banks, and Tennessee Valley Authority, whose securities are supported by the right of the agency to borrow from the U.S. Treasury; (c) the Federal National Mortgage Association, whose securities are supported by the discretionary authority of the U.S. Government to purchase certain obligations of the agency or instrumentality; and (d) the Student Loan Marketing Association, whose securities are supported only by its credit. While the U.S. Government provides financial support to such U.S. Government sponsored agencies or instrumentalities, no assurance can be given that it always will do so since it is not so obligated by law. The U.S. Government, its agencies and instrumentalities do not guarantee the market value of their securities. Consequently, the value of such securities may fluctuate.

(2) Certificates of deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Certificates of deposit purchased by the Fund may not be fully insured by the Federal Deposit Insurance Corporation.

(3) Repurchase agreements, which involve purchases of debt securities. At the time the Fund purchases securities pursuant to a repurchase agreement, it simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures a predetermined yield for the Fund during its holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Fund to temporarily invest available cash. The Fund may enter into repurchase agreements only with respect to obligations of the U.S. Government, its agencies or instrumentalities; certificates of deposit; or bankers acceptances in which the Fund may invest. Repurchase agreements may be considered loans to the seller, collateralized by the underlying securities. The risk to the Fund is limited to the ability of the seller to pay the agreed-upon sum on the repurchase date; in the event of default, the repurchase agreement provides that the Fund is entitled to sell the underlying collateral. If the value of the collateral declines after the agreement is entered into, and if the seller defaults under a repurchase agreement when the value of the underlying collateral is less than the repurchase price, the Fund could incur a loss of both principal and interest. The Advisors monitor the value of the collateral at the time the action is entered into and on a daily basis during the term of the repurchase agreement. The Advisors do so in an effort to determine that the value of the collateral always equals or exceeds the agreed-upon repurchase price to be paid to the Fund. If the seller were to be subject to a federal bankruptcy proceeding, the ability of the Fund to liquidate the collateral could be delayed or impaired because of certain provisions of the bankruptcy laws.

Table of Contents

(4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between the Fund and a corporation. There is no secondary market for such notes. However, they are redeemable by the Fund at any time. The Advisors will consider the financial condition of the corporation (i.e., earning power, cash flow and other liquidity ratios) and will continually monitor the corporation s ability to meet all of its financial obligations, because the Fund s liquidity might be impaired if the corporation were unable to pay principal and interest on demand. Investments in commercial paper will be limited to commercial paper rated in the highest categories by a major rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.

(5) Money market funds, which are a type of mutual fund that is required by law to invest in low risk securities. Money market funds typically invest in government securities, certificates of deposits, commercial paper of companies, and other highly liquid and low risk securities.

Preferred and Other Equity Securities

Preferred Securities. A Fund may invest in preferred securities. There are two basic types of preferred securities. The first, sometimes referred to as traditional preferred securities, consists of preferred stock issued by an entity taxable as a corporation. The second type, sometimes referred to as trust preferred securities, are usually issued by a trust or limited partnership and represent preferred interests in deeply subordinated debt instruments issued by the corporation for whose benefit the trust or partnership was established.

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

Preferred stockholders usually have no right to vote for corporate directors or on other matters. Shares of traditional preferred securities have a liquidation value that generally equals the original purchase price at the date of issuance. The market value of preferred securities may be affected by favorable and unfavorable changes impacting companies in the utilities and financial services sectors, which are prominent issuers of preferred securities, and by actual and anticipated changes in tax laws, such as changes in corporate income tax rates. Because the claim on an issuer s earnings represented by traditional preferred securities may become onerous when interest rates fall below the rate payable on such securities, the issuer may redeem the securities. Thus, in declining interest rate environments in particular, a Fund s holdings of higher rate-paying fixed rate preferred securities may be reduced and the Fund would be unable to acquire securities of comparable credit quality paying comparable rates with the redemption proceeds.

Not all traditional preferred securities pay dividends that are eligible for the dividends received deduction or treatment as qualified dividend income.

Table of Contents

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

Trust preferred securities are typically junior and fully subordinated liabilities of an issuer or the beneficiary of a guarantee that is junior and fully subordinated to the other liabilities of the guarantor. In addition, trust preferred securities typically permit an issuer to defer the payment of income for eighteen months or more without triggering an event of default. Generally, the deferral period is five years or more. Because of their subordinated position in the capital structure of an issuer, the ability to defer payments for extended periods of time without default consequences to the issuer, and certain other features (such as restrictions on common dividend payments by the issuer or ultimate guarantor when full cumulative payments on the trust preferred securities have not been made), these trust preferred securities are often treated as close substitutes for traditional preferred securities, both by issuers and investors. Trust preferred securities have many of the key characteristics of equity due to their subordinated position in an issuer s capital structure and because their quality and value are heavily dependent on the profitability of the issuer rather than on any legal claims to specific assets or cash flows.

Trust preferred securities include but are not limited to trust originated preferred securities (TOPrS®); monthly income preferred securities (MIPS®); quarterly income bond securities (QUIBS®); quarterly income debt securities (QUIDS®); quarterly income preferred securities (QUIPS℠); corporate trust securities (CORTS®); public income notes (PINES®); and other trust preferred securities. TOPRS is a registered service mark owned by Merrill Lynch & Co., Inc. MIPS and QUIDS are registered service marks and QUIPS is a service mark owned by Goldman, Sachs & Co. QUIBS is a registered service mark owned by Morgan Stanley. CORTS and PINES are registered service marks owned by Salomon Smith Barney Inc.

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

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

Common Stocks. The Funds may invest in equity securities and derivatives with economic characteristics similar to individual or groups of equity securities. Common stock represents an equity ownership interest in a company. A Fund may hold or have exposure to common stocks of issuers of any size, including small and medium capitalization stocks, and to issuers in any industry or sector.

Table of Contents

Convertible Securities. A convertible security is a bond, debenture, note, preferred stock 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. A convertible security entitles the holder to receive interest paid or accrued on debtor the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible income securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security s investment value. Convertible securities rank senior to common stock in a corporation s capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security s governing instrument.

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

Depository Receipts. The Funds may invest in both sponsored and unsponsored American Depository Receipts (ADRs), European Depository Receipts (EDRs), Global Depository Receipts (GDRs) and other similar global instruments. ADRs typically are issued by an American bank or trust company and evidence ownership of underlying securities issued by a non-U.S. corporation. EDRs, which are sometimes referred to as Continental Depository Receipts, are receipts issued in Europe, typically by non-U.S. banks and trust companies, that evidence ownership of either non-U.S. or domestic underlying securities. GDRs are depository receipts structured like global debt issues to facilitate trading on an international basis. Unsponsored ADR, EDR and GDR programs are organized independently and without the cooperation of the issuer of the underlying securities. As a result, available information concerning the issuer may not be as current as for sponsored ADRs, EDRs and GDRs, and the prices of unsponsored ADRs, EDRs and GDRs may be more volatile than if such instruments were sponsored by the issuer. Investments in ADRs, EDRs and GDRs present additional investment considerations of non-U.S. securities.

Non-Investment Grade Securities

The Funds may invest in securities rated below investment grade at the time of purchase. However, it is anticipated, under current market conditions, that each Fund will have an average credit quality of at least investment grade.

Securities rated Ba and below by Moody s are judged to have speculative elements; their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P and Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to inadequate capacity to meet timely interest and principal payments. Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities; adverse conditions could make it difficult at times for the Fund to sell certain securities or could result in lower prices than those used in calculating the Fund s net asset value. The prices of debt securities generally are inversely related to interest rate

Table of Contents

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. This higher coupon is what the investor receives 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 Fitch, S&P and other rating agencies represent their opinions as to the quality of the obligations that 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 for 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 objectives will be more dependent on the Advisors credit analysis than would be the case when the Fund invests in rated securities.

Municipal Bonds

Although the Funds do not anticipate investing in municipal bonds as a principal part of its investment strategy, the Funds reserve the right to acquire municipal bonds. The amount of public information available about municipal bonds is generally less than that for corporate equities or bonds and the investment performance of the Funds may therefore be more dependent on the analytical abilities of the Advisors. The secondary market for municipal bonds, particularly the below investment grade bonds in which the a Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell its bonds at attractive prices.

The ability of municipal issuers to make timely payments of interest and principal may be diminished in general economic downturns and as governmental cost burdens are reallocated among Federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, a Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, a Fund may take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Fund s operating expenses. Any income derived from a Fund s ownership or operation of such assets may not be tax-exempt.

Strategic Transactions and Risk Management

Consistent with its investment objective and policies set forth herein and its prospectus, a Fund may also enter into certain transactions to manage the Fund s risks and to seek to increase the Fund s returns. In particular, a Fund may purchase and sell futures contracts, exchange listed and over-the-counter put and call options on securities, equity and other indices and futures contracts, forward foreign currency contracts, and may enter into various interest rate, credit and other derivative transactions (collectively, Strategic Transactions). Strategic Transactions may be used to attempt to protect against possible changes in the market value of a Fund s portfolio resulting from fluctuations in the securities markets and changes in interest rates, to protect the Fund s unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes and to establish a position in the securities markets as a temporary substitute for purchasing particular securities. Any or

Table of Contents

all of these Strategic Transactions may be used at any time. There is no particular strategy that requires use of one technique rather than another. Use of any Strategic Transaction is a function of market conditions. The ability of a Fund to manage them successfully will depend on the Advisors ability to predict pertinent market movements as well as sufficient correlation among the instruments, which cannot be assured. The Strategic Transactions that a Fund may use are described below. Although the Funds recognize it is not likely that the Funds will use certain of these strategies in light of their respective investment policies, these strategies are nevertheless described herein because the Funds may seek to use these strategies in certain circumstances. See Appendix D of this Statement of Additional Information for additional information regarding Strategic Transactions.

