

Edgar Filing: EATON VANCE MUNICIPAL BOND FUND - Form N-2

EATON VANCE MUNICIPAL BOND FUND

Form N-2

August 02, 2010

As filed with the Securities and Exchange Commission on August 2, 2010

1933 Act File No. 333-

1940 Act File No. 811-21142

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT	
UNDER THE SECURITIES ACT OF 1933	x
PRE-EFFECTIVE AMENDMENT NO.	£
POST-EFFECTIVE AMENDMENT NO.	£

and/or

REGISTRATION STATEMENT UNDER THE	
INVESTMENT COMPANY ACT OF 1940	£
AMENDMENT NO. 4	x
(Check appropriate box or boxes)	

EATON VANCE MUNICIPAL BOND FUND  
(Exact Name of Registrant as Specified in Charter)

Two International Place Boston, Massachusetts 02110  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code (617) 482-8260

Frederick S. Marius  
Two International Place Boston, Massachusetts 02110  
Name and Address (of Agent for Service)

Copies of Communications to:

Mark P. Goshko, Esq.  
Clair E. Pagnano, Esq.  
K&L Gates LLP  
State Street Financial Center  
One Lincoln Street, 20th Floor  
Boston, Massachusetts 02111

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box):  
x when declared effective pursuant to Section 8(c)

---

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fees (1)
Common Shares, \$0.01 par value	75,529 Shares	\$13.24	\$1,000,003.96	\$71.30

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the shares of beneficial interest on July 26, 2010 as reported on the New York Stock Exchange.

---

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

---

The information in this Prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

## PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION [ ],  
2010

[EATON VANCE LOGO]

Shares  
Eaton Vance Municipal Bond Fund  
Common Shares

**Investment Objective and Policies.** Eaton Vance Municipal Bond Fund (the “Fund”) is a diversified, closed-end management investment company, which commenced operations in August 2002. The Fund’s investment objective is to provide current income exempt from federal income tax, including alternative minimum tax. This income will be earned by investing primarily in high grade municipal obligations that are not subject to alternative minimum tax. The Fund’s net asset value (“NAV”) and distribution rate will vary, and may be affected by several factors, including changes in interest rates and the credit quality of municipal issuers. Fluctuations in NAV may be magnified as a result of the Fund’s use of leverage, which may be a speculative investment technique. An investment in the Fund may not be appropriate for all investors, particularly those subject to the federal income tax. Closed-end fund shares often trade at a discount to their NAV. There is no assurance that the Fund will achieve its investment objective.

**Investment Adviser.** The Fund’s investment adviser is Eaton Vance Management (“Eaton Vance” or the “Adviser”). As of June 30, 2010, Eaton Vance and its affiliates managed approximately \$165.4 billion of assets, including 64 municipal bond funds with combined assets of about \$27.5 billion.

**The Offering.** This prospectus applies to [ ] shares of beneficial interest (the “Common Shares”) of the Fund, which may be issued and sold from time to time by the Fund (the “Offering”) through Eaton Vance Distributors, Inc. (“EVD”), as distributor and principal underwriter, through broker-dealers that have entered into selected dealer agreements with EVD. See “Plan of distribution.” The Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE Euronext (“NYSE Amex”), subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current NAV per Common Share plus the per Common Share amount of the sales commission to be paid to EVD. The Fund will compensate EVD with respect to sales of the Common Shares at a fixed commission rate based upon the premium at which the Fund’s Common Shares are trading on the NYSE Amex on the day of the sale transaction according to the following schedule:

Market Price Premium of Common Shares to NAV on Day of Sale	Commission
1.0% up to and including 2.0%	[1.0%]
Over 2.0% up to and including 3.0%	[1.75%]
Over 3.0% up to and including 4.0%	[2.5%]
Over 4.0%	[3.0%]

EVD will compensate broker-dealers participating in the offering based on the number of Common Shares sold by the broker-dealer in an amount equal to 80% of the applicable gross commission paid by the Fund to EVD according to the schedule above. EVD may from time to time change the dealer re-allowance. The Fund will retain the value of the difference between the premium of the Common Shares and the commission paid on the sale of the Common Shares in the Offering. In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share. As of [June 30], 2010, the last reported sales price of a Common Share of the

Fund on the NYSE Amex was \$[\_\_\_\_].

**Portfolio Contents.** During normal market conditions, the Fund will invest at least 80% of its net assets in debt obligations issued by or on behalf of states, territories and possessions of the United States, and the District of Columbia and their political subdivisions, agencies or instrumentalities, the interest on which is exempt from federal income tax, including alternative minimum tax (“municipal obligations”), that are rated A or better by Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Group (“S&P”) or Fitch Ratings (“Fitch”). (continued on inside cover page)

The shares of closed-end investment companies frequently trade at a discount from their net asset value, which may increase investors’ risk of loss. The returns earned by holders of the Common Shares (“Common Shareholders”) who purchase their shares in this offering and sell their shares below net asset value will be reduced.

Investing in the Common Shares involves certain risks. See “Investment objective, policies and risks” beginning on page [ ] of this prospectus.

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

---

(continued from previous page)

The Fund primarily invests in high grade municipal obligations. Up to 20% of the Fund's net assets may be invested in unrated obligations deemed by the Adviser to be of investment grade quality (i.e., rated at least Baa or higher by Moody's or BBB or higher by S&P or Fitch). Accordingly, the Fund does not intend to invest any of its assets in obligations rated below investment grade or in comparable unrated obligations. When an obligation is rated in different rating categories by Moody's, S&P or Fitch, the highest rating applies. From time to time, the Fund may hold obligations that are unrated but judged to be of comparable quality by the Adviser. Under normal market conditions, the Fund expects to be fully invested (at least 95% of its net assets) in accordance with its investment objective. For purposes of the Fund's 80 percent requirement, the rating of insured obligations will be deemed to be the higher of the claims-paying rating of the insurer and the rating of the underlying issue. Insurance does not protect the market value of such obligations or the net asset value of the Fund. The value of an obligation will be affected by the credit standing of its insurer.

The Fund will not invest in an obligation if the interest on that obligation is subject to the federal alternative minimum tax.

The Fund may purchase and sell various kinds of financial futures contracts and related options, including futures contracts and related options based on various debt securities and securities indices, and may enter into interest rate swaps and forward rate contracts to seek to hedge against changes in interest rates or for other risk management purposes.

**Leverage.** The Fund invests in residual interest bonds. Residual interest bonds are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and provide the economic effect of leverage. As of [June 30, 2010], the Fund had \$[\_\_\_\_] in outstanding borrowings and did not have any outstanding preferred shares.

The Adviser anticipates that the use of leverage (from the issuance of any preferred shares, any borrowings and residual interest bonds) will result in higher income to Common Shareholders over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful. The fee paid to Eaton Vance will be calculated on the basis of the Fund's gross assets, including proceeds from the issuance of preferred shares, borrowings and leverage created by residual interest bonds, so the fees will be higher when leverage is utilized. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee. See "Investment objective, policies and risks—Use of leverage and related risks" at page [ ], "Investment objective, policies and risks—Additional risk considerations" at page [ ] and "Description of capital structure" at page [ ].

**Exchange listing.** As of [June 30,] 2010, the Fund had [\_\_\_\_] Common Shares outstanding, which are traded on the NYSE Amex under the symbol "EIM." As of [June 30,] 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_]. Any new Common Shares offered and sold pursuant to this Registration Statement will also be listed on the NYSE Amex and trade under this symbol.

This prospectus sets forth concisely information you should know before investing in the Fund. Please read and retain this prospectus for future reference. A Statement of Additional Information dated [\_\_\_\_], 2010 has been filed with the SEC. The Statement of Additional Information, annual and semi-annual reports to shareholders when available and other information about the Fund and can be obtained without charge by calling 1-800-225-6265 or by writing to the Fund at the address below or from the Fund's website (<http://www.eatonvance.com>). A table of contents to the

Statement of Additional Information is located at page [ ] of this prospectus. This prospectus incorporates by reference the entire Statement of Additional Information. The Statement of Additional Information is available along with other Fund-related materials: at the SEC's public reference room in Washington, DC (call 1-202-942-8090 for information on the operation of the reference room); from the EDGAR database on the SEC's internet site (<http://www.sec.gov>); upon payment of copying fees by writing to the SEC's public reference section, Washington, DC 20549-0102; or by electronic mail at [publicinfo@sec.gov](mailto:publicinfo@sec.gov). The Fund's address is Two International Place, Boston, Massachusetts 02110 and its telephone number is 1-800-225-6265.

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

You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. The Fund will notify shareholders promptly of any material change to this prospectus during the period the Fund is required to deliver the prospectus. The Fund's business, financial condition and results of operations may have changed since the date of this prospectus.

## CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, any accompanying prospectus supplement and the statement of additional information contain “forward-looking statements.” Forward-looking statements can be identified by the words “may,” “will,” “intend,” “expect,” “estimate,” “continue,” “plan,” “anticipate,” and similar terms and the negative of such terms. Such forward-looking statements may be contained in this prospectus as well as in any accompanying prospectus supplement. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the “Risk Factors” section of this prospectus. All forward-looking statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement are made as of the date of this prospectus or the accompanying prospectus supplement, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this prospectus, any accompanying prospectus supplement and the statement of additional information are excluded from the safe harbor protection provided by section 27A of the Securities Act of 1933, as amended (the “1933 Act”).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the “Risk Factors” section of this prospectus. We urge you to review carefully that section for a more detailed discussion of the risks of an investment in our securities.



TABLE OF CONTENTS [to be updated]

Prospectus summary
Summary of Fund expenses
Financial highlights and investment performance
The Fund
Use of proceeds
Investment objective, policies and risks
Management of the Fund
Distributions
Federal income tax matters
Dividend reinvestment plan
Description of capital structure
Underwriting
Custodian and transfer agent
Legal opinions
Reports to stockholders
Independent registered public accounting firm
Additional information
Table of contents for the Statement of Additional Information
The Fund's privacy policy

## Prospectus summary

The following summary is qualified in its entirety by reference to the more detailed information included elsewhere in this prospectus and in the Statement of Additional Information (defined below).