Futures Contracts and Options on Futures Contracts. In connection with its Strategic Transactions and other risk management strategies, a Fund may also enter into contracts for the purchase or sale for future delivery (futures contracts) of securities, aggregates of securities or indices or prices thereof, other financial indices and U.S. Government debt securities or options on the above. A Fund will engage in such transactions only for bona fide risk management and other portfolio management purposes.

Forward Foreign Currency Contracts. A Fund may enter into forward currency contracts to purchase or sell foreign currencies for a fixed amount of U.S. dollars or another foreign currency. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days (term) from the date of the forward currency contract agreed upon by the parties, at a price set at the time the forward currency contract is entered into. Forward currency contracts are traded directly between currency traders (usually large commercial banks) and their customers. A 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. A 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. A 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 a Fund owns securities denominated in a foreign currency and the Advisors believe that currency will decline relative to another currency, the Fund 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. A Fund may also purchase forward currency contracts to enhance income when the Advisors anticipate that the foreign currency will appreciate in value but securities denominated in that currency do not present attractive investment opportunities. A Fund may also use forward currency contracts to offset against a decline in the value of existing investments denominated in a foreign currency. Such a transaction would tend to offset both positive and negative currency fluctuations, but would not offset changes in security values caused by other factors. A Fund could also enter into a forward currency contract to sell another currency expected to perform similarly to the currency in which the Fund s existing investments are denominated. This type of transaction could offer advantages in terms of cost, yield or efficiency, but may not offset currency exposure as effectively as a simple forward currency transaction to sell U.S. dollars. This type of transaction may result in losses if the currency sold does not perform similarly to the currency in which a Fund s existing investments are denominated. A Fund may also use forward currency contracts in one currency or a basket of currencies to attempt to offset against fluctuations in the value of securities denominated in a different currency if the Advisors anticipate that there will be a correlation between the two currencies. The cost to a Fund of engaging in forward currency contracts varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward currency contracts are usually entered into on a principal basis, no fees or commissions are involved. When a Fund enters into a forward currency contract, it relies on the counterparty to make or take delivery of the underlying currency at the maturity of the contract. Failure by the counterparty to do so would result in the loss of some or all of any expected benefit of the transaction. Secondary markets generally do not exist for forward currency contracts, with the result that closing transactions generally can be made for forward currency contracts only by negotiating directly with the counterparty. Thus, there can be no assurance that a Fund will in fact be able to close out a forward currency contract at a favorable price prior to maturity. In addition, in the event of insolvency of the counterparty, a Fund might be unable to close out a forward currency contract. In either event, a Fund would continue to be subject to market risk with respect to the position, and would continue to be required to maintain a position in securities denominated in the foreign currency or to maintain cash or liquid assets in a segregated account. The precise matching of forward currency contract amounts and the value of the securities involved generally will not be possible because the value of such securities, measured in the foreign currency, will change after the forward currency contract has been established. Thus, a Fund might need to purchase or sell foreign currencies in the spot (cash) market to the extent such foreign currencies are not covered by forward currency contracts. The projection of short term currency market movements is extremely difficult, and the successful execution of a short term strategy is highly uncertain.

Call Options. The Funds may purchase call options on any of the types of individual securities, indices or instruments in which it may invest. A purchased call option gives a Fund the right to buy, and obligates the seller to sell, the underlying security at the exercise price at any time during the option period. The Funds also are authorized to write (i.e., sell) covered call options on the individual securities, indices or instruments in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option in which a Fund, in return for a premium, gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is the attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, a Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, a Fund s ability to sell the underlying security will be limited while the option is in effect unless the Fund enters into a closing purchase transaction. A closing purchase transaction cancels out the Fund s position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options also serve as a partial hedge to the extent of the premium received against the price of the underlying security declining. The Funds also are authorized to write (i.e., sell) uncovered call options on individual securities, indices or instruments in which they may invest but that are not currently held by the Funds. The principal reason for writing uncovered call options is to realize income without committing capital to the ownership of the underlying securities, indices or instruments. When writing uncovered call options, a Fund must deposit and maintain sufficient margin with the broker dealer through which it sold the uncovered call option as collateral to ensure that the securities can be purchased for delivery if and when the option is exercised. In addition, in connection with each such transaction a Fund will segregate unencumbered liquid securities or cash with a value at least equal to the Fund s exposure (the difference between the unpaid amounts owed by the Fund on such transaction minus any collateral deposited with the broker dealer), on a marked-to-market basis (as calculated pursuant to requirements of the Securities and Exchange Commission). Such segregation will ensure that a Fund has assets available to satisfy its obligations with respect to the transaction and will avoid any potential leveraging of the Fund s portfolio. Such segregation will not limit a Fund s exposure to loss. During periods of declining securities prices or when prices are stable, writing uncovered calls can be a profitable strategy to increase a Fund s income with minimal capital risk. Uncovered calls are riskier than covered calls because there is no underlying security held by the Fund that can act as a partial hedge. Uncovered calls have speculative characteristics and the potential for loss is unlimited. When an uncovered call is exercised, the Fund must purchase the underlying security to meet its call obligation. There is also a risk, especially with less liquid preferred and debt securities, that the securities may not be available for purchase. If the purchase price exceeds the exercise price, the Fund will lose the difference.

Put Options. The Funds are authorized to purchase put options to seek to hedge against a decline in the value of its securities or to enhance its return. By buying a put option, a Fund acquires a right to sell such underlying securities or instruments at the exercise price, thus limiting the Fund s risk of loss through a decline in the market value of the securities or instruments until the put option expires. The amount of any appreciation in the value of the underlying securities or instruments will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund s position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. A Fund also may purchase uncovered put options.

Table of Contents

The Funds also have authority to write (i.e., sell) put options on the types of securities or instruments that may be held by the Funds, provided that such put options are covered, meaning that such options are secured by segregated, liquid instruments. A Fund will receive a premium for writing a put option, which increases the Fund s return. A Fund will not sell put options if, as a result, more than 50% of the Fund s total assets would be required to cover its potential obligations under the put options and under any other transactions (excluding calls) that would be treated as senior securities under the Investment Company Act.

The Funds are also authorized to write (i.e., sell) uncovered put options on securities or instruments in which it may invest but that the Funds do not currently have a corresponding short position or has not deposited cash equal to the exercise value of the put option with the broker dealer through which it made the uncovered put option as collateral. The principal reason for writing uncovered put options is to receive premium income and to acquire such securities or instruments at a net cost below the current market value. The Fund has the obligation to buy the securities or instruments at an agreed upon price if the securities or instruments decrease below the exercise price. If the securities or instruments price increases during the option period, the option will expire worthless and the Fund will retain the premium and will not have to purchase the securities or instruments at the exercise price.

In connection with such transaction, a Fund will segregate liquid securities or cash with a value at least equal to the Fund s exposure, on a marked-to-market basis (as calculated pursuant to requirements of the Securities and Exchange Commission). Such segregation will ensure that a Fund has assets available to satisfy its obligations with respect to the transaction and will avoid any potential leveraging of the Fund s portfolio. Such segregation will not limit a Fund s exposure to loss.

Interest Rate Transactions. Among the Strategic Transactions in which a Fund may enter into are interest rate swaps and the purchase or sale of interest rate caps and floors. A 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 Funds use these transactions for risk management purposes and not as a speculative investment. A Fund will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by a Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor.

A Fund may enter into interest rate swaps, caps and floors on either an asset based or liability based basis, depending on whether it is offsetting volatility with respect to its assets or liabilities, and will usually enter into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments on the payment dates. Inasmuch as these Strategic Transactions are entered into for good faith risk management purposes, the Advisors and the Funds believe such obligations do not constitute senior securities, and, accordingly will not treat them as being subject to its borrowing restrictions. A Fund will accrue the net amount of the excess, if any, of the Fund s obligations over its entitlements with respect to each interest rate swap on a daily basis and will designate on its books and records with a custodian an amount of cash or liquid high grade securities having an aggregate net asset value at all times at least equal to the accrued excess. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps and floors are more recent innovations for which standardized documentation has not yet been developed and, accordingly, they are less liquid than swaps.

Table of Contents

Credit Derivatives. A 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. The use of credit derivatives is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If the Advisors are incorrect in their forecasts of default risks, market spreads or other applicable factors, the investment performance of a Fund would diminish compared with what it would have been if these techniques were not used. Moreover, even if the Advisors are correct in their forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being purchased. There is no limit on the amount of credit derivative transactions that may be entered into by a Fund. A Fund s risk of loss in a credit derivative transaction varies with the form of the transaction. For example, if a Fund purchases a default option on a security, and if no default occurs with respect to the security, the Fund s loss is limited to the premium it paid for the default option. In contrast, if there is a default by the grantor of a default option, a Fund s loss will include both the premium that it paid for the option and the decline in value of the underlying security that the default option protects.

New Products. The financial markets continue to evolve and financial products continue to be developed. The Funds reserve the right to invest in new financial products as they are developed or become more widely accepted. As with any new financial product, these products will entail risks, including risks to which the Funds currently are not subject.

Appendix D contains further information about the characteristics, risks and possible benefits of Strategic Transactions and the Funds other policies and limitations (which are not fundamental policies) relating to investment in futures contracts and options. The principal risks relating to the use of futures contracts and other Strategic Transactions are: (a) less than perfect correlation between the prices of the instrument and the market value of the securities in a Fund s portfolio; (b) possible lack of a liquid secondary market for closing out a position in such instruments; (c) losses resulting from interest rate or other market movements not anticipated by the Advisors; (d) the obligation to meet additional variation margin or other payment requirements; and (e) with respect to over-the-counter transactions, credit risk with respect to the counterparty to the transaction, all of which could result in a Fund being in a worse position than if such techniques had not been used.

Restricted and Illiquid Securities

Certain of the Funds investments may be illiquid. Illiquid securities are subject to legal or contractual restrictions on disposition or lack an established secondary trading market. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

When-Issued and Forward Commitment Securities

A 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. When such transactions are negotiated, the price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. When-issued securities and forward commitments may be sold prior to the settlement date, but a Fund will enter into when-issued and forward commitments only with the intention of actually receiving or delivering the securities, as the case may be. If a Fund disposes of the right to acquire a when-issued security prior to its acquisition or disposes of its right to deliver or receive against a forward commitment, it might incur a gain or loss. At the time

Table of Contents

a Fund enters into a transaction on a when-issued or forward commitment basis, it will designate on its books and records cash or liquid debt securities equal to at least the value of the when-issued or forward commitment securities. The value of these assets will be monitored daily to ensure that their marked to market value will at all times equal or exceed the corresponding obligations of the Fund. There is always a risk that the securities may not be delivered and that a Fund may incur a loss. Settlements in the ordinary course, which may take substantially more than five business days, are not treated by the Fund as when-issued or forward commitment transactions and accordingly are not subject to the foregoing restrictions.

Reverse Repurchase Agreements

A Fund may enter into reverse repurchase agreements with respect to its portfolio investments subject to the investment restrictions set forth herein. Reverse repurchase agreements involve the sale of securities held by the Fund with an agreement by the Fund to repurchase the securities at an agreed upon price, date and interest payment. At the time a Fund enters into a reverse repurchase agreement, it may designate on its books and records liquid instruments having a value not less than the repurchase price (including accrued interest). If a Fund establishes and maintains such a segregated account, a reverse repurchase agreement will not be considered a borrowing by the Fund; however, under certain circumstances in which a Fund does not establish and maintain such a segregated account, such reverse repurchase agreement will be considered a borrowing for the purpose of the Fund s limitation on borrowings. The use by a Fund of reverse repurchase agreements involves many of the same risks of leverage since the proceeds derived from such reverse repurchase agreements may be invested in additional securities. Reverse repurchase agreements involve the risk that the market value of the securities acquired in connection with the reverse repurchase agreement may decline below the price of the securities the Fund has sold but is obligated to repurchase. Also, reverse repurchase agreements involve the risk that the market value of the securities retained in lieu of sale by a Fund in connection with the reverse repurchase agreement may decline in price.

If the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce a Fund s obligation to repurchase the securities, and a Fund s use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. Also, a Fund would bear the risk of loss to the extent that the proceeds of the reverse repurchase agreement are less than the value of the securities subject to such agreement.

Repurchase Agreements

As temporary investments, a Fund may invest in repurchase agreements. A repurchase agreement is a contractual agreement whereby the seller of securities agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed-upon repurchase price determines the yield during a Fund s holding period. Repurchase agreements are considered to be loans collateralized by the underlying security that is the subject of the repurchase contract. A Fund will only enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Advisors, present minimal credit risk. The risk to a Fund is limited to the ability of the issuer to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed-upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold but a Fund might incur a loss if the value of the collateral declines, and might incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by a Fund may be delayed or limited. The Advisors will monitor the value of the collateral at the time the transaction is entered into and at all times subsequent during the term of the repurchase agreement in an effort to determine that such value always equals or exceeds the agreed-upon repurchase price. In the event the value of the collateral declines below the repurchase price, the Advisors will demand additional collateral from the issuer to increase the value of the collateral to at least that of the repurchase price, including interest.

Table of Contents

Lending of Securities

A Fund may lend its portfolio securities to banks or dealers which meet the creditworthiness standards established by the board of trustees of the Fund (Qualified Institutions). By lending its portfolio securities, a Fund attempts to increase its income through the receipt of interest on the loan. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Fund. A Fund may lend its portfolio securities so long as the terms and the structure of such loans are not inconsistent with requirements of the 1940 Act, which currently require that (i) the borrower pledge and maintain with the Fund collateral consisting of cash, a letter of credit issued by a domestic U.S. bank, or securities issued or guaranteed by the U.S. government having a value at all times not less than 100% of the value of the securities loaned, (ii) the borrower add to such collateral whenever the price of the securities loaned rises (i.e., the value of the loan is marked to the market on a daily basis), (iii) the loan be made subject to termination by the Fund at any time and (iv) the Fund receive reasonable interest on the loan (which may include the Fund s investing any cash collateral in interest bearing short term investments), any distributions on the loaned securities and any increase in their market value. A Fund will not lend portfolio securities if, as a result, the aggregate of such loans exceeds 33 $^1/_3$% of the value of the Fund s total assets (including such loans). Loan arrangements made by a Fund will comply with all other applicable regulatory requirements, including the rules of the New York Stock Exchange, which rules presently require the borrower, after notice, to redeliver the securities within the normal settlement time of five business days. All relevant facts and circumstances, including the creditworthiness of the Qualified Institution, will be monitored by the Advisors, and will be considered in making decisions with respect to lending securities, subject to review by the Fund s board.

A Fund may pay reasonable negotiated fees in connection with loaned securities, so long as such fees are set forth in a written contract and approved by the Fund s board. In addition, voting rights may pass with the loaned securities, but if a material event were to occur affecting such a loan, the loan must be called and the securities voted.

Leverage

At times, a Fund expects to utilize leverage through borrowings, the issuance of short-term debt securities, the issuance of preferred shares or a combination thereof. The Funds may utilize leverage by borrowing through a credit facility or through entering into reverse repurchase agreements. The Funds are permitted to issue senior securities representing indebtedness up to 33 $^1/_3$% of their Managed Assets (the Fund s net assets plus the proceeds of any outstanding borrowings used for leverage). If the Funds segregate liquid assets having a value not less than the repurchase price (including accrued interest), a reverse repurchase agreement will not be considered a senior security and therefore will not be subject to this limitation. However, PSW and PSY currently voluntarily limits its aggregate economic leverage to 50% of its Managed Assets, and BTZ and BPP currently voluntarily limits its aggregate economic leverage to 33 $^1/_3$% of its Managed Assets. The Funds also have the ability to utilize leverage through the issuance of preferred shares in an amount up to 50% of the value of its total assets (including the amount obtained from such issuance).

A Fund generally will not utilize leverage if it anticipates that the Fund s leveraged capital structure would result in a lower return to common shareholders than that obtainable if the common shares were unleveraged for any significant amount of time. A Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. A Fund at times may borrow from affiliates of the Investment Advisor, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace for borrowings for leverage and the issuance of preferred shares. When a Fund is utilizing leverage, the fees paid to the Investment Advisor for investment advisory and management services will be higher than if the Fund did not utilize leverage because the fees paid will be calculated based on an aggregate of (i) the Fund s net assets (including the proceeds from the issuance of any preferred shares) and (ii) the proceeds of any outstanding borrowings used for leverage.

Table of Contents

A Fund s use of leverage is premised upon the expectation that the cost of the leverage used to purchase additional assets will be lower than the return the Fund achieves on its investments with the proceeds of the borrowings or the issuance of preferred shares. Such difference in return may result from the short-term nature of the Fund s borrowing compared to the longer term nature of its investments. Because the total assets of a Fund (including the assets obtained from leverage) will generally be invested in the higher yielding portfolio investments, the holders of common shares will be the beneficiaries of the incremental return. Should the differential between the underlying assets and cost of leverage narrow, the incremental return pick up will be reduced.

Leverage creates certain risks for holders of common shares, including the likelihood of greater volatility of net asset value and market price of common shares or fluctuations in dividends paid on common shares, the risk that fluctuations in interest rates on borrowings and short term debt or in the dividend rates on any preferred shares may affect the return to the holders of common shares and increased operating costs which may reduce a Fund s total return. To the extent the total return derived from securities purchased with funds received from leverage exceeds the cost of leverage, a Fund s return will be greater than if leverage had not been used. Conversely, if the total return from the securities purchased with such funds is not sufficient to cover the cost of leverage, the return of a Fund will be less than if leverage had not been used, and therefore the amount available for distribution to shareholders as dividends and other distributions will be reduced. In the latter case, the Investment Advisor in its best judgment nevertheless may determine to maintain a Fund s leveraged position if it expects that the benefits to the Fund s shareholders of maintaining the leveraged position will outweigh the current reduced return. Capital raised through leverage will be subject to interest costs or dividend payments that may or may not exceed the total return on the assets purchased. A Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit. Either of these requirements will increase the cost of borrowing over the stated interest rate. The issuance of classes of preferred shares involves offering expenses and other costs and may limit a Fund s freedom to pay dividends on common shares or to engage in other activities. Borrowings and the issuance of a class of preferred shares create an opportunity for greater return per common share, but at the same time such borrowing is a speculative technique in that it will increase a Fund s exposure to capital risk. Unless the total return on assets acquired with borrowed funds or preferred shares offering proceeds exceed the cost of borrowing or issuing classes of preferred securities, the use of leverage will diminish the investment performance of a Fund compared with what it would have been without leverage.

Certain types of borrowings may result in a Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants that may affect the Fund s ability to pay dividends and distributions on the common shares in certain instances. A Fund also may be required to pledge its assets to the lenders in connection with certain types of borrowings. The Investment Advisor does not anticipate that these covenants or restrictions will adversely affect its ability to manage a Fund s portfolio in accordance with the Fund s investment objective and policies. However, due to these covenants or restrictions, a Fund may be forced to liquidate investments at times and at prices that are not favorable to the Fund, or the Fund may be forced to forgo investments that the Investment Advisor otherwise views as favorable. A Fund may be subject to certain restrictions on investments imposed by guidelines of one or more nationally recognized rating organizations which may issue ratings for the short term debt securities or preferred shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Investment Advisor from managing a Fund s portfolio in accordance with the Fund s investment objective and policies.