## THE FUND

Eaton Vance Municipal Bond Fund (the “Fund”) is a diversified, closed-end management investment company. The Fund commenced operations in August of 2002 following an initial public offering of its common shares of beneficial interest (“Common Shares”). The Fund’s investment objective is to provide current income exempt from federal income tax, including alternative minimum tax. This income will be earned by investing primarily in high grade municipal obligations that are not subject to alternative minimum tax. Investments are based on the municipal securities research, trading and portfolio management of the Fund’s investment adviser, Eaton Vance Management (“Eaton Vance” or the “Adviser”), which generally are not available to individual investors. The Fund’s net asset value (“NAV”) and distribution rate will vary and may be affected by several factors, including changes in interest rates and the credit quality of municipal issuers. Fluctuations in NAV may be magnified as a result of the Fund’s use of leverage, which may be a speculative investment technique. An investment in the Fund may not be appropriate for all investors, particularly those subject to the federal income tax. There is no assurance that the Fund will achieve its investment objective.

## THE OFFERING

This prospectus applies to [ ] Common Shares of the Fund, which may be issued and sold from time to time by the Fund (the “Offering”) through Eaton Vance Distributors, Inc. (“EVD”), as distributor and principal underwriter, through broker-dealers who have entered into selected dealer agreements with EVD. See “Plan of distribution.” The Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE Euronext (“NYSE Amex”), subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current NAV per Common Share plus the per Common Share amount of the sales commission to be paid to EVD. The Fund and EVD will suspend the sale of Common Shares if the per Common Share price is less than the minimum price. The Fund will compensate EVD with respect to sales of the Common Shares at a fixed commission rate based upon the premium at which the Fund’s Common Shares are trading on the NYSE Amex on the day of the sale transaction according to the following schedule:

Market Price Premium of Common Shares to NAV on Day of Sale	Commission
1.0% up to and including 2.0%	[1.0%]
Over 2.0% up to and including 3.0%	[1.75%]
Over 3.0% up to and including 4.0%	[2.5%]
Over 4.0%	[3.0%]

EVD will compensate broker-dealers participating in the offering based on the number of Common Shares sold by the broker-dealer in an amount equal to 80% of the applicable gross commission paid by the Fund to EVD according to the schedule above. EVD may from time to time change the dealer re-allowance. The Fund will retain the value of the difference between the premium of the Common Shares and the commission paid on the sale of the Common Shares in the Offering. In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share. As of [June 30], 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_].

## INVESTMENT OBJECTIVE AND POLICIES

Investment objective

The Fund's investment objective is to provide current income exempt from federal income tax, including alternative minimum tax. This income will be earned by investing primarily in high grade municipal obligations that are not subject to alternative minimum tax. Securities will be purchased and sold in an effort to maintain a competitive yield.

Portfolio parameters

During normal market conditions, the Fund will invest at least 80% of its net assets in debt obligations issued by or on behalf of states, territories and possessions of the United States, and the District of Columbia and their political subdivisions, agencies or instrumentalities, the interest on which is exempt from federal income tax, including alternative minimum tax ("municipal obligations"), that are rated A or better by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P") or Fitch Ratings ("Fitch").

The Fund primarily invests in high grade municipal obligations. Up to 20% of the Fund's net assets may be invested in unrated obligations deemed by the Adviser to be of investment grade quality (i.e., rated at least Baa or higher by Moody's or BBB or higher by S&P or Fitch). Accordingly, the Fund does not intend to invest any of its assets in obligations rated below investment grade or in comparable unrated obligations. When an obligation is rated in different rating categories by Moody's, S&P or Fitch, the highest rating applies. From time to time, the Fund may hold obligations that are unrated but judged to be of comparable quality by the Adviser. Under normal market conditions, the Fund expects to be fully invested (at least 95% of its net assets) in accordance with its investment objective. For purposes of the Fund's 80 percent requirement, the rating of insured obligations will be deemed to be the higher of the claims-paying rating of the insurer and the rating of the underlying issue. Insurance does not protect the market value of such obligations or the net asset value of the Fund. The value of an obligation will be affected by the credit standing of its insurer.

The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a Rating Agency downgrades its assessment of the credit characteristics of a particular issue or withdraws its assessment. In determining whether to retain or sell such a security, Eaton Vance may consider such factors as Eaton Vance's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other Rating Agencies. Although Eaton Vance considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by Rating Agencies. Credit quality can change from time to time, and recently issued credit ratings may not fully reflect the actual risks posed by a particular security or the issuer's current financial condition.

Municipal obligations include bonds, notes and commercial paper issued by a municipality for a wide variety of both public and private purposes, the interest on which is, in the opinion of issuer's counsel (or on the basis of other reliable authority), exempt from regular federal income tax. Public purpose municipal bonds include general obligation and revenue bonds. General obligation bonds are backed by the taxing power of the issuing municipality. Revenue bonds are backed by the revenues of a project or facility, or from the proceeds of a specific revenue source. Some revenue bonds are payable solely or partly from funds that are subject to annual appropriations by a state's legislature. Municipal notes include bond anticipation, tax anticipation and revenue anticipation notes. Bond, tax and revenue anticipation notes are short-term obligations that will be retired with the proceeds of an anticipated bond issue, tax revenue or facility revenue, respectively.

Some of the securities in which the Fund invests may include so-called "zero-coupon" bonds, whose values are subject to greater fluctuation in response to changes in market interest rates than bonds that pay interest currently. Zero-coupon bonds are issued at a significant discount from face value and pay interest only at maturity rather than at intervals during the life of the security. The Fund is required to take into account income from zero-coupon bonds on a current basis, even though it does not receive that income currently in cash, and the Fund is required to distribute substantially all of its income for each taxable year. Thus, the Fund may have to sell other investments to obtain cash needed to make income distributions.

A residual interest bond is a type of inverse floating-rate security created by dividing the income from a municipal bond into two portions. Typically, a third-party sponsor will create a trust (commonly referred to as a tender option bond trust) consisting of one or more municipal bonds and then create two new securities: a short-term floating-rate security and a residual interest inverse floating-rate bond. The short-term floating rate security will be linked to a reference interest rate (such as the London Interbank Offered Rate ("LIBOR"), or the Securities Industry and Financial Markets Association ("SIFMA") Municipal Bond Swap Index), and the tender option bond trust's income will be used to pay the coupon on the short-term floating rate security, with any remaining income going toward the residual interest bond. Because the residual interest bond is an inverse floating rate security and only pays a residual income, compared to fixed rate municipal bonds, the value of residual interest bonds will fluctuate to a greater extent in response to changes in prevailing long-term interest rates. As market interest rates increase, the value of a residual interest bond

will decrease. Moreover, the income earned on such bonds will fluctuate in response to changes in prevailing short-term interest rates. When residual interest bonds are held by the Fund, an increase in short- or long-term market interest rates may adversely affect the income received from such bonds or the NAV of Common Shares.

Any economic effect of leverage through the Fund's purchase of residual interest bonds will create an opportunity for increased Common Share net income and returns, but will also create the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the residual interest bonds purchased by the Fund.

The amount of fees paid to Eaton Vance for investment advisory services will be higher if the Fund uses financial leverage because the fees will be calculated based on the Fund's gross assets. Gross assets include assets financed through the creation of tender option bond trusts, the issuance of preferred equity, borrowings and other forms of financial leverage, which may create a conflict of interest between Eaton Vance and the Common Shareholders.

Residual interest bonds have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a tender option bond trust. The market price of residual interest bonds is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its residual interest bonds at less than favorable prices, or liquidate other Fund portfolio holdings.

The Fund may purchase municipal obligations that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund's current yield. The insurance feature does not guarantee the market value of the insured obligations or the NAV of the Fund's shares. To the extent that securities held by the Fund are insured as to principal and interest payments by insurers whose claims-paying ability is downgraded by a Rating Agency, the value of such security may be affected.

The Fund will not invest in an obligation if the interest on that obligation is subject to the federal alternative minimum tax.

The Fund may purchase and sell various kinds of financial futures contracts and related options, including futures contracts and related options based on various debt securities and securities indices, as well as interest rate swaps and forward rate contracts, to seek to hedge against changes in interest rates or for other risk management purposes.

The Fund has adopted certain fundamental investment restrictions set forth in the Statement of Additional Information, which may not be changed without a shareholder vote. Except for such restrictions and the 80% requirement set forth above, the investment objective and policies of the Fund may be changed by the Fund's Board of Trustees ("Board") without shareholder action.

## LISTING

As of [June 30,] 2010, the Fund had [\_\_\_\_] Common Shares outstanding, which are traded on the NYSE Amex under the symbol "EIM." As of [June 30,] 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_]. Any new Common Shares offered and sold pursuant to this Registration Statement will also be listed on the NYSE Amex and trade under this symbol.

## USE OF LEVERAGE

As described herein, the Fund may invest in residual interest bonds, which have the economic effect of leverage. As of [June 30,] 2010, the Fund had \$[\_\_\_\_] in outstanding borrowings and had leverage in the form of residual interest bonds, but did not have any outstanding preferred shares. The Adviser anticipates that the use of leverage (from any issuance of preferred shares, any borrowings and residual interest bonds) may result in higher income to Common Shareholders over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful.

The costs of the financial leverage program (from any issuance of preferred shares, any borrowings, and residual interest bonds) are borne by Common Shareholders and consequently result in a reduction of the NAV of Common Shares. During periods in which the Fund is using leverage, the fees paid to Eaton Vance for investment 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 gross assets, including proceeds from the issuance of preferred shares, borrowings and interests in residual interest bonds. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee. See "Investment objective,

policies and risks—Use of leverage and related risks” and “Management of the Fund—The Adviser.”

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Fund’s use of derivative instruments exposes the Fund to special risks. See “Investment objective, policies and risks—Additional investment practices” and “Investment objective, policies and risks—Additional risk considerations.”

#### INVESTMENT ADVISER AND ADMINISTRATOR

Eaton Vance, a direct wholly-owned subsidiary of Eaton Vance Corp., is the Fund’s investment adviser and administrator. As of June 30, 2010, Eaton Vance and its affiliates managed approximately \$165.4 billion of assets, including 64 municipal bond funds with combined assets of about \$27.5 billion.

## PLAN OF DISTRIBUTION

The Fund intends to enter into a Distribution Agreement with EVD, a form of which will be filed as an exhibit to the Registration Statement of which this prospectus is a part. The summary of the Distribution Agreement contained herein is qualified by reference to the Distribution Agreement. Subject to the terms and conditions of the Distribution Agreement, the Fund may issue and sell Common Shares of the Fund from time to time through EVD, which is the principal underwriter of the Common Shares, through certain broker-dealers that will have entered into selected dealer agreements with EVD. The Common Shares will only be sold on such days as shall be agreed to by the Fund and EVD.

The Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE Amex, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current NAV per Common Share plus the per Common Share amount of the commission to be paid to EVD. The Fund and EVD will suspend the sale of Common Shares if the per Common Share price of the Common Shares is less than the minimum price.

The Fund will compensate EVD with respect to sales of the Common Shares at a fixed commission rate based upon the premium at which the Fund's Common Shares are trading on the NYSE Amex on the day of the sale transaction according to the following schedule:

Market Price Premium of Common Shares to NAV on Day of Sale	Commission
1.0% up to and including 2.0%	[1.0%]
Over 2.0% up to and including 3.0%	[1.75%]
Over 3.0% up to and including 4.0%	[2.5%]
Over 4.0%	[3.0%]

EVD will compensate broker-dealers participating in the offering based on the number of Common Shares sold by the broker-dealer in an amount equal to 80% of the applicable gross commission paid by the Fund to EVD according to the schedule above. EVD may from time to time change the dealer re-allowance. The Fund will retain the value of the difference between the premium of the Common Shares and the commission paid on the sale of the Common Shares in the Offering. In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share. As of [June 30], 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_].

Settlements of sales of Common Shares will occur on the third business day following the date on which any such sales are made. Unless otherwise indicated in a further prospectus supplement, EVD as underwriter will act as underwriter on a reasonable efforts basis.

In connection with the sale of the Common Shares on behalf of the Fund, EVD may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the "1933 Act"), and the compensation of EVD may be deemed to be underwriting commissions or discounts.

The offering of Common Shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Common Shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and EVD each have the right to terminate the Distribution Agreement in its discretion at any time.

The Adviser will pay the expenses of the Offering (other than the applicable commissions). Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Fund's registration statement (including this prospectus and the Statement of Additional Information ("SAI")), the preparation, review and



filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of the prospectus, SAI and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the Offering.

#### DISTRIBUTIONS

The Fund intends to make regular monthly cash distributions to Common Shareholders. The amount of each monthly distribution will vary depending on a number of factors, including distributions payable on any preferred shares or other costs of financial leverage. As portfolio and market conditions change, the rate of distribution on the Common Shares and the Fund's distribution policy could change. Over time, the Fund will distribute all of its net investment income (after it pays accrued distributions on any outstanding preferred shares or other costs of financial leverage).

The net investment income of the Fund will consist of all interest income accrued on portfolio investments, short-term capital gain (including short-term gains on options, futures and forward positions and gains on the sale of portfolio investments held for one year or less) in excess of long-term capital loss and income from certain hedging transactions, less all expenses of the Fund. Expenses of the Fund will be accrued each day. Substantially all of the Fund's investment company taxable income will be distributed each year. In addition, at least annually, the Fund intends to distribute any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). To the extent that the Fund's net investment income and net capital gain for any year exceed the total monthly distributions paid during the year, the Fund will make a special distribution at or near year-end of such excess amount as may be required. If the Fund's total monthly distributions in any year exceed the amount of its net investment income and net capital gain for the year, any such excess would be characterized as a return of capital for federal income tax purposes. Under the Investment Company Act of 1940, as amended (the "1940 Act"), for any distribution that includes amounts from sources other than net income, the Fund is required to provide Common Shareholders a written statement regarding the components of such distribution. Such a statement will be provided at the time of any distribution believed to include any such amounts.

Common Shareholders may automatically reinvest some or all of their distributions in additional Common Shares pursuant to the Fund's dividend reinvestment plan. See "Dividend reinvestment plan."

#### DIVIDEND REINVESTMENT PLAN

The Fund has established a dividend reinvestment plan (the "Plan"). Under the Plan, a Common Shareholder may elect to have all dividend and capital gain distributions automatically reinvested in additional Common Shares, either purchased in the open market or newly issued by the Fund if the Common Shares are trading at or above their NAV. Common Shareholders may elect to participate in the Plan by completing the Dividend Reinvestment Plan Application Form. If Common Shareholders do not participate, such Common Shareholders will receive all distributions in cash paid by check mailed directly to them by American Stock Transfer & Trust Company, as dividend paying agent. Common Shareholders who intend to hold their Common Shares through a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan. See "Dividend reinvestment plan."

#### CLOSED-END STRUCTURE

Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities redeemable at NAV at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities.

However, shares of closed-end funds frequently trade at a discount from their NAV. Since inception, the market price of the Common Shares has fluctuated and at times traded below NAV, and at times has traded above the Fund's NAV. In recognition of the possibility that the Common Shares might trade at a discount to NAV and that any such discount may not be in the interest of Common Shareholders, the Board, in consultation with Eaton Vance, from time to time may review possible actions to reduce any such discount. The Board might consider open market repurchases or tender offers for Common Shares at NAV. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in the Common Shares trading at a price equal to or close to NAV per Common Share. The Board might also consider the conversion of the Fund to an open-end management investment company. The Board believes, however, that the closed-end structure is desirable, given the

Fund's investment objective and policies. Investors should assume, therefore, that it is highly unlikely that the Board would vote to convert the Fund to an open-end management investment company. Investors should note that the existence of preferred shares to provide investment leverage could make a conversion to open-end form more difficult because of the voting rights of preferred shareholders, the costs of redeeming preferred shares and other factors. See "Description of capital structure."

#### SPECIAL RISK CONSIDERATIONS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment.

#### Discount from or premium to NAV

The Offering will be conducted only when Common Shares of the Fund are trading at a price equal to or above the Fund's NAV per Common Share plus the per Common Share amount of commissions. As with any security, the market value of the Common Shares may increase or decrease from the amount initially paid for the Common Shares. The Fund's Common Shares have traded at both a premium and at a discount to net asset value. The shares of closed-end management investment companies frequently trade at a discount from their NAV. This is a risk separate and distinct from the risk that the Fund's NAV may decrease.

#### Secondary market for the Common Shares

The issuance of Common Shares through the Offering may have an adverse effect on the secondary market for the Common Shares. The increase in the amount of the Fund's outstanding Common Shares resulting from the Offering may put downward pressure on the market price for the Common Shares of the Fund. Common Shares will not be issued pursuant to the Offering at any time when Common Shares are trading at a price lower than a price equal to the Fund's NAV per Common Share plus the per Common Share amount of commissions to be paid to EVD.

The Fund also issues Common Shares of the Fund through its dividend reinvestment plan. See "Dividend reinvestment plan." Common Shares may be issued under the plan at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Fund.

When the Common Shares are trading at a premium, the Fund may also issue Common Shares of the Fund that are sold through transactions effected on the NYSE Amex. The increase in the amount of the Fund's outstanding Common Shares resulting from that offering may also put downward pressure on the market price for the Common Shares of the Fund.

The voting power of current shareholders will be diluted to the extent that such shareholders do not purchase shares in any future Common Share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if the Adviser is unable to invest the proceeds of such offering as intended, the Fund's per share distribution may decrease (or may consist of return of capital) and the Fund may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

#### Investment and market risk

An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund, which will generally trade in the over-the-counter ("OTC") markets. The Common Shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of distributions. If the current national economic downturn deteriorates into a prolonged recession, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected.

#### Interest rate and income risk

The prices of municipal obligations tend to fall as interest rates rise. When interest rates decline, the value of municipal obligations held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of municipal obligations held by the Fund can be expected to decline. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities tend to fluctuate more in price in response to changes in market interest rates than prices of shorter-term municipal securities. A decline in the prices of the municipal obligations owned by the Fund would cause a decline in the NAV of the Fund, which could adversely affect the trading price of the Common Shares. This risk is usually greater among municipal obligations with longer maturities or durations. Although the Fund has no policy governing the maturities or durations of its investments, the Fund expects that it will generally invest in a portfolio of longer-term securities. This means that the Fund's share NAV and market price per share will fluctuate more in response to changes in market interest rates than if the Fund

invested primarily in shorter-term municipal securities.

Market risk is often greater among certain types of income securities, such as zero-coupon bonds, which do not make regular interest payments. As interest rates change, these bonds often fluctuate in price more than coupon bonds that make regular interest payments. Because the Fund may invest in these types of income securities, it may be subject to greater market risk than a fund that invests only in current interest paying securities. The Fund may utilize certain strategies, including taking positions in futures or interest rate swaps and forward rate contracts, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk, although there can be no assurance that it will do so or that such strategies will be successful.

The income investors receive from the Fund is based primarily on the interest it earns from its investments, which can vary widely over the short- and long-term. If long-term interest rates drop, investors' income from the Fund over time could drop as well if the Fund purchases securities with lower interest coupons. This risk is magnified when prevailing short-term interest rates increase and the Fund holds residual interest bonds.

The Fund incurs economic leverage by investing in residual interest bonds. Compared to similar fixed-rate municipal bonds, the value of these bonds will fluctuate to a greater extent in response to changes in prevailing long-term interest rates. Moreover, the income earned on residual interest bonds will fluctuate in response to changes in prevailing short-term interest rates. Thus, when such bonds are held by the Fund, an increase in short- or long-term market interest rates may adversely affect the income received from such bonds or the NAV of the Fund's shares.

#### Call and other reinvestment risks

If interest rates fall, it is possible that issuers of callable bonds with high interest coupons will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, the Fund is likely to replace such called security with a lower yielding security. If that were to happen, it could decrease the Fund's dividends and possibly could affect the market price of Common Shares. Similar risks exist when the Fund invests the proceeds from matured or traded municipal obligations at market interest rates that are below the Fund's current earnings rate.

#### Credit risk

Credit risk is the risk that one or more municipal bonds in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the bond experiences a decline in its financial status. Securities rated in the fourth highest category (i.e., Baa by Moody's or BBB by S&P or Fitch) are considered investment grade quality, but may have speculative characteristics. Changes in the credit quality of the issuers of municipal obligations held by the Fund will affect the principal value of (and possibly the income earned on) such obligations. In addition, the value of such securities is affected by changes in general economic conditions and business conditions affecting the relevant economic sectors. Changes by Rating Agencies in their ratings of a security and in the ability of the issuer to make payments of principal and interest may also affect the value of the Fund's investments. The amount of information about the financial condition of an issuer of municipal obligations may not be as extensive as that made available by corporations whose securities are publicly traded. The Fund may invest in unrated obligations for which Eaton Vance will make a credit quality determination for purposes of the Fund's credit quality policy. To the extent that the Fund invests in such unrated obligations, the Fund's credit quality will be more dependent on Eaton Vance's credit analysis than if the Fund invested in only rated obligations.

The Fund may invest in municipal leases and participations in municipal leases. The obligation of the issuer to meet its obligations under such leases is often subject to the ongoing appropriation by the appropriate legislative body, on an annual or other basis, of funds for the payment of the obligations. Investments in municipal leases are thus subject to the risk that the legislative body will not make the necessary appropriation and the issuer will not otherwise be willing or able to meet its obligation.