Under the 1940 Act, a Fund is not permitted to incur indebtedness unless immediately after such incurrence the Fund has an asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness (i.e., such indebtedness may not exceed 33 $^1/_3$% of the value of the Fund s total assets). Additionally, under the 1940 Act, a Fund may not declare any dividend or other distribution upon any class of its capital stock, or purchase any such capital stock, unless the aggregate indebtedness of the Fund has, at the time of the declaration of any such dividend or distribution or at the time of any such purchase, an asset coverage of at least 300% after deducting the amount of such dividend, distribution, or purchase price, as the case may be. Under the 1940 Act, a Fund is not permitted to issue preferred shares unless immediately after such issuance the net asset value of the Fund s portfolio is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the value of the Fund s total assets). In addition, a Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the net asset value of the Fund s portfolio (determined after deducting the amount of such dividend or distribution) is at least 200% of such liquidation value. In the event preferred shares are issued, the applicable Fund intends, to the extent possible, to purchase or redeem preferred shares from time to time to maintain coverage of any preferred shares of at least 200%.

A Fund s willingness to borrow money and issue debt securities or preferred shares for investment purposes, and the amount it will borrow or issue, will depend on many factors, the most important of which are investment outlook, market conditions and interest rates. Successful use of a leveraging strategy depends on the Investment Advisor s ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

During periods when a Fund has outstanding borrowings for leverage or preferred shares outstanding, the fees paid to the Investment Advisor for investment advisory and management services will be higher than if the Fund did not borrow or issue preferred shares because the fees paid will be calculated on the basis of an aggregate of (i) the Fund s average daily net assets (including proceeds from the sale of preferred shares) and (ii) the proceeds of any outstanding borrowings used for leverage. Consequently, a Fund and the Investment Advisor may have differing interests in determining whether to leverage the Fund s assets. The Board of each Fund will monitor this potential conflict with respect to its Fund.

RISK FACTORS AND SPECIAL CONSIDERATIONS

The following information supplements the discussion of the Funds risk factors that are described in the Joint Proxy Statement/Prospectus and the preceding discussion of the Funds investment objectives, policies and techniques.

Non-Payment Risk. The debt securities in which the Funds invest are subject to the risk of non-payment of interest and principal. When a borrower or issuer fails to make scheduled interest or principal payments on a debt security, the value of the security, and hence a Fund s net asset value, and potentially the market value of a Fund s shares of common stock, may go down. While a senior position in the capital structure of a borrower may provide some protection with respect to certain of a Fund s investments, losses may still occur.

Reinvestment Risk. Reinvestment risk is the risk that income from a Fund s bond portfolio will decline if and when such Fund invests the proceeds from matured, traded, prepaid or called bonds at market interest rates that are below the portfolio s current earnings rate. A decline in income could affect a Fund s ability to pay dividends on common shares.

Call Risk. If interest rates fall, it is possible that issuers of securities with high interest rates will prepay or call their securities before their maturity dates. In this event, the proceeds from the called securities would likely be reinvested by a Fund in securities bearing the new, lower interest rates, resulting in a possible decline in the Fund s income and distributions to shareholders. A decline in income could affect a Fund s ability to pay dividends on its common shares.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the common shares and distributions on those shares can decline. In addition, during any periods of rising inflation, interest rates on borrowings would likely increase, which would tend to further reduce returns to the holders of common shares.

Deflation Risk. Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of a Fund s portfolio.

Unrated Securities Risk. Because a Fund may purchase securities that are not rated by any rating organization, the Advisors may, after assessing their credit quality, internally assign ratings to certain of those securities in categories of those similar to those of rating organizations. Some unrated securities may not have an active trading market or may be difficult to value, which means a Fund might have difficulty selling them promptly at an acceptable price.

Investment Companies and ETFs Risk. Subject to the limitations set forth in the 1940 Act and the Charter or as otherwise permitted by the SEC, a Fund may acquire shares in other investment companies and in Exchange-Traded Funds (ETFs), some of which may be investment companies. The market value of the shares of other investment companies and ETFs may differ from their net asset value. As an investor in investment companies and ETFs, a Fund would bear its ratable share of that entity s expenses, including its investment advisory and administration fees, while continuing to pay its own advisory and administration fees and other expenses. As a result, shareholders will be absorbing duplicate levels of fees with respect to investments in other investment companies and ETFs.

The securities of other investment companies and ETFs in which a Fund may invest may be leveraged. As a result, a Fund may be indirectly exposed to leverage through an investment in such securities. An investment in securities of other investment companies and ETFs that use leverage may expose a Fund to higher volatility in the market value of such securities and the possibility that the Fund s long-term returns on such securities (and, indirectly, the long-term returns of the Fund s Common Shares) will be diminished.

Common Stock Risk. The Funds may invest in any type of common stock. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and in recent years have significantly underperformed relative to fixed -income securities. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by a Fund. Also, the price of common stocks is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which a Fund has exposure. Common stock prices fluctuate for several reasons including changes in investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

Dividend Risk. Dividends on common stock are not fixed but are declared at the discretion of an issuer s board of directors. There is no guarantee that the issuers of the common stocks in which each Fund invests will declare dividends in the future or that if declared they will remain at current levels or increase over time. A Fund s distributions that are attributable to qualified dividend income received by such Fund will generally be eligible for a reduced tax rate in the case of Fund shareholders that are individuals for taxable years beginning before January 1, 2013. There is no assurance as to what portion of each Fund s distributions will constitute qualified dividend income. Dividends received by each Fund from real estate investment trust (REIT) shares and certain foreign securities, if any, generally will not constitute qualified dividend income eligible for the reduced tax rate applicable to qualified dividend income and therefore it is possible that, depending upon the composition of the stocks in the Fund s portfolio after application of the Fund s investment strategy, a portion of the Fund s distributions will not constitute qualifying dividends eligible for the reduced tax rate.

Convertible Securities. Although to a lesser extent than with non-convertible fixed income securities, the market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. A unique feature of convertible securities is that as the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis, and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the convertible securities tend to rise as a reflection of the value of the underlying common stock. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer.

Securities Lending Risk. A Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. Government as collateral or the limit prescribed by applicable law to banks, brokers and other financial institutions. In return, the Fund receives collateral in cash or securities issued or guaranteed by the U.S. Government, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The Fund maintains the ability to obtain the right to vote or consent on proxy proposals involving material events affecting securities loaned. The Fund receives the income on the loaned securities. If a Fund lends tax-exempt securities, income received by the Fund in respect of the interest on such securities may not be tax-exempt to the Fund during the period of the loan. Where a Fund receives securities as collateral, the Fund receives a fee for its loans from the borrower and does not receive the income on the collateral. Where a Fund receives cash collateral, it may invest such collateral and retain the amount earned, net of any amount rebated to the borrower. As a result, the Fund s yield may increase. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within the standard time period for settlement of securities transactions. A Fund is obligated to return the collateral to the borrower at the termination of the loan. Securities lending involves the risk that the borrower may fail to return the securities in a timely manner or at all. As a result, a Fund may lose money and there may be a delay in recovering the loaned securities. A Fund could also lose money if it does not recover the securities and/or the value of the collateral falls, including the value of investments made with cash collateral. These events could trigger adverse tax consequences for the Fund. A Fund could suffer a loss in the event the Fund must return the cash collateral and there are losses on investments made with the cash collateral. In the event the borrower defaults on any of its obligations with respect to a securities loan, a Fund could suffer a loss where there are losses on investments made with the cash collateral or where the value of the securities collateral falls below the market value of the borrowed securities. A Fund could also experience delays and costs in gaining access to the collateral. A Fund may pay reasonable finder s, lending agent, administrative and custodial fees in connection with its loans.

A Fund would continue to accrue interest on loaned securities and would also earn income on investment collateral for such loans. Any cash collateral received by a Fund in connection with such loans may be invested in a broad range of high quality, U.S. dollar-denominated money market instruments that meet Rule 2a-7 restrictions for money market funds.

Management Risk. Each Fund is subject to management risk because each is an actively managed investment portfolio. The Advisors and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Funds, but there can be no guarantee that these will produce the desired results. A Fund may be subject to a relatively high level of management risk because the Fund may invest in derivative instruments, which may be highly specialized instruments that require investment techniques and risk analyses different from those associated with bonds.

Reliance on the Advisors. Each Fund is dependent upon services and resources provided by the Advisors, and therefore the Advisors parent, BlackRock. The Advisors are not required to devote their full time to the business of a Fund and there is no guarantee or requirement that any investment professional or other employee of the Advisors will allocate a substantial portion of his or her time to the Fund. The loss of one or more

Table of Contents

individuals involved with the Advisors could have a material adverse effect on the performance or the continued operation of a Fund. For additional information on BlackRock Advisors and BlackRock, see Management of the Fund Investment Advisor and Sub-Advisor.

Reliance on Service Providers. Each Fund relies upon the performance of service providers to perform various functions. In particular, the Advisors and the Fund s Custodian, accounting agent and transfer agent, and their respective delegates, if any, will perform services that are integral to the Fund s operations and financial performance. Failure by any service provider to carry out its obligations to a Fund in accordance with the terms of its appointment, to exercise due care and skill, or to perform its obligations to the Fund at all as a result of insolvency, bankruptcy or other causes could have a material adverse effect on the Fund s performance and returns to shareholders. The termination of a Fund s relationship with any service provider, or any delay in appointing a replacement for such service provider, could materially disrupt the business of the Fund and could have a material adverse effect on the Fund s performance and returns to shareholders.