Although the Adviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the Rating Agencies. Credit ratings are based largely on the issuer's historical financial condition and the Rating Agency's investment analysis at the time of rating, and the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition. The rating assigned to a security by a Rating Agency does not reflect assessment of the volatility of the security's market value or of the liquidity of an investment in the security. Credit quality in the sectors of the market can change from time to time, and recently issued credit ratings may not fully reflect the actual risks posed by a particular security.

#### Liquidity risk

At times, the Fund may invest in securities for which there is no readily available trading market or are subject to restrictions on resale, which includes residual interest bonds. The Fund, by itself or together with other accounts managed by Eaton Vance and its affiliates, at times may hold a major portion of all of such securities. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund could find it more difficult to sell such securities when Eaton Vance believes it is advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. Under such circumstances, it

may also be more difficult to determine the fair value of such securities for purposes of computing the Fund's NAV.

The secondary market for some municipal obligations is less liquid than that for widely traded taxable debt obligations or widely traded municipal obligations. No established resale market exists for certain of the municipal obligations in which the Fund may invest. The Fund has no limitation on the amount of its assets that may be invested in securities that are not readily marketable or are subject to restrictions on resale. In certain situations, the Fund could find it more difficult to sell such securities at desirable times and/or prices. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell such securities if they were more widely traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Fund's NAV and ability to make distributions.

#### Municipal bond market risk

Investing in the municipal bond market involves certain risks. Certain securities in which the Fund will invest will not be registered with the Securities and Exchange Commission (“SEC”) or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about the municipal obligations in the Fund’s portfolio is generally less than for corporate equities or bonds, and the investment performance of the Fund may, therefore, be more dependent on the analytical abilities of Eaton Vance than if the Fund were a stock fund or taxable bond fund.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during 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 securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest to which it is entitled, and may obtain only a limited recovery or no recovery in such circumstances. To enforce its rights in the event of default in the payment of interest or repayment of principal, or both, the 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 the Fund’s ownership or operation of such assets may not be tax-exempt.

Current economic conditions may increase the likelihood that a municipal issuer will be unable to make timely payments of interest and principal or will default or seek protection under the bankruptcy laws and may increase the likelihood of legislation that will adversely effect the Fund’s investments in municipal obligations. See “Investment objective, policies and risks – Special risk considerations – Current economic conditions – credit crisis liquidity and volatility risk.”

#### Insurance risk

The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will generally affect the value of those securities. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced defaults or otherwise suffered credit deterioration. Such losses have reduced the insurers’ capital and may have called into question their continued ability to perform their obligations under such insurance if called upon in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided, the rating of the underlying municipal security will generally be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the NAV of the Fund’s shares represented by such insured obligation.

Thus, in the event that any Rating Agency (or all of them) should downgrade its assessment of the claims-paying ability of a particular insurer, it could negatively impact the value of obligations insured by such insurer. In addition, to the extent the Fund obtains separate insurance on an issuer (“Portfolio Insurance”), the Fund may be subject to certain restrictions on investments imposed by guidelines of the insurance companies issuing such Portfolio Insurance. The Fund does not expect these guidelines to prevent Eaton Vance from managing the Fund’s portfolio in accordance with its investment objective and policies.

#### Risks of municipal leases and certificates of participation

The Fund may invest in municipal leases and certificates of participation that involve special risks not normally associated with general obligations or revenue obligations. Municipal leases are obligations in the form of a lease,



installment purchase or conditional sales contract (which typically provide for the title to the leased asset to pass to the governmental issuer), issued by state or local governments to acquire equipment and facilities. Interest income from such obligations is generally exempt from local and state taxes in the state of issuance. The issuer's obligations under such leases are often subject to the ongoing appropriation by a legislative body, on an annual or other basis, of funds for the payment thereof. Investments in municipal leases are thus subject to the risk that the legislative body will not make the necessary appropriation and the issuer will not otherwise be willing or able to meet its obligation. Certain municipal lease obligations owned by the Fund may be deemed illiquid, unless determined by the Adviser, pursuant to guidelines adopted by the Trustees, to be liquid securities. In determining the liquidity of municipal lease obligations, the Adviser will consider the factors it believes are relevant to the marketability of the obligation, to the extent that information regarding such factor is available to the Adviser and pertinent to the liquidity determination, which may include: (1) the willingness of dealers to bid for the obligation; (2) the number of dealers willing to purchase or sell the obligation and the number of other potential buyers; (3) the frequency of trades and quotes for the obligation; (4) the nature of the marketplace trades, including the time needed to dispose of the obligation, the method of soliciting offers, and the mechanics of transfer; (5) the willingness of the governmental issuer to continue to appropriate funds for the payment of the obligation; (6) how likely or remote an event of nonappropriation may be, which depends in

varying degrees on a variety of factors, including those relating to the general creditworthiness of the governmental issuer, its dependence on its continuing access to the credit markets, and the importance to the issuer of the equipment, property or facility covered by the lease or contract; (7) the rating, if any, assigned to the obligation and/or the governmental issuer by any nationally recognized statistical rating organization; (8) whether the obligation is insured as to the timely payment of principal and interest; and (9) all factors and information unique to the obligation in determining its liquidity.

#### Current economic conditions – credit crisis liquidity and volatility risk

The markets for many credit instruments, including municipal obligations, have experienced periods of illiquidity and extreme volatility since the latter half of 2007. The debt and equity capital markets in the United States have been negatively affected by significant write-offs in the financial services sector relating to sub-prime mortgages and the repricing of credit risk in the broader market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system are experiencing severe economic distress have materially and adversely affected the broader financial and credit markets. 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 obligations. In addition, during 2008, several major dealers of municipal bonds exited the market via acquisition or bankruptcy. These conditions resulted, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. These market conditions may make valuation of some of the Fund's municipal obligations uncertain and/or result in sudden and significant valuation increases or declines in its holdings. During times of reduced market liquidity, such as experienced recently, the Fund may not be able to sell securities readily at prices reflecting the underlying values of such securities or where carried on the Fund's books. Sales of large blocks of securities by market participants that are seeking liquidity can further reduce security prices in an illiquid market. In addition, illiquidity and volatility in the credit markets may directly and adversely affect dividends on the Fund's shares.

In response to the global economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. The Federal Government, Federal Reserve and other governmental and regulatory bodies have taken and are considering additional actions to address the financial crisis. There can be no assurance as to what impact such actions will have on the markets for municipal obligations. 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 obligations might seek protection under the bankruptcy laws.

The current economic and financial market conditions may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets; and may cause further economic uncertainties or deterioration in the United States and worldwide. The prolonged continuation or further deterioration of the current U.S. and global economic downturn could adversely affect the Fund's investments. The Adviser does 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, markets and securities in the Fund's portfolio. The Adviser intends to monitor developments and seek to manage the Fund's portfolio in a manner consistent with achieving the Fund's investment objective, but there can be no assurance that it will be successful in doing so.

#### State specific risk

The Fund has no current intention to invest 25% or more of its gross assets (but may invest up to such amounts) in municipal obligations of issuers located in the same state (or U.S. territory), but reserves the flexibility to do so in the future. If the Fund invests 25% or more of its gross assets in any one state (or U.S. territory), the Fund may be more susceptible to adverse economic, political or regulatory occurrences affecting a particular state (or territory).

Sector concentration risk

The Fund may invest 25% or more of its total assets in municipal obligations of issuers located in the same economic sector, including, but not limited to, lease rental obligations of state and local authorities; obligations dependent on annual appropriations by a state's legislature for payment; obligations of state and local housing finance authorities, municipal utilities systems or public housing authorities, obligations of hospitals as well as obligations of the education and transportation sectors. This may make the Fund more susceptible to adverse economic, political, or regulatory occurrences affecting a particular state or economic sector. For example, health care related issuers are susceptible to changes in Medicaid reimbursement policies, and national and state health care legislation. As concentration increases, so does the potential for fluctuation in the NAV of the Fund's shares.

Residual interest bond risk

The Fund incurs economic leverage by investing in residual interest bonds. Residual interest bonds are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and provide the economic effect of leverage. Typically, such securities represent beneficial interests in a special purpose trust (sometimes called a "tender option bond trust")

formed by a third party sponsor, typically a broker, for the purpose of holding municipal bonds. In general, income on residual interest bonds will decrease when short-term interest rates increase and increase when short-term interest rates decrease. Investments in residual interest bonds may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, residual interest bonds may increase or decrease in value at a greater rate than the underlying securities, which effectively leverages the Fund's investment. The market value of such securities generally will be more volatile than that of conventional fixed rate securities.

Tender option bond trusts generally include liquidation triggers to protect the investor in the tender option bond. Generally, the trusts do not have recourse to the investors (such as the Fund) in the residual interest securities. However, the Fund may invest in residual interest securities that may be subject to recourse provisions. In such instances, the assets of the Fund may be at greater risk of loss. The Fund will segregate or earmark liquid assets with its custodian on a mark-to-market basis to cover these obligations.

Any economic effect of leverage through the Fund's purchase of residual interest bonds will create an opportunity for increased share net income and returns, but will also create the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the residual interest bonds purchased with leverage by the Fund.

The amount of fees paid to Eaton Vance for investment advisory services will be higher if the Fund uses financial leverage because the fees will be calculated based on the Fund's gross assets. Gross assets include assets financed through the creation of tender option bond trusts, the issuance of preferred equity, borrowings and other forms of financial leverage, which may create a conflict of interest between Eaton Vance and the Common Shareholders.

Residual interest bonds have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in the associated tender option bond trust and other factors. The market price of residual interest bonds is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its residual interest bonds at less than favorable prices, or liquidate other Fund portfolio holdings.

#### Leverage risk

As discussed above, the Fund currently uses leverage created by investing in residual interest bonds and through the use of outstanding borrowings. The Adviser anticipates that the use of leverage (from the issuance of any preferred shares, any borrowings, and residual interest bonds) may result in higher income to Common Shareholders over time. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of NAV and market price of the Common Shares and the risk that fluctuations in dividend rates on preferred shares and costs of borrowings may affect the return to Common Shareholders. To the extent the income derived from investments purchased with funds received from leverage exceeds the cost of leverage, the Fund's distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, Eaton Vance, in its best judgment, may nevertheless determine to maintain the Fund's leveraged position if it deems such action to be appropriate. While the Fund has preferred shares outstanding, an increase in short-term rates would also result in an increased cost of leverage, which would adversely affect the Fund's income available for distribution. There can be no assurance that a leveraging strategy will be successful.

As discussed under "Management of the Fund," the fee paid to Eaton Vance is calculated on the basis of the Fund's gross assets, including proceeds from the issuance of any preferred shares, borrowings and the purchase of residual interest bonds, so the fees will be higher when leverage is utilized. Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Fund's use of derivative instruments exposes the Fund to special risks. See "Investment objective, policies and risks—Additional investment practices" and "Investment objective, policies, and risks—Additional risk considerations."

#### Derivatives risk

In addition to investing in residual interest bonds, the Fund may invest without limitation in other derivative instruments (which are instruments that derive their value from another instrument, security or index) acquired for hedging purposes. The loss on derivative instruments (other than purchased options) may substantially exceed an investment in these instruments. Derivative transactions, including options on securities and securities indices and other transactions in which the Fund may subject the Fund to increased risk of principal loss due to unexpected movements in securities prices and interest rates, and imperfect correlations between the Fund's securities holdings and indices upon which derivative transactions are based. Derivatives can be illiquid, may disproportionately increase losses, and may have a potentially large impact on the Fund's performance. The Fund also will be subject to credit risk with

respect to the counterparties to any OTC derivatives contracts entered into by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or no recovery in such circumstances. Derivatives may disproportionately increase losses and have a potentially large negative impact on the Fund's performance.

#### Counterparty risk

Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to its derivatives positions and liquidity providers for the Fund's residual interests bonds or other investments supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the municipals markets have recently incurred significant financial hardships, including bankruptcy and material loss of credit standing as a result of exposure to sub-prime mortgages and other investments that have experienced defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations. By using derivatives or other instruments that expose the Fund to counterparties, the Fund assumes the risk that its counterparties could experience future financial hardship.

#### Hedging risk

The Fund's use of derivatives or other transactions to reduce risks involves costs and will be subject to Eaton Vance's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors. No assurance can be given that Eaton Vance's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. Hedging transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets of the Fund, which creates the possibility that the loss on such instruments may be greater than the gain, if any, in the value of the underlying asset in the Fund's portfolio; the limited availability of such instruments; the loss of principal; the possible default of the other party to the transaction; illiquidity of the derivative investments; and the imperfect correlation between the tax-exempt and taxable markets. Furthermore, the ability to successfully use hedging transactions depends on the Eaton Vance's ability to predict pertinent market movements, which cannot be assured. Thus, the use of hedging transactions may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell.

The purchase or sale of futures or swap contracts may result in losses in excess of the amount invested in the futures or swap contract. While the Fund may enter into futures and swap contracts and options on futures contracts for hedging purposes, the use of futures and swap contracts and options on futures contracts might result in a poorer overall performance for the Fund than if it had not engaged in any such transactions. There may be an imperfect correlation between the Fund's portfolio holdings and futures or swap contracts or options on futures contracts entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The degree of imperfection of correlation depends on circumstances such as variations in market demand for futures, swaps, options on futures and their related securities, including technical influences in futures, swaps and futures options trading, and differences between the securities markets and the securities underlying the standard contracts available for trading. Furthermore, the Fund's use of futures and swap contracts and options on futures contracts to reduce risk involves costs and will be subject to Eaton Vance's ability to correctly predict changes in interest rate relationships or other factors.

There are several risks associated with hedging transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its investment objective. A decision as to whether, when and

how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

**Inflation risk/deflation 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 thereon can decline. In addition, during periods of rising inflation, short-term interest rates and the Fund's cost of leverage would likely increase, reducing returns to the Common Shareholders to the extent that such increased cost is not offset by commensurately higher income. Also, distribution rates of preferred shares would likely increase, which would tend to further reduce returns to Common Shareholders. Deflation risk is the risk that prices throughout the economy decline over time – the opposite of inflation. Deflation may have an adverse affect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's investments.

#### Duration and maturity risk

The Fund has no set policy regarding portfolio maturity or duration. Holding long duration and long maturity investments will expose the Fund to certain magnified risks. These risks include interest rate risk, credit risk and liquidity risks as discussed above.

#### Tax risk

The value of the Fund's investments and its NAV may be adversely affected by changes in tax rates and policies. Because interest income from municipal obligations normally is not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal obligations. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal obligations. This could, in turn, affect the Fund's NAV and ability to acquire and dispose of municipal obligations at desirable yield and price levels. The Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are otherwise indifferent to the federal income tax consequences of their investments. See "Distributions and taxes."

#### Management risk

The Fund is subject to management risk because it is an actively managed portfolio. Eaton Vance and the individual portfolio managers invest the assets of the Fund as they deem appropriate in implementing the Fund's investment strategy. Accordingly, the success of the Fund depends upon the investment skills and analytical abilities of Eaton Vance and the individual portfolio managers to develop and effectively implement investment strategies that achieve the Fund's investment objective. There is no assurance that Eaton Vance and the individual portfolio managers will be successful in developing and implementing the Fund's investment strategy. Subjective decisions made by Eaton Vance and the individual portfolio managers may cause the Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

#### Market disruption

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

#### Anti-takeover provisions

The Fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Fund or to change the composition of the Board. See "Description of capital structure—Anti-takeover provisions in the Declaration of Trust."



## Summary of Fund expenses

[to be updated]

The purpose of the table below is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The table reflects the issuance of preferred shares in an amount equal to [ ]% of the Fund's total assets and borrowings in an amount equal to [ ]% of the Fund's total assets (including the proceeds of all such leverage) and shows Fund expenses as a percentage of net assets attributable to Common Shares (1).

## Common Shareholder transaction expenses

Sales Load (as a percentage of offering price)	[ ]%(2)
Offering expenses borne by the Fund(3)	[ ]%
Dividend reinvestment plan fees	None(4)

	Percentage of Net Assets Attributable to Common Shares (Assuming Leverage as Described Above)
Annual expenses	
Management fee	[ ]%(5)
Other expenses	[ ]%
Interest payments on borrowings	[ ]%(6)
Total annual expenses	[ ]%
Total annual Fund operating expenses	[ ]%

## EXAMPLE

The following example illustrates the expenses, including the applicable at-the-market transaction fees and estimated offering costs of \$[ ] that a Common Shareholder would pay on a \$1,000 investment that is held for the time periods provided in the table. The Example assumes that all dividends and other distributions are reinvested in the Fund and that the Fund's total annual expenses and dividends on preferred shares, with the applicable expense limitations, as provided above, remain the same. The Example assumes a 5% annual return.(7)

1 Year	3 Years	5 Years	10 Years
\$	\$	\$	\$

The example should not be considered a representation of future expenses. Actual expenses may be higher or lower. The Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

(1) The Adviser will pay the expenses of the Offering (other than the applicable commissions). Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Fund's registration statement (including this prospectus and the Statement of Additional Information ("SAI")), the preparation, review and filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of the prospectus, SAI and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the Offering.

(2) Assuming a Common Share offering price of \$[ ] (the Fund's closing price on the NYSE Amex on [June 30,] 2010).

(3) You will be charged a \$5.00 service charge and pay brokerage charges if you direct the plan agent to sell your Common Shares held in a dividend reinvestment account.

(4) Assuming estimated offering costs of \$[ ] and a Common Share offering price of \$[ ] (the Fund's closing price on the NYSE on [ ], 2010). The Adviser will pay the expenses of the Offering (other than the applicable commissions). Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Fund's registration statement (including this prospectus and the Statement of Additional Information ("SAI")), the preparation, review and filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of the prospectus, SAI and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the Offering.

(5) The advisory fee paid by the Fund to the Adviser is based on the average daily gross assets of the Fund, including all assets attributable to any form of investment leverage that the Fund may utilize. The fee table figure is based on net assets and assumes

[ ]% leverage in the investment advisory fee. For example as of [ ], 2010, the Fund's net assets were approximately \$[ ] and gross assets were approximately \$[ ]. Stated as a percentage of net assets attributable to Common Shares assuming no Interest Expenses on the economic effects of leverage from investment in residual interest bonds, the Fund's expenses would be as follows:

	Percentage of Net Assets Attributable to Common Shares (Assuming No Leverage)
Annual Expenses	
Investment Advisory Fee	%
Other Expenses	%
Total Annual Expenses	%

(6) Assumes an interest rate on borrowings of [ ]%. Such rates are estimates and may differ based on varying market conditions that may exist as and when borrowings are made and preferred shares are issued. The current interest rate on borrowings is [ ]% and the Fund currently has no outstanding preferred shares.

(7) The example assumes that the estimated Other expenses set forth in the Annual expenses table are accurate, that fees and expenses increase as described in note 2 above and that all distributions are reinvested at NAV. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

Financial highlights and investment performance

FINANCIAL HIGHLIGHTS TABLE

Information contained in the table below under the headings “Per Share Operating Performance” and “Ratios/Supplemental Data” shows the audited operating performance of the Fund for the life of the Fund.

TRADING AND NAV INFORMATION

The following table shows for the Common Shares for each full quarter during the period from December 1, 2006 through June 30, 2010: (1) the high and low closing prices as reported on the NYSE Amex; (2) the NAV per Common Share represented by each of the high and low closing prices as reported on the NYSE Amex; and (3) the discount from or premium to NAV per Common Share (expressed as a percentage) represented by these closing prices. The table also sets forth the aggregate number of shares traded as shown on the NYSE Amex Composite Transaction Tape during the period.

	Price		NAV		Premium/(Discount) to NAV	
	High	Low	High	Low	Reported NYSE Amex	Volume
Period from December 1, 2006 through June 30, 2010 [etc. for each quarter through last completed quarter]						

## The Fund

Eaton Vance Municipal Bond Fund (the “Fund”) is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). The Fund was organized as a Massachusetts business trust on July 2, 2002 pursuant to an Agreement and Declaration of Trust governed by the laws of The Commonwealth of Massachusetts and commenced operations on August 30, 2002. The Fund’s principal office is located at Two International Place, Boston, Massachusetts 02110 and its telephone number is 1-800-225-6265. As of [June 30,] 2010, the Fund had [\_\_\_\_] Common Shares outstanding.

On August 30, 2002, the Fund issued 57,100,000 Common Shares of beneficial interest, par value \$0.01 per share (“Common Shares”), pursuant to the initial public offering thereof. The Common Shares are listed on the NYSE Euronext (“NYSE Amex”) under the symbol “EIM.” Any new Common Shares issued in the Offering also will be listed on the NYSE Amex and trade under this symbol. On October 31, 2002, the Fund issued 4,740 Series A, 4,740 Series B, 4,740 Series C, 4,740 Series D, and 4,740 Series E, auction preferred shares (“APS”), of which [ ] of each Series were subsequently redeemed. At a joint Special Meeting of Shareholders held on January 29, 2010, shareholders of the Fund approved a modification to the Fund’s 80 percent policy to eliminate the requirement to invest primarily in insured municipal obligations. As of February 1, 2010, the Fund is required, under normal market conditions, to invest at least 80% of net assets in municipal obligations rated A or better by Moody’s, S&P or Fitch and the Fund eliminated “Insured” from its name. For purposes of the Fund’s 80% requirement, the rating of insured obligations will be deemed to be the higher of the claims-paying rating of the insurer and the rating of the underlying issue.