Information Technology Systems. Each Fund is dependent on the Advisors for certain management services as well as back-office functions. The Advisors depend on information technology systems in order to assess investment opportunities, strategies and markets and to monitor and control risks for the Funds. It is possible that a failure of some kind which causes disruptions to these information technology systems could materially limit the Advisors ability to adequately assess and adjust investments, formulate strategies and provide adequate risk control. Any such information technology-related difficulty could harm the performance of a Fund. Further, failure of the back-office functions of the Advisors to process trades in a timely fashion could prejudice the investment performance of a Fund. Further, failure of the back-office functions of the Advisors to process trades in a timely fashion could prejudice the investment performance of a Fund.

Misconduct of Employees and of Service Providers. Misconduct or misrepresentations by employees of the Advisors or a Fund s service providers could cause significant losses to the Fund. Employee misconduct may include binding a Fund to transactions that exceed authorized limits or present unacceptable risks and unauthorized trading activities or concealing unsuccessful trading activities (which, in any case, may result in unknown and unmanaged risks or losses) or making misrepresentations regarding any of the foregoing. Losses could also result from actions by a Fund s service providers, including, without limitation, failing to recognize trades and misappropriating assets. In addition, employees and service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting a Fund s business prospects or future marketing activities. Despite the Advisors due diligence efforts, misconduct and intentional misrepresentations may be undetected or not fully comprehended, thereby potentially undermining the Advisors due diligence efforts. As a result, no assurances can be given that the due diligence performed by the Advisors will identify or prevent any such misconduct.

Potential Conflicts of Interest of the Advisors and Others. BlackRock, BlackRock s affiliates and BlackRock s significant shareholders (Significant Shareholders) are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of a Fund. BlackRock, its affiliates and Significant Shareholders may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of a Fund. Neither BlackRock nor its affiliates or Significant Shareholders are under any obligation to share any investment opportunity, idea or strategy with the Funds. As a result, BlackRock, its affiliates and Significant Shareholders may compete with the Funds for appropriate investment opportunities. The results of a Fund s investment activities, therefore, may differ from those of an affiliate, Significant Shareholder or another account managed by an affiliate or Significant Shareholder, and it is possible that the Fund could sustain losses during periods in which one or more affiliates or Significant Shareholders and other accounts achieve profits on their trading for proprietary or other accounts. Subject to the requirements of the 1940 Act, BlackRock, its affiliates and Significant Shareholders intend to engage in such activities and may receive compensation from third parties for their services. The 1940 Act imposes limitations on certain transactions between a registered investment company and affiliated persons

Table of Contents

of the investment company as well as affiliated persons of such affiliated persons. Among others, affiliated persons of an investment company means (i) any person directly or indirectly owning, controlling, or holding with power to vote, five percent or more of the outstanding voting securities of such investment company; (ii) any person five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such investment company; (iii) any person directly or indirectly controlling, controlled by, or under common control with, such investment company; (iv) any officer, director, partner, copartner, or employee of such investment company; (v) any investment adviser of such investment company or any member of an advisory board of the investment company; and (vi) if such investment company is an unincorporated investment company not having a board of directors, the depositor thereof. BlackRock has adopted policies and procedures designed to address potential conflicts of interests. For additional information about potential conflicts of interest, and the way in which BlackRock addresses such conflicts, please see Conflicts of Interest.

Legal, Tax and Regulatory Risks. Legal, tax and regulatory changes could occur that may materially adversely affect a Fund. For example, the regulatory and tax environment for derivative instruments in which a Fund may participate is evolving, and changes in the regulation or taxation of derivative instruments may materially adversely affect the value of derivative instruments held by a Fund and the ability of a Fund to pursue its investment strategies.

To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, a Fund must, among other things, derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year a Fund does not qualify as a regulated investment company, all of its taxable income for that year (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions would be taxable as ordinary dividends to the extent of a Fund s current and accumulated earnings and profits.

DIRECTORS/TRUSTEES AND OFFICERS

The Board Members

The Board of each Fund currently consists of 11 individuals, nine of whom are not interested persons of the Funds as defined in the 1940 Act (the Independent Board Members). 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 Funds are each included in the Closed-End Complex. The Board Members also oversee as Board members the operations of the other closed-end registered investment companies included in the Closed-End Complex.

The Boards have overall responsibility for the oversight of each Fund. The Chair of each Board is an Independent Board Member, and the Chair of each Board committee (each, a Committee) is an Independent Board Member. The Board of each Fund has six standing Committees: an Audit Committee, a Governance and Nominating Committee, a Compliance Committee, a Performance Oversight Committee, an Executive Committee and a Leverage Committee. The Chair of each Board s role is to preside at all meetings of the Board of each Fund, and to act as a liaison with service providers, officers, attorneys, and other board members generally between meetings. The Chair of each Committee performs a similar role with respect to such Committee. The Chair of each Board or a Committee may also perform such other functions as may be delegated by each Board or the Committee from time to time. The Independent Board Members meet regularly outside the presence of Fund management, in executive session or with other service providers to the Fund. The Board of each Fund has regular meetings five times a year, including a meeting to consider the approval of the Fund s investment advisory agreements, and may hold special meetings if required before its next regular meeting. Each Committee meets regularly to conduct the oversight functions delegated to that Committee by the Board of each

Fund and reports its findings to the Board. The Board of each Fund and each standing Committee conduct annual assessments of their oversight function and structure. The Board has determined that the Board s leadership structure is appropriate because it allows the Board of each Fund to exercise independent judgment over management and to allocate areas of responsibility among Committees and the full Board to enhance effective oversight.

The Board of each Fund has engaged the Advisors to manage the Fund on a day-to-day basis. The Board is responsible for overseeing the Advisors, other service providers, the operations of the Fund and associated risk in accordance with the provisions of the 1940 Act, state law, other applicable laws, the Fund s governing document, and the Fund s investment objectives and strategies. The Board of each Fund reviews, on an ongoing basis, the Fund s performance, operations, and investment strategies and techniques. Each Board also conducts reviews of the Advisors and their role in running the operations of the respective Fund.

Day-to-day risk management with respect to each Fund is the responsibility of the Advisors or other service providers (depending on the nature of the risk), subject to the supervision of the Advisors. Each Fund is subject to a number of risks, including investment, compliance, operational and valuation risks, among others. While there are a number of risk management functions performed by the Advisors or other service providers, as applicable, it is not possible to eliminate all of the risks applicable to each Fund. Risk oversight is part of each Board s general oversight of the Fund and is addressed as part of various Board and Committee activities. The Board of each Fund, directly or through a Committee, also reviews reports from, among others, management, the independent registered public accounting firm for the respective Fund, the Advisors, and internal auditors for the Investment Advisor or its affiliates, as appropriate, regarding risks faced by such Fund and management s or the service provider s risk functions. The Committee system facilitates the timely and efficient consideration of matters by the board members, and facilitates effective oversight of compliance with legal and regulatory requirements and of the Fund s activities and associated risks. The Board of each Fund has appointed a Chief Compliance Officer for each Fund, who oversees the implementation and testing of the Fund s compliance program and reports to the Board regarding compliance matters for the Fund and its service providers. The Independent Board Members have engaged independent legal counsel to assist them in performing their oversight responsibilities.

The members of the Audit Committee are Karen P. Robards (Chair), Michael J. Castellano, Frank J. Fabozzi, James T. Flynn and W. Carl Kester, all of whom are Independent Board Members. The principal responsibilities of the Audit Committee are to assist the Board in fulfilling its oversight responsibilities relating to the accounting and financial reporting polices and practices of its Fund. The Audit Committee s responsibilities include, without limitation, (i) approving the selection, retention, termination and compensation of its Fund s independent registered public accounting firm (the independent auditors) and evaluating the independence and objectivity of the independent auditors; (ii) approving all audit engagement terms and fees for its Fund; (iii) reviewing the conduct and results of each audit; (iv) reviewing any issues raised by the independent auditor or management regarding the accounting or financial reporting policies and practices of its Fund, its internal controls, and, as appropriate, the internal controls of certain service providers and management s response to any such issues; (v) reviewing and discussing its Fund s audited and unaudited financial statements and disclosure in its Fund s shareholder reports relating to its Fund s performance; (vi) assisting the Board in considering the performance of its Fund s internal audit function provided by its Investment Advisor, administrator, pricing agent or other service provider; and (vii) resolving any disagreements between Fund management and the independent auditors regarding financial reporting. Each Fund s Audit Committee met 8 times during the fiscal year ended October 31, 2011. A copy of the Audit Committee Charter for its Funds can be found in the Corporate Governance section of the BlackRock Closed-End Fund website at www.blackrock.com.

The members of the Governance and Nominating Committee (the Governance Committee) are R. Glenn Hubbard (Chair), Michael J. Castellano, Richard E. Cavanagh, Frank J. Fabozzi, Kathleen F. Feldstein, James T. Flynn, Jerrold B. Harris, W. Carl Kester and Karen R. Robards all of whom are Independent Board Members.

Table of Contents

The principal responsibilities of the Governance Committee are (i) identifying individuals qualified to serve as Independent Board Members of its Fund and recommending Independent Board Member nominees for election by shareholders or appointment by the Board; (ii) advising the Board with respect to Board composition, procedures and committees (other than the Audit Committee); (iii) overseeing periodic self-assessments of the Board and committees of the Board (other than the Audit Committee); (iv) reviewing and making recommendations in respect of Independent Board Member compensation; (v) monitoring corporate governance matters and making recommendations in respect thereof to the Board; and (vi) acting as the administrative committee with respect to Board policies and procedures, committee policies and procedures (other than the Audit Committee) and codes of ethics as they relate to the Independent Board Members.