## The Offering

This prospectus applies to [ ] shares of beneficial interest (the “Common Shares”) of the Fund, which may be issued and sold from time to time by the Fund (the “Offering”) through Eaton Vance Distributors, Inc. (“EVD”), as distributor and principal underwriter, through broker-dealers who have entered into selected dealer agreements with EVD. See “Plan of distribution.” The Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE Amex, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current net asset value (“NAV”) per Common Share plus the per Common Share amount of the sales commission to be paid to EVD. The Fund and EVD will suspend the sale of Common Shares if the per Common Share price is less than the minimum price. The Fund will compensate EVD with respect to sales of the Common Shares at a fixed commission rate based upon the premium at which the Fund’s Common Shares are trading on the NYSE Amex on the day of the sale transaction according to the following schedule:

Market Price Premium of Common Shares to NAV on Day of Sale	Commission
1.0% up to and including 2.0%	[1.0%]
Over 2.0% up to and including 3.0%	[1.75%]
Over 3.0% up to and including 4.0%	[2.5%]
Over 4.0%	[3.0%]

EVD will compensate broker-dealers participating in the offering based on the number of Common Shares sold by the broker-dealer in an amount equal to 80% of the applicable gross commission paid by the Fund to EVD according to the schedule above. EVD may from time to time change the dealer re-allowance. The Fund will retain the value of the difference between the premium of the Common Shares and the commission paid on the sale of the Common Shares in the Offering. In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share. As of [June 30], 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_].

#### Use of proceeds

It is expected that the net proceeds of the Offering will be invested in accordance with the Fund's investment objective and policies. The Fund anticipates that it will be possible to invest the proceeds of the Offering consistent with the Fund's investment objective and policies almost immediately.

#### Portfolio composition

As of [June 30], 2010, the following sets forth certain information with respect to the characteristics and composition of the Fund's investment portfolio:

## Edgar Filing: EATON VANCE MUNICIPAL BOND FUND - Form N-2

Percentage of total investment portfolio invested in investment grade obligations.....[\_\_\_\_\_] %  
 Percentage of total investment portfolio invested in obligations rated below investment grade .....[\_\_\_\_\_] %

Rating	Percent
AAA	
AA	
A	
BBB	
BB	
B	
C	
Not rated	
Total	100.0

(1) Ratings: Using the higher of S&P's, Moody's or Fitch's ratings on the Fund's investments. S&P and Fitch rating categories may be modified further by a plus (+) or minus (—) in AA, A, BBB, BB, B, and CCC ratings. Moody's rating categories may be modified further by a 1, 2 or 3 in Aa, A, Baa, Ba, B, and Caa ratings. These ratings include the ratings held by tender option bond trusts in which the Fund holds a residual interest.

Investment objective, policies and risks

### INVESTMENT OBJECTIVE

The Fund's investment objective is to provide current income exempt from federal income tax, including alternative minimum tax. This income will be earned by investing primarily in high grade municipal obligations that are not subject to alternative minimum tax. Investments are based on the municipal securities research, trading and portfolio management of the Fund's investment adviser, Eaton Vance Management ("Eaton Vance" or the "Adviser"), which generally are not available to individual investors. The Fund's net asset value ("NAV") and distribution rate will vary and may be affected by several factors, including changes in interest rates and the credit quality of municipal issuers. Fluctuations in NAV may be magnified as a result of the Fund's use of leverage, which may be a speculative investment technique. An investment in the Fund may not be appropriate for all investors, particularly those subject to the federal income tax. Securities will be purchased and sold in an effort to maintain a competitive yield. There is no assurance that the Fund will achieve its investment objective.

### PORTFOLIO PARAMETERS

#### General composition of the Fund

During normal market conditions, the Fund will invest at least 80% of its net assets in debt obligations issued by or on behalf of states, territories and possessions of the United States, and the District of Columbia and their political subdivisions, agencies or instrumentalities, the interest on which is exempt from federal income tax, including alternative minimum tax ("municipal obligations"), that are rated A or better by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P") or Fitch Ratings ("Fitch").

The Fund primarily invests in high grade municipal obligations. Up to 20% of the Fund's net assets may be invested in unrated obligations deemed by the Adviser to be of investment grade quality (i.e., rated at least Baa or higher by

Moody's or BBB or higher by S&P or Fitch). Accordingly, the Fund does not intend to invest any of its assets in obligations rated below investment grade or in comparable unrated obligations. When an obligation is rated in different rating categories by Moody's, S&P or Fitch, the highest rating applies. From time to time, the Fund may hold obligations that are unrated but judged to be of comparable quality by the Adviser. Under normal market conditions, the Fund expects to be fully invested (at least 95% of its net assets) in accordance with its investment objective. For purposes of the Fund's 80 percent requirement, the rating of insured obligations will be deemed to be the higher of the claims-paying rating of the insurer and the rating of the underlying issue. Insurance does not protect the market value of



such obligations or the net asset value of the Fund. The value of an obligation will be affected by the credit standing of its insurer. For a description of municipal obligation ratings, see Appendix A to the Statement of Additional Information.

The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a Rating Agency downgrades its assessment of the credit characteristics of a particular issue or withdraws its assessment. In determining whether to retain or sell such a security, Eaton Vance may consider such factors as Eaton Vance's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other Rating Agencies. Although Eaton Vance considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by Rating Agencies. Credit quality can change from time to time, and recently issued credit ratings may not fully reflect the actual risks posed by a particular security or the issuer's current financial condition.

The Fund will not invest in an obligation if the interest on that obligation is subject to the federal alternative minimum tax.

#### Municipal obligations

Municipal obligations include bonds, notes and commercial paper issued by a municipality for a wide variety of both public and private purposes, the interest on which is, in the opinion of issuer's counsel (or on the basis of other reliable authority), exempt from regular federal income tax. Public purpose municipal bonds include general obligation and revenue bonds. General obligation bonds are backed by the taxing power of the issuing municipality. Revenue bonds are backed by the revenues of a project or facility, or from the proceeds of a specific revenue source. Some revenue bonds are payable solely or partly from funds that are subject to annual appropriations by a state's legislature. Municipal notes include bond anticipation, tax anticipation and revenue anticipation notes. Bond, tax and revenue anticipation notes are short-term obligations that will be retired with the proceeds of an anticipated bond issue, tax revenue or facility revenue, respectively.

The Fund may purchase municipal obligations that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund's current yield. The insurance feature does not guarantee the market value of the insured obligations or the NAV of the Fund's shares. To the extent that securities held by the Fund are insured as to principal and interest payments by insurers whose claims-paying ability is downgraded by a Rating Agency, the value of such security may be affected.

Interest income from certain types of municipal obligations may be a tax preference item for purposes of the federal alternative minimum tax (the "AMT") for individual investors. Distributions to corporate investors of certain interest income may also be indirectly subject to the AMT. The Fund may not be suitable for investors subject to the AMT.

#### Zero-coupon bonds

Some of the securities in which the Fund invests may include so-called "zero-coupon" bonds, whose values are subject to greater fluctuation in response to changes in market interest rates than bonds that pay interest currently. Zero-coupon bonds are issued at a significant discount from face value and pay interest only at maturity rather than at intervals during the life of the security. The Fund is required to take into account income from zero-coupon bonds on a current basis, even though it does not receive that income currently in cash, and the Fund is required to distribute substantially all of its income for each taxable year. Thus, the Fund may have to sell other investments to obtain cash needed to make income distributions.

#### Residual interest bonds

Residual interest bonds, also known as inverse floating rate securities or inverse floaters, are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, residual interest bonds represent beneficial interests in a special purpose trust (commonly called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: short-term floating rate municipal securities (sometimes referred to as short-term floating rate securities), which are sold to third party investors, and residual interest bonds, which the Fund would purchase. The short-term floating rate security will be linked to a reference interest rate (such as the London Interbank Offered Rate (“LIBOR”) or the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Bond Swap Index), and the tender option bond trust’s income will be used to pay the coupon on the short-term floating rate security, with any remaining income going toward the residual interest bond. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution

receives periodic fees. The holder of the short-term floating rate security effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered short-term floating rate securities in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its residual interest bonds investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floating rate security is generally assured liquidity at the face value of the security, the Fund as the holder of the residual interest bond assumes the interest rate cash flow risk and the market value risk associated with the municipal security deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the face value of the short-term floating rate securities in relation to the residual interest bonds that are issued by the special purpose trust. All voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual interest bonds. Under Financial Accounting Standards Board (FASB) Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," when the Fund deposits municipal bonds in a tender option bond trust the Fund accounts for the transaction described above as a secured borrowing by including the fixed rate bond held by the special purpose trust in its portfolio of investments and the floating rate notes as a liability. A tender option bond trust can be collapsed or closed by either the holder of the residual interest bonds (such as the Fund) or by the liquidity provider. Generally, because the Fund may act to collapse the tender option bond trust and receive the value of the residual interests bonds held by the Fund within seven days, such residual interest bonds are considered liquid securities when held by the Fund. The Fund incurs economic leverage by investing in residual interest bonds.

Because increases in either the interest rate on the securities or the value of indexes (with which residual interest bonds maintain their inverse relationship) reduce the residual interest paid on residual interest bonds, residual interest bonds' value is generally more volatile than that of fixed rate bonds. Residual interest bonds have varying degrees of liquidity that approximate the liquidity of the underlying bond(s), and the market price for these securities is volatile. These securities generally will underperform the market of fixed rate bonds in a rising short term interest rate environment, but tend to outperform the market of fixed rate bonds when short term interest rates decline or remain relatively stable. Although volatile, residual interest bonds typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity.

The Adviser may determine to invest in residual interest bonds rather than investing directly in municipal bonds because the embedded leverage provides an opportunity to earn enhanced income. The residual interest payments to which the Fund is entitled consists of all of the interest paid on all of the bonds held in the tender option bond trust less the interest payable to floating rate interest holders and the expenses of the trust. Accordingly, if the short-term rates payable to the floating rate interest holder are lower than the long-term rates on the municipal bonds held in the trust, the Fund as the residual interest holder will receive (i) the difference between these amounts on the portion of the tender option bond trust attributable to floating rate interests; plus (ii) the interest on such municipal bonds on the portion of the tender option bond trust attributable to residual interests; minus trust expenses.

The Fund will invest in residual interest bonds primarily for investment purposes.

#### ADDITIONAL INVESTMENT PRACTICES

##### When-issued securities

The Fund may purchase securities on a "when-issued" basis, which means that payment and delivery occur on a future settlement date. The price and yield of such securities are generally fixed on the date of commitment to purchase. However, the market value of the securities may fluctuate prior to delivery and upon delivery the securities may be worth more or less than the Fund agreed to pay for them. The Fund may be required to maintain a segregated account of liquid assets equal to outstanding purchase commitments. The Fund may also purchase instruments that give the Fund the option to purchase a municipal obligation when and if issued.

#### Futures transactions

The Fund may purchase and sell various kinds of financial futures contracts and options thereon to seek to hedge against changes in interest rates or for other risk management purposes. For example, futures contracts may sometimes be used to seek to reduce the additional long-term interest rate risk the Fund bears by holding residual interest municipal bonds. Futures contracts may be based on various debt securities and securities indices (such as the Municipal Bond Index traded on the Chicago Board of Trade). Such transactions involve a risk of loss or depreciation due to unanticipated adverse changes in securities prices, which may exceed the Fund's initial investment in these contracts. The Fund only will purchase or sell futures contracts or related options in compliance with the rules of the Commodity Futures Trading Commission. These transactions involve transaction costs. There can be no assurance that Eaton Vance's use of futures will be advantageous to the Fund. Distributions by the Fund of any gains realized on the Fund's transactions in futures and options on futures will be taxable. Rating Agency guidelines on any preferred shares issued by the Fund may limit use of these transactions.

#### Interest rate swaps and forward rate contracts

Interest rate swaps involve the exchange by the Fund with another party of its commitment to pay or receive interest (e.g., an exchange of fixed rate payments for floating rate payments). The Fund will only 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). The Fund may also enter forward rate contracts. Under these contracts, the buyer locks in an interest rate at a future settlement date. If the interest rate on the settlement date exceeds the lock rate, the buyer pays the seller the difference between the two rates. If the lock rate exceeds the interest rate on the settlement date, the seller pays the buyer the difference between the two rates. Any such gain received by the Fund would be taxable.

If the other party to an interest rate swap or forward rate contract defaults, the Fund's risk of loss consists of the net amount of payments that the Fund is contractually entitled to receive. The net amount of the excess, if any, of the Fund's obligations over its entitlements will be maintained in a segregated account by the Fund's custodian. The Fund will not enter into any interest rate swap or forward rate contract unless the claims-paying ability of the other party thereto is considered to be investment grade by the Adviser. 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. These instruments are traded in the over-the-counter ("OTC") market.

#### Investment company securities

The Fund may purchase common shares of closed-end investment companies that have investment objectives and policies similar to those of the Fund. In addition to providing tax-exempt income, such securities may provide capital appreciation. Such investments, which may also be leveraged and subject to the same risks as the Fund, will not exceed 10% of total assets, and no such company will be affiliated with Eaton Vance. These companies bear fees and expenses that the Fund will incur indirectly.

#### INVESTMENT PROCESS

A team of Eaton Vance investment professionals is responsible for the overall management of the Fund's investments. The Fund's investments are actively managed, and may be bought or sold on a daily basis. The Adviser uses a variety of techniques that are designed to help control risk and seek to minimize the Fund's exposure to loss of principal value due to defaults and declines in the value of portfolio investments. There is no guarantee that it will be successful in its investment objective.

The Adviser's staff monitors the credit quality and price of securities and instruments held by the Fund, as well as other securities and instruments that are available for investment. The Fund is not required to dispose of an investment in the event that a Rating Agency downgrades its assessment of the credit characteristics of a particular issue or withdraws its assessment, including in the event of a default. In determining whether to retain or sell such an investment, the Adviser may consider such factors as the Adviser's assessment of the credit quality of the issuer of such investment, the price at which such investment could be sold and the rating, if any, assigned to such investment by other Rating Agencies.

#### USE OF LEVERAGE

As described herein, the Fund may invest in residual interest bonds, which have the economic effect of leverage. As of [June 30,] 2010, the Fund had \$[\_\_\_\_\_] in outstanding borrowings and had leverage in the form of residual interest bonds, but did not have any outstanding preferred shares. The Adviser anticipates that the use of leverage (from any issuance of preferred shares, any borrowings and residual interest bonds) may result in higher income to Common Shareholders over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be successful.

The costs of the financial leverage program (from any issuance of preferred shares, any borrowings, and residual interest bonds) are borne by Common Shareholders and consequently result in a reduction of the NAV of Common Shares. During periods in which the Fund is using leverage, the fees paid to Eaton Vance for investment 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 gross assets, including proceeds from the issuance of preferred shares, borrowings and interests in residual interest bonds. In this regard, holders of debt or preferred securities do not bear the investment advisory fee. Rather, Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

Leverage creates risks for holders of the Common Shares, including the likelihood of greater volatility of NAV and market price of the Common Shares. There is a risk that fluctuations in the distribution rates on any outstanding preferred shares may adversely affect the return to the holders of the Common Shares. If the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the return on the Fund will be less than if leverage had not been used, and, therefore, the amount available for

distribution to Common Shareholders will be reduced. The Adviser in its best judgment nevertheless may determine to maintain the Fund's leveraged position if it deems such action to be appropriate in the circumstances.

Changes in the value of the Fund's investment portfolio (including investments bought with the proceeds of leverage) will be borne entirely by the Common Shareholders. If there is a net decrease (or increase) in the value of the Fund's investment portfolio, the leverage will decrease (or increase) the NAV per Common Share to a greater extent than if the Fund were not leveraged. During periods in which the Fund is using leverage, the fees paid to Eaton Vance for investment 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 gross assets, including the proceeds from the issuance of preferred shares, borrowings and investment in residual interest bonds. As discussed under "Description of capital structure," the Fund's issuance of preferred shares may alter the voting power of Common Shareholders.

Capital raised through leverage will be subject to distribution and/or interest payments, which may exceed the income and appreciation on the assets purchased. The issuance of preferred shares involves offering expenses and other costs and may limit the Fund's freedom to pay distributions on Common Shares or to engage in other activities. The issuance of a class of preferred shares having priority over the Common Shares creates an opportunity for greater return per Common Share, but at the same time such leveraging is a speculative technique that will increase the Fund's exposure to capital risk. Unless the income and appreciation, if any, on assets acquired with offering proceeds exceed the cost of issuing additional classes of securities (and other Fund expenses), the use of leverage will diminish the investment performance of the Common Shares compared with what it would have been without leverage.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the total asset value of the Fund's portfolio is at least 200% of the liquidation value of the outstanding preferred shares plus the amount of any senior security representing indebtedness (i.e., such liquidation value and amount of indebtedness may not exceed 50% of the Fund's total assets). In addition, the Fund is not permitted to declare any cash distribution on its Common Shares unless, at the time of such declaration, the NAV of the Fund's portfolio (determined after deducting the amount of such distribution) is at least 200% of such liquidation value plus amount of indebtedness. The Fund currently does not have any outstanding preferred shares. If the Fund has outstanding preferred shares, it 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%. Normally, holders of the Common Shares will elect six of the Trustees of the Fund and holders of any preferred shares will elect two. In the event the Fund fails to pay distributions on its preferred shares for two years, preferred shareholders would be entitled to elect a majority of the Trustees until the preferred distributions in arrears are paid.

Under the 1940 Act, the Fund is not permitted to incur indebtedness, including through the issuance of debt securities, unless immediately thereafter the total asset value of the Fund's portfolio is at least 300% of the liquidation value of the outstanding indebtedness (i.e., such liquidation value may not exceed 33 1/3% of the Fund's total assets). In addition, the Fund is not permitted to declare any cash distribution on its Common Shares unless, at the time of such declaration, the NAV of the Fund's portfolio (determined after deducting the amount of such distribution) is at least 300% of such liquidation value. The Fund intends, to the extent possible, to retire outstanding debt, from time to time, to maintain coverage of any outstanding indebtedness of at least 300%. As of [June 30], 2010, the Fund had \$[\_\_\_\_\_] in outstanding borrowings. Leverage created through the use of residual interest bonds is not considered to be indebtedness pursuant to the 1940 Act.

To qualify for federal income taxation as a "regulated investment company," the Fund must distribute in each taxable year at least 90% of its net investment income (including net interest income and net short-term gain). The Fund also will be required to distribute annually substantially all of its income and capital gain, if any, to avoid imposition of a nondeductible 4% federal excise tax. If the Fund is precluded from making distributions on the Common Shares because of any applicable asset coverage requirements, the terms of the preferred shares may provide that any amounts so precluded from being distributed, but required to be distributed for the Fund to meet the distribution

requirements for qualification as a regulated investment company, will be paid to the holders of the preferred shares as a special distribution. This distribution can be expected to decrease the amount that holders of preferred shares would be entitled to receive upon redemption or liquidation of the shares.

Successful use of a leveraging strategy may depend on the Adviser'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.

[Assuming the utilization of leverage in the amount of [ ]% of the Fund's gross assets and an annual interest rate of [ ]% on borrowings payable on such leverage based on market rates as of the date of this prospectus, the additional income that the Fund must earn (net of expenses) in order to cover such dividend payments is [ ]%. The Fund's actual cost of leverage will be based on market rates at the time the Fund undertakes a leveraging strategy, and such actual costs of leverage may be higher or lower than that assumed in the previous example.] [include?]



[The following table is designed to illustrate the effect on the return to a holder of the Common Shares of leverage in the amount of approximately [ ]% of the Fund's gross assets, assuming hypothetical annual returns of the Fund's portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to Common Shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed portfolio return (net of expenses)	(10)%	(5)%	0%	5%	10%
Corresponding Common Share return assuming [ ]% leverage ( [ ]% ( [ ]% ( [ ]% [ ]% [ ]%					

## ADDITIONAL RISK CONSIDERATIONS

### Discount from or premium to NAV

The Offering will be conducted only when Common Shares of the Fund are trading at a price equal to or above the Fund's NAV per Common Share plus the per Common Share amount of commissions. As with any security, the market value of the Common Shares may increase or decrease from the amount initially paid for the Common Shares. The Fund's Common Shares have traded at both a premium and at a discount to net asset value. The shares of closed-end management investment companies frequently trade at a discount from their NAV. This is a risk separate and distinct from the risk that the Fund's NAV may decrease.