The Governance Committee seeks to identify individuals to serve on the Board who have a diverse range of viewpoints, qualifications, experiences, backgrounds and skill sets so that the Board will be better suited to fulfill its responsibility of overseeing its Fund s activities. In so doing, the Governance Committee reviews the size of the Board, the ages of the current Board Members and their tenure on the Board, and the skills, background and experiences of the Board Members in light of the issues facing its Fund in determining whether one or more new board members should be added to the Board. The Board as a group strives to achieve diversity in terms of gender, race and geographic location. The Governance Committee believes that the Board Members as a group possess the array of skills, experiences and backgrounds necessary to guide its Fund. The Board Member biographies included herein highlight the diversity and breadth of skills, qualifications and expertise that the Board Members bring to its Fund.

The Governance Committee may consider nominations for board members made by its Fund s shareholders as it deems appropriate. Under each Fund s Bylaws, shareholders must follow certain procedures to nominate a person for election as a board member at an annual or special meeting, or to introduce an item of business at an annual meeting. Under these advance notice procedures, shareholders must submit the proposed nominee or item of business by delivering a notice to the Secretary of its Fund at its principal executive offices. A Fund must receive notice of a shareholder s intention to introduce a nomination or proposed item of business for an annual meeting not less than 120 days nor more than 150 days before the anniversary of the prior year s meeting. Assuming that the 2013 annual meeting of a Fund is held within 25 days of July 27, 2013, the Fund must have received notice pertaining to the 2013 annual meeting of stockholders no earlier than Wednesday, February 27, 2013 and no later than Friday, March 29, 2013. However, if the Fund holds its 2013 annual meeting on a date that is not within 25 days before or after July 27, 2013, the Fund must receive the notice no later than ten days after the earlier of the date the Fund first provides notice of the meeting to stockholders or announces it publicly.

Each Fund s Bylaws provide that notice of a proposed nomination must include certain information about the stockholder and the nominee, as well as a written consent of the proposed nominee to serve if elected. A notice of a proposed item of business must include a description of and the reasons for bringing the proposed business to the meeting, any material interest of the shareholder in the business, and certain other information about the shareholder.

Further, each Fund has adopted board member qualification requirements which can be found in each Fund s Bylaws and are applicable to all board members that may be nominated, elected, appointed, qualified or seated to serve as board members. The qualification requirements include: (i) age limits; (ii) limits on service on other boards; (iii) restrictions on relationships with investment advisers other than BlackRock; and (iv) character and fitness requirements. Additionally, each Independent Board Member must not be an interested person of the Fund as defined under Section 2(a)(19) of the 1940 Act and may not be or have certain relationships with a stockholder owning more than five percent of the Fund s voting securities or owning other percentage ownership interests in registered investment companies. Reference is made to each Fund s Bylaws for more details. A copy of the Governance Committee Charter for each Fund can be found in the Corporate Governance section of the BlackRock Closed-End Fund website at www.blackrock.com. During the fiscal year ended October 31, 2011 for each Fund, the Governance Committee met 7 times.

The members of the Compliance Committee are Jerrold B. Harris (Chair), Richard E. Cavanagh, Kathleen F. Feldstein and R. Glenn Hubbard, all of whom are Independent Board Members. The Compliance Committee s purpose is to assist the Board in fulfilling its responsibility with respect to the oversight of regulatory and fiduciary compliance matters involving its Fund, the fund-related activities of BlackRock, and any sub-advisor and its Fund s other third-party service providers. The Compliance Committee s responsibilities include, without limitation, (i) overseeing the compliance policies and procedures of its Fund and its service providers; (ii) reviewing information on and, where appropriate, recommending policies concerning its Fund s compliance with applicable law; (iii) reviewing information on any significant correspondence with or other actions by regulators or governmental agencies with respect to its Fund and any employee complaints or published reports that raise concerns regarding compliance matters; and (iv) reviewing reports from and making certain recommendations in respect of its Fund s Chief Compliance Officer, including, without limitation, determining the amount and structure of the Chief Compliance Officer s compensation. The Board of each Fund has adopted a written charter for the Compliance Committee. Each Fund s Compliance Committee met 6 times during the fiscal year ended October 31, 2011.

The members of the Performance Oversight Committee (the Performance Oversight Committee) are Frank J. Fabozzi (Chair), Michael J. Castellano, Richard E. Cavanagh, Kathleen F. Feldstein, James T. Flynn, Jerrold B. Harris, R. Glenn Hubbard, W. Carl Kester and Karen P. Robards, all of whom are Independent Board Members. The Performance Oversight Committee s purpose is to assist the Board in fulfilling its responsibility to oversee its Fund s investment performance relative to the Fund s investment objectives, policies and practices. The Performance Oversight Committee s responsibilities include, without limitation, (i) reviewing its Fund s investment objectives, policies and practices; (ii) recommending to the Board any required action in respect of changes in fundamental and non-fundamental investment restrictions; (iii) reviewing information on appropriate benchmarks and competitive universes; (iv) reviewing its Fund s investment performance relative to such benchmarks; (v) reviewing information on unusual or exceptional investment matters; (vi) reviewing whether its Fund has complied with its investment polices and restrictions; and (vii) overseeing policies, procedures and controls regarding valuation of its Fund s investments. The Board of each Fund has adopted a written charter for the Performance Oversight Committee. During the fiscal year ended October 31, 2011 for each Fund, the Performance Oversight Committee met 4 times.

As of March 31, 2012, the members of the Executive Committee are Richard E. Cavanagh (Chair) and Karen P. Robards, both of whom are Independent Board Members, and Paul L. Audet, who serves as an interested board member. The principal responsibilities of the Executive Committee include, without limitation, (i) acting on routine matters between meetings of the Board; (ii) acting on such matters as may require urgent action between meetings of the Board; and (iii) exercising such other authority as may from time to time be delegated to the Executive Committee by the Board. The Board of each Fund has adopted a written charter for the Executive Committee. Each Fund s Executive Committee, except for BPP, met 3 times during the fiscal year ended October 31, 2011. BPP s Executive Committee met 4 times during the fiscal year ended October 31, 2011.

The Members of the Leverage Committee are Richard E. Cavanagh (Chair), Karen P. Robards, Frank J. Fabozzi, and W. Carl Kester, each of whom are Independent Board Members, and Henry Gabbay, who serves as an interested board member. The Leverage Committee was originally formed for the purpose of monitoring issues arising from credit market turmoil and overseeing efforts to address the effects of reduced Auction Market Preferred Share (AMPS) liquidity on each fund in the Closed-End Complex using AMPS for leverage, to evaluate the liquidity considerations of the AMPS holders and to oversee other financial leverage-related issues as delegated by the Board, each in a manner consistent with the Fund s and its shareholders best interests and investment strategies. The Leverage Committee was originally constituted in March 2008 as an *ad hoc* committee on AMPS for each fund in the Closed-End Complex utilizing AMPS for leverage. This committee was converted to a standing committee in 2011, was renamed the Leverage Committee and was expanded to include all funds in the Closed-End Complex in April 2012. The Leverage Committee s responsibilities include, without limitation: (i) to support the Independent Board Members in pursuing the best interests of its Fund and its shareholders; (ii) to oversee its Fund s usage of leverage, including its Fund s incurrence, refinancing and

Table of Contents

maintenance of leverage and, to the extent necessary or appropriate, authorize or approve the execution of documentation in respect thereto, (iii) to oversee and authorize actions in respect of refinancing and redeeming forms of leverage; and (iv) to receive reports with respect to the foregoing matters. The Board, including at least a majority of the Independent Board Members, has adopted a written Charter for the Leverage Committee. During the fiscal year ended October 31, 2011, for each Fund, the Leverage Committee met 15 times.

Biographical Information

Certain biographical and other information relating to the Board Members and officers of the Funds is set forth below, including their year of birth, their principal occupation for at least the last five years, the length of time served, the total number of investment companies overseen in the complex of funds advised by the Investment Advisor or its affiliates (the Fund Complex) and any public directorships or trusteeships. Board Members serve until their resignation, removal or death, or until December 31 of the year in which they turn 72. The officers of the Funds serve at the pleasure of the Board Members or until their successors have been duly elected and qualified.

Board Members Biographical Information. Please refer to the below table which identifies the Board Members which sets forth certain biographical information about the Board Members, for all of the Funds.

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies (RICs) Consisting of Investment Portfolios (Portfolios) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
Non-Interested Board Members					
Richard E. Cavanagh 55 East 52nd Street New York, NY 10055 1946	Board Member and Chair of the Boards	2013; 2007 to present	Trustee, Aircraft Finance Trust from 1999 to 2009; Director, The Guardian Life Insurance Company of America since 1998; Trustee, Educational Testing Service from 1997 to 2009 and Chairman thereof from 2005 to 2009; Senior Advisor, The Fremont Group since 2008 and Director thereof since 1996; Adjunct Lecturer, Harvard University since 2007; President and Chief Executive Officer, The Conference Board, Inc. (global business research organization) from 1995 to 2007.	98 RICs consisting of 94 Portfolios	Arch Chemical (chemical and allied products) from 1999 to 2011

Table of Contents

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies (RICs) Consisting of Investment Portfolios (Portfolios) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
Karen P. Robards 55 East 52nd Street New York, NY 10055 1950	Board Member, Vice Chair of the Boards and Chair of the Audit Committee	2013 (for PSW and PSY) and 2015 (for BTZ and BPP); 2007 to present	Partner of Robards & Company, LLC (financial advisory firm) since 1987; Co-founder and Director of the Cooke Center for Learning and Development (a not-for-profit organization) since 1987; Director of Care Investment Trust, Inc. (health care real estate investment trust) from 2007 to 2010; Investment Banker at Morgan Stanley from 1976 to 1987.	98 RICs consisting of 94 Portfolios	AtriCure, Inc. (medical devices)
Michael J. Castellano 55 East 52nd Street New York, NY 10055 1946	Board Member and Member of the Audit Committee	2013 (for PSW and PSY) and 2014 (for BTZ and BPP); 2011 to present	Managing Director and Chief Financial Officer of Lazard Group LLC from 2001 to 2011; Chief Financial Officer of Lazard Ltd from 2004 to 2011; Director, Support Our Aging Religious (non-profit) since 2009; Director, National Advisory Board of Church Management at Villanova University since 2010.	98 RICs consisting of 94 Portfolios	None
Frank J. Fabozzi 55 East 52nd Street New York, NY 10055 1948	Board Member and Member of the Audit Committee	2013 (for PSW and PSY) and 2015 (for BTZ and BPP); 2007 to present	Editor of and Consultant for The Journal of Portfolio Management since 1986; Professor of Finance, EDHEC Business School since 2011; Professor in the Practice of Finance and Becton Fellow, Yale University School of Management from 2006 to 2011; Adjunct Professor of Finance and Becton Fellow, Yale University from 1994 to 2006.	98 RICs consisting of 94 Portfolios	None

Table of Contents

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies (RICs) Consisting of Investment Portfolios (Portfolios) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
Kathleen F. Feldstein 55 East 52nd Street New York NY 10055 1941	Board Member	2013; 2007 to present	President of Economics Studies, Inc. (private economic consulting firm) since 1987; Chair, Board of Trustees, McLean Hospital from 2000 to 2008 and Trustee Emeritus thereof since 2008; Member of the Board of Partners Community Healthcare, Inc. from 2005 to 2009; Member of the Corporation of Partners HealthCare since 1995; Trustee, Museum of Fine Arts, Boston since 1992; Member of the Visiting Committee to the Harvard University Art Museum since 2003; Director, Catholic Charities of Boston since 2009.	98 RICs consisting of 94 Portfolios	The McClatchy Company (publishing); BellSouth (telecom-munications); Knight Ridder (publishing)
James T. Flynn 55 East 52nd Street New York, NY 10055 1939	Board Member and Member of the Audit Committee	2013 (for PSW and PSY) and 2015 (for BTZ and BPP); 2007 to present	Chief Financial Officer of JPMorgan & Co., Inc. from 1990 to 1995.	98 RICs consisting of 94 Portfolios	None
Jerrold B. Harris 55 East 52nd Street New York, NY 10055 1942	Board Member	2013; 2007 to present	Trustee, Ursinus College since 2000; Director, Troemner LLC (scientific equipment) since 2000; Director of Delta Waterfowl Foundation since 2001; President and Chief Executive Officer, VWR Scientific Products Corporation from 1990 to 1999.	98 RICs consisting of 94 Portfolios	BlackRock Kelso Capital Corp. (business development company)

Table of Contents

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies (RICs) Consisting of Investment Portfolios (Portfolios) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
R. Glenn Hubbard 55 East 52nd Street New York, NY 10055 1958	Board Member	2013 (for PSW and PSY) and 2014 (for BTZ and BPP); 2007 to present	Dean, Columbia Business School since 2004; Columbia faculty member since 1988; Co-Director, Columbia Business School s Entrepreneurship Program from 1997 to 2004; Chairman, U.S. Council of Economic Advisers under the President of the United States from 2001 to 2003; Chairman, Economic Policy Committee of the OECD from 2001 to 2003.	98 RICs consisting of 94 Portfolios	ADP (data and information services); KKR Financial Corporation (finance); Metropolitan Life Insurance Company (insurance)
W. Carl Kester 55 East 52nd Street New York, NY 10055 1951	Board Member and Member of the Audit Committee	2013 (for PSW and PSY) and 2014 (for BTZ and BPP); 2007 to present	George Fisher Baker Jr. Professor of Business Administration, Harvard Business School; Deputy Dean for Academic Affairs from 2006 to 2010; Chairman of the Finance Department, Harvard Business School, from 2005 to 2006; Senior Associate Dean and Chairman of the MBA Program of Harvard Business School, from 1999 to 2005; Member of the faculty of Harvard Business School since 1981.	98 RICs consisting of 94 Portfolios	None
Interested Board Members					
Paul L. Audet 55 East 52nd Street New York, NY 10055 1953	Board Member	2013 (for PSW and PSY) and 2014 (for BTZ and BPP); 2011 to present	Senior Managing Director of BlackRock and Head of U.S. Mutual Funds since 2011; Chair of the U.S. Mutual Funds Committee reporting to the Global Executive Committee since 2011; Head of BlackRock s Real Estate business from 2008 to 2011; Member of BlackRock s Global Operating and Corporate Risk Management Committees and of the BlackRock Alternative Investors Executive Committee and Investment Committee for the Private Equity Fund of Funds business since 2008; Head of BlackRock s Global Cash Management business from 2005 to 2010; Acting Chief Financial Officer of BlackRock from 2007 to 2008; Chief Financial Officer of BlackRock from 1998 to 2005.	160 RICs consisting of 278 Portfolios	None

Table of Contents

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies (RICs) Consisting of Investment Portfolios (Portfolios) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
Henry Gabbay 55 East 52nd Street New York, NY 10055 1947	Board Member	2013; 2007 to present	Consultant, BlackRock from 2007 to 2008; Managing Director, BlackRock from 1989 to 2007; Chief Administrative Officer, BlackRock Advisors, LLC from 1998 to 2007; President of BlackRock Funds and BlackRock Bond Allocation Target Shares from 2005 to 2007; Treasurer of certain closed-end funds in the Closed-End Complex from 1989 to 2006.	160 RICs consisting of 278 Portfolios	None

* Following the combination of Merrill Lynch Investment Managers, L.P. (MLIM) and BlackRock, Inc. (BlackRock) in September 2006, the various legacy MLIM and legacy BlackRock fund boards were realigned and consolidated into three new fund boards in 2007. As a result, although the chart shows certain Board Members as joining the Boards in 2007, each Board Member first became a member of the Boards of Directors/Trustees of other legacy MLIM or legacy BlackRock funds as follows: Richard E. Cavanagh since 1994; Frank J. Fabozzi since 1988; Kathleen F. Feldstein since 2005; James T. Flynn since 1996; Henry Gabbay since 2007; Jerrold B. Harris since 1999; R. Glenn Hubbard since 2004; W. Carl Kester since 1998; and Karen P. Robards since 1998. Each Board Member will serve until his or her successor is elected and qualifies, or until his or her earlier death, resignation, retirement or removal, or until December 31 of the year in which he or she turns 72; however, in 2011 the Boards adopted a resolution extending the mandatory retirement age for Mr. Flynn so that he can serve until December 31 of the year in which he turns 73. Mr. Flynn will turn 73 in 2012.

** For purposes of this chart, RICs refers to registered investment companies and Portfolios refers to the investment programs of the Funds. The Closed-End Complex, including the Funds, is comprised of 98 RICs.

*** Directorships disclosed under this column do not include directorships disclosed under the column Principal Occupation(s) During Past Five Years.

Mr. Audet is an interested person (as defined in the 1940 Act) of the Funds by virtue of his current position with BlackRock Advisors, LLC, BlackRock Capital Management, Inc. or BlackRock Financial Management, Inc. (collectively, BlackRock Advisors), each a wholly owned subsidiary of BlackRock and his ownership of BlackRock and/or The PNC Financial Services Group, Inc. securities. Mr. Gabbay is an interested person (as defined in the 1940 Act) of the Funds by virtue of his ownership of BlackRock and/or The PNC Financial Services Group, Inc. securities.

Board Member Qualifications

The Independent Board Members have adopted a statement of policy that describes the experiences, qualifications, skills and attributes that are necessary and desirable for potential Independent Board Member candidates (the Statement of Policy). The Boards believe that each Independent Board Member satisfied, at the time he or she was initially elected or appointed a board member, and continues to satisfy, the standards contemplated by the Statement of Policy as well as the standards set forth in each Fund s Bylaws. Furthermore, in determining that a particular board member was and continues to be qualified to serve as a board member, the Boards have considered a variety of criteria, none of which, in isolation, was controlling. The Boards believe that, collectively, the Board Members have balanced and diverse experiences, skills, attributes and qualifications, which allow the Boards to operate effectively in governing the Funds and protecting the interests of stockholders. Among the attributes common to all Board Members is their ability to review critically, evaluate, question and discuss information provided to them, to interact effectively with the Investment Advisor, the Sub-Advisor, other service providers, counsel and independent auditors, and to exercise effective business judgment in the

Table of Contents

performance of their duties as board members. Each board member s ability to perform his or her duties effectively is evidenced by his or her educational background or professional training; business, consulting, public service or academic positions; experience from service as a board member or trustee of the Funds or the other funds in the BlackRock fund complexes (and any predecessor funds), other investment funds, public companies, or not-for-profit entities or other organizations; ongoing commitment and participation in Board and committee meetings, as well as their leadership of standing and ad hoc committees throughout the years; or other relevant life experiences.

The table below discusses some of the experiences, qualifications and skills of each of the Fund s Board Members that support the conclusion that they should serve on the Boards.

Board Members/Nominees	Experience, Qualifications and Skills
Richard E. Cavanagh	Mr. Cavanagh brings to the Boards a wealth of practical business knowledge and leadership as an experienced director/trustee of various public and private companies. In particular, because Mr. Cavanagh served for over a decade as President and Chief Executive Officer of The Conference Board, Inc., a global business research organization, he is able to provide the Boards with expertise about business and economic trends and governance practices. Mr. Cavanagh created the blue ribbon Commission on Public Trust and Private Enterprise in 2002, which recommended corporate governance enhancements. Mr. Cavanagh s service as a director of The Guardian Life Insurance Company of America and as a senior advisor and director of The Fremont Group provides added insight into investment trends and conditions. Mr. Cavanagh s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Mr. Cavanagh s independence from the Funds and the Funds investment advisor enhances his service as Chair of the Boards, Chair of the Leverage Committee, Chair of the Executive Committee and as a member of the Governance and Nominating Committee, Compliance Committee and Performance Oversight Committee.
Karen P. Robards	The Boards benefit from Ms. Robards s many years of experience in investment banking and the financial advisory industry where she obtained extensive knowledge of the capital markets and advised clients on corporate finance transactions, including mergers and acquisitions and the issuance of debt and equity securities. Ms. Robards s prior position as an investment banker at Morgan Stanley provides useful oversight of the Funds investment decisions and investment valuation processes. Additionally, Ms. Robards s experience derived from serving as a director of Care Investment Trust, Inc., a health care real estate investment trust, provides the Boards with the benefit of her experience with the management practices of other financial companies. Ms. Robards s long-standing service on the boards of the Closed-End Complex also provides her with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Ms. Robards s knowledge of financial and accounting matters qualifies her to serve as Vice Chair of the Boards and as the Chair of each Fund s Audit Committee. Ms. Robards s independence from the Funds and the Funds investment advisor enhances her service as a member of the Performance Oversight Committee, Executive Committee, Governance and Nominating Committee and Leverage Committee.

Table of Contents

Board Members/Nominees	Experience, Qualifications and Skills
Michael J. Castellano	The Boards benefit from Mr. Castellano s career in accounting which spans over forty years. Mr. Castellano has served as Chief Financial Officer of Lazard Ltd. And as a Managing Director and Chief Financial Officer of Lazard Group. Prior to joining Lazard, Mr. Castellano held various senior management positions at Merrill Lynch & Co., including Senior Vice President Chief Control Officer for Merrill Lynch s capital markets businesses, Chairman of Merrill Lynch International Bank and Senior Vice President Corporate Controller. Prior to joining Merrill Lynch & Co., Mr. Castellano was a partner with Deloitte & Touche where he served a number of investment banking clients over the course of his 24 years with the firm. Mr. Castellano is a Director and a member of each Fund s Audit Committee, Governance and Nominating Committee and Performance Oversight Committee. Mr. Castellano s knowledge of financial and accounting matters qualifies him to serve as a member of each Fund s Audit Committee. Mr. Castellano s independence from the Funds and the Funds investment advisor enhances his service as a member of the Audit Committee, Governance and Nominating Committee and Performance Oversight Committee.
Frank J. Fabozzi	Dr. Fabozzi holds the designations of Chartered Financial Analyst and Certified Public Accountant. Dr. Fabozzi was inducted into the Fixed Income Analysts Society s Hall of Fame and is the 2007 recipient of the C. Stewart Sheppard Award given by the CFA Institute. The Boards benefit from Dr. Fabozzi s experiences as a professor and author in the field of finance. Dr. Fabozzi s experience as a Professor of Finance at EDHEC Business School, as a Professor in the Practice of Finance and Becton Fellow at the Yale University School of Management and as editor of the Journal of Portfolio Management demonstrate his wealth of expertise in the investment management and structured finance areas. Dr. Fabozzi has authored and edited numerous books and research papers on topics in investment management and financial econometrics, and his writings have focused on fixed income securities and portfolio management, many of which are considered standard references in the investment management industry. Dr. Fabozzi s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations and the business and regulatory issues facing the Funds. Moreover, Dr. Fabozzi s knowledge of financial and accounting matters qualifies him to serve as a member of each Fund s Audit Committee. Dr. Fabozzi s independence from the Funds and the Funds investment advisor enhances his service as Chair of the Performance Oversight Committee and as a member of the Governance and Nominating Committee and Leverage Committee.
Kathleen F. Feldstein	Dr. Feldstein, who serves as President of Economics Studies, Inc., an economic consulting firm, benefits the Boards by providing business leadership and experience and knowledge of economics. The Boards benefit from Dr. Feldstein s experience as a director/trustee of publicly traded and private companies, including financial services, technology and telecommunications companies. Dr. Feldstein s long-standing service on the boards of the Closed-End Complex also provides her with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. In addition, Dr. Feldstein s independence from the Funds and the Funds investment advisor enhances her service as a member of the Compliance Committee, Governance and Nominating Committee and Performance Oversight Committee.

Table of Contents

Board Members/Nominees	Experience, Qualifications and Skills
James T. Flynn	Mr. Flynn brings to the Boards a broad and diverse knowledge of business and capital markets as a result of his many years of experience in the banking and financial industry. Mr. Flynn s five years as the Chief Financial Officer of JP Morgan & Co. provide the Boards with experience on financial reporting obligations and oversight of investments. Mr. Flynn s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Mr. Flynn s knowledge of financial and accounting matters qualifies him to serve as a member of each Fund s Audit Committee. Mr. Flynn s independence from the Funds and the Funds investment advisor enhances his service as a member of the Governance and Nominating Committee and Performance Oversight Committee.
Jerrold B. Harris	Mr. Harris s time as President and Chief Executive Officer of VWR Scientific Products Corporation brings to the Boards business leadership and experience and knowledge of the chemicals industry and national and international product distribution. Mr. Harris s position as a director of BlackRock Kelso Capital Corporation brings to the Boards the benefit of his experience as a director of a business development company governed by the 1940 Act and allows him to provide the Boards with added insight into the management practices of other financial companies. Mr. Harris s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations and the business and regulatory issues facing the Funds. Mr. Harris s independence from the Funds and the Funds investment advisor fosters his role as Chair of the Compliance Committee and as a member of the Governance and Nominating Committee and Performance Oversight Committee.
R. Glenn Hubbard	Dr. Hubbard has served in numerous roles in the field of economics, including as the Chairman of the U.S. Council of Economic Advisers of the President of the United States. Dr. Hubbard serves as the Dean of Columbia Business School, has served as a member of the Columbia Faculty and as a Visiting Professor at the John F. Kennedy School of Government at Harvard University, the Harvard Business School and the University of Chicago. Dr. Hubbard s experience as an adviser to the President of the United States adds a dimension of balance to the Funds governance and provides perspective on economic issues. Dr. Hubbard s service on the boards of KKR Financial Corporation, ADP and Metropolitan Life Insurance Company provides the Boards with the benefit of his experience with the management practices of other financial companies. Dr. Hubbard s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Dr. Hubbard s independence from the Funds and the Funds investment advisor enhances his service as the Chair of the Governance and Nominating Committee and a member of the Compliance Committee and Performance Oversight Committee.

Table of Contents

Board Members/Nominees	Experience, Qualifications and Skills
W. Carl Kester	The Boards benefit from Dr. Kester s experiences as a professor and author in finance, and his experience as the George Fisher Baker Jr. Professor of Business Administration at Harvard Business School and as Deputy Dean of Academic Affairs at Harvard Business School adds to the Board a wealth of expertise in corporate finance and corporate governance. Dr. Kester has authored and edited numerous books and research papers on both subject matters, including co-editing a leading volume of finance case studies used worldwide. Dr. Kester s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Dr. Kester s knowledge of financial and accounting matters qualifies him to serve as a member of each Fund s Audit Committee. In addition, Dr. Kester s independence from the Funds and the Funds investment advisor enhances his service as a member of the Governance and Nominating Committee, Performance Oversight Committee and the Leverage Committee.
Paul L. Audet	Mr. Audet has a wealth of experience in the investment management industry, including more than 13 years with BlackRock and over 30 years in finance and asset management. He also has expertise in finance, as demonstrated by his positions as Chief Financial Officer of BlackRock and head of BlackRock s Global Cash Management business. Mr. Audet currently is a member of BlackRock s Global Operating and Corporate Risk Management Committees, the BlackRock Alternative Investors Executive Committee and the Investment Committee for the Private Equity Fund of Funds. Prior to joining BlackRock, Mr. Audet was the Senior Vice President of Finance at PNC Bank Corp. and Chief Financial Officer of the investment management and mutual fund processing businesses and head of PNC s Mergers & Acquisitions Unit. Mr. Audet is a member of the Executive Committee.
Henry Gabbay	The Boards benefit from Dr. Gabbay s many years of experience in administration, finance and financial services operations. Dr. Gabbay s experience as a Managing Director of BlackRock, Chief Administrative Officer of BlackRock Advisors, LLC and President of BlackRock Funds provides the Board with insight into investment company operational, financial and investment matters. Dr. Gabbay s former positions as Chief Administrative Officer of BlackRock Advisors, LLC and as Treasurer of certain closed-end funds in the Closed-End Complex provide the Boards with direct knowledge of the operations of the Funds and their investment advisor. Dr. Gabbay s long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Dr. Gabbay serves as a member of the Leverage Committee.

The Executive Officers

The executive officers of each Fund, their year of birth and their principal occupations during the past five years (their titles may have varied during that period) are shown in the table below. The address of each officer is c/o BlackRock, Inc., Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055.

S-31

Table of Contents

Each executive officer is an interested person of the Funds (as defined in the 1940 Act) by virtue of that individual s position with BlackRock or its affiliates described in the table below.

Name, Address