### Secondary market for the Common Shares

The issuance of Common Shares through the Offering may have an adverse effect on the secondary market for the Common Shares. The increase in the amount of the Fund's outstanding Common Shares resulting from the Offering may put downward pressure on the market price for the Common Shares of the Fund. Common Shares will not be issued pursuant to the Offering at any time when Common Shares are trading at a price lower than a price equal to the Fund's NAV per Common Share plus the per Common Share amount of commissions to be paid to EVD.

The Fund also issues Common Shares of the Fund through its dividend reinvestment plan. See "Dividend reinvestment plan." Common Shares may be issued under the plan at a discount to the market price for such Common Shares, which may put downward pressure on the market price for Common Shares of the Fund.

When the Common Shares are trading at a premium, the Fund may also issue Common Shares of the Fund that are sold through transactions effected on the NYSE Amex. The increase in the amount of the Fund's outstanding Common Shares resulting from that offering may also put downward pressure on the market price for the Common Shares of the Fund.

The voting power of current shareholders will be diluted to the extent that such shareholders do not purchase shares in any future Common Share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if the Adviser is unable to invest the proceeds of such offering as intended, the Fund's per share distribution may decrease (or may consist of return of capital) and the Fund may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

### Investment and market risk

An investment in Common Shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund, which will generally trade in the over-the-counter ("OTC") markets. The Common Shares at any point in time may be worth less than the original investment, even after taking into account any reinvestment of distributions. If the current national economic downturn deteriorates into a prolonged recession, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected.

Interest rate and income risk

The prices of municipal obligations tend to fall as interest rates rise. When interest rates decline, the value of municipal obligations held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of municipal obligations held by the Fund can be expected to decline. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities tend to fluctuate more in price in response to changes in market interest rates than prices of shorter-term municipal securities. A decline in the prices of the municipal obligations owned by the Fund would cause a decline in the NAV of the Fund, which could adversely affect the trading price of the Common Shares. This risk is usually greater among municipal obligations with longer maturities or durations. Although the Fund has no policy governing the maturities or durations of its investments, the Fund expects that it will generally invest in a portfolio of longer-term securities. This means that the Fund's share NAV and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities.

Market risk is often greater among certain types of income securities, such as zero-coupon bonds, which do not make regular interest payments. As interest rates change, these bonds often fluctuate in price more than coupon bonds that make regular interest payments. Because the Fund may invest in these types of income securities, it may be subject to greater market risk than a fund that invests only in current interest paying securities. The Fund may utilize certain strategies, including taking positions in futures or interest rate swaps and forward rate contracts, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk, although there can be no assurance that it will do so or that such strategies will be successful.

The income investors receive from the Fund is based primarily on the interest it earns from its investments, which can vary widely over the short- and long-term. If long-term interest rates drop, investors' income from the Fund over time could drop as well if the Fund purchases securities with lower interest coupons. This risk is magnified when prevailing short-term interest rates increase and the Fund holds residual interest bonds.

The Fund incurs economic leverage by investing in residual interest bonds. Compared to similar fixed-rate municipal bonds, the value of these bonds will fluctuate to a greater extent in response to changes in prevailing long-term interest rates. Moreover, the income earned on residual interest bonds will fluctuate in response to changes in prevailing short-term interest rates. Thus, when such bonds are held by the Fund, an increase in short- or long-term market interest rates may adversely affect the income received from such bonds or the NAV of the Fund's shares.

#### Call and other reinvestment risks

If interest rates fall, it is possible that issuers of callable bonds with high interest coupons will "call" (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, the Fund is likely to replace such called security with a lower yielding security. If that were to happen, it could decrease the Fund's dividends and possibly could affect the market price of Common Shares. Similar risks exist when the Fund invests the proceeds from matured or traded municipal obligations at market interest rates that are below the Fund's current earnings rate.

#### Credit risk

Credit risk is the risk that one or more municipal bonds in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the bond experiences a decline in its financial status. Securities rated in the fourth highest category (i.e., Baa by Moody's or BBB by S&P or Fitch) are considered investment grade quality, but may have speculative characteristics. Changes in the credit quality of the issuers of municipal obligations held by the Fund will affect the principal value of (and possibly the income earned on) such obligations. In addition, the value of such securities is affected by changes in general economic conditions and business conditions affecting the relevant economic sectors. Changes by Rating Agencies in their ratings of a security and in the ability of the issuer to make payments of principal and interest may also affect the value of the Fund's investments. The amount of information about the financial condition of an issuer of municipal obligations may not be as extensive as that made available by corporations whose securities are publicly traded. The Fund may invest in unrated obligations for which Eaton Vance will make a credit quality determination for purposes of the Fund's credit quality policy. To the extent that the Fund invests in such unrated obligations, the Fund's credit quality will be more dependent on Eaton Vance's credit analysis than if the Fund invested in only rated obligations.

The Fund may invest in municipal leases and participations in municipal leases. The obligation of the issuer to meet its obligations under such leases is often subject to the ongoing appropriation by the appropriate legislative body, on an annual or other basis, of funds for the payment of the obligations. Investments in municipal leases are thus subject to the risk that the legislative body will not make the necessary appropriation and the issuer will not otherwise be willing or able to meet its obligation.

Although the Adviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the Rating Agencies. Credit ratings are based largely

on the issuer's historical financial condition and the Rating Agency's investment analysis at the time of rating, and the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition. The rating assigned to a security by a Rating Agency does not reflect assessment of the volatility of the security's market value or of the liquidity of an investment in the security. Credit quality in the sectors of the market can change from time to time, and recently issued credit ratings may not fully reflect the actual risks posed by a particular security.

#### Liquidity risk

At times, the Fund may invest in securities for which there is no readily available trading market or are subject to restrictions on resale, which includes residual interest bonds. The Fund, by itself or together with other accounts managed by Eaton Vance and its affiliates, at times may hold a major portion of all of such securities. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund could find it more difficult to sell such securities when Eaton Vance believes it is advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely

held. Under such circumstances, it may also be more difficult to determine the fair value of such securities for purposes of computing the Fund's NAV.

The secondary market for some municipal obligations is less liquid than that for widely traded taxable debt obligations or widely traded municipal obligations. No established resale market exists for certain of the municipal obligations in which the Fund may invest. The Fund has no limitation on the amount of its assets that may be invested in securities that are not readily marketable or are subject to restrictions on resale. In certain situations, the Fund could find it more difficult to sell such securities at desirable times and/or prices. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell such securities if they were more widely traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Fund's NAV and ability to make distributions.

#### Municipal bond market risk

Investing in the municipal bond market involves certain risks. Certain securities in which the Fund will invest will not be registered with the Securities and Exchange Commission ("SEC") or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about the municipal obligations in the Fund's portfolio is generally less than for corporate equities or bonds, and the investment performance of the Fund may, therefore, be more dependent on the analytical abilities of Eaton Vance than if the Fund were a stock fund or taxable bond fund.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during 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 securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest to which it is entitled, and may obtain only a limited recovery or no recovery in such circumstances. To enforce its rights in the event of default in the payment of interest or repayment of principal, or both, the 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 the Fund's ownership or operation of such assets may not be tax-exempt.

Current economic conditions may increase the likelihood that a municipal issuer will be unable to make timely payments of interest and principal or will default or seek protection under the bankruptcy laws and may increase the likelihood of legislation that will adversely effect the Fund's investments in municipal obligations. See "Investment objective, policies and risks – Special risk considerations – Current economic conditions – credit crisis liquidity and volatility risk."

#### Insurance risk

The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will generally affect the value of those securities. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced defaults or otherwise suffered credit deterioration. Such losses have reduced the insurers' capital and may have called into question their continued ability to perform their obligations under such insurance if called upon in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided, the rating of the underlying municipal security will generally be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. The insurance feature of a municipal security does not

guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the NAV of the Fund's shares represented by such insured obligation.

Thus, in the event that any Rating Agency (or all of them) should downgrade its assessment of the claims-paying ability of a particular insurer, it could negatively impact the value of obligations insured by such insurer. In addition, to the extent the Fund obtains separate insurance on an issuer ("Portfolio Insurance"), the Fund may be subject to certain restrictions on investments imposed by guidelines of the insurance companies issuing such Portfolio Insurance. The Fund does not expect these guidelines to prevent Eaton Vance from managing the Fund's portfolio in accordance with its investment objective and policies.

#### Risks of municipal leases and certificates of participation

The Fund may invest in municipal leases and certificates of participation that involve special risks not normally associated with general obligations or revenue obligations. Municipal leases are obligations in the form of a lease, installment purchase or conditional sales contract (which typically provide for the title to the leased asset to pass to the governmental issuer), issued by state or local

governments to acquire equipment and facilities. Interest income from such obligations is generally exempt from local and state taxes in the state of issuance. The issuer's obligations under such leases are often subject to the ongoing appropriation by a legislative body, on an annual or other basis, of funds for the payment thereof. Investments in municipal leases are thus subject to the risk that the legislative body will not make the necessary appropriation and the issuer will not otherwise be willing or able to meet its obligation. Certain municipal lease obligations owned by the Fund may be deemed illiquid, unless determined by the Adviser, pursuant to guidelines adopted by the Trustees, to be liquid securities. In determining the liquidity of municipal lease obligations, the Adviser will consider the factors it believes are relevant to the marketability of the obligation, to the extent that information regarding such factor is available to the Adviser and pertinent to the liquidity determination, which may include: (1) the willingness of dealers to bid for the obligation; (2) the number of dealers willing to purchase or sell the obligation and the number of other potential buyers; (3) the frequency of trades and quotes for the obligation; (4) the nature of the marketplace trades, including the time needed to dispose of the obligation, the method of soliciting offers, and the mechanics of transfer; (5) the willingness of the governmental issuer to continue to appropriate funds for the payment of the obligation; (6) how likely or remote an event of nonappropriation may be, which depends in varying degrees on a variety of factors, including those relating to the general creditworthiness of the governmental issuer, its dependence on its continuing access to the credit markets, and the importance to the issuer of the equipment, property or facility covered by the lease or contract; (7) the rating, if any, assigned to the obligation and/or the governmental issuer by any nationally recognized statistical rating organization; (8) whether the obligation is insured as to the timely payment of principal and interest; and (9) all factors and information unique to the obligation in determining its liquidity.

#### Current economic conditions – credit crisis liquidity and volatility risk

The markets for many credit instruments, including municipal obligations, have experienced periods of illiquidity and extreme volatility since the latter half of 2007. The debt and equity capital markets in the United States have been negatively affected by significant write-offs in the financial services sector relating to sub-prime mortgages and the repricing of credit risk in the broader market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system are experiencing severe economic distress have materially and adversely affected the broader financial and credit markets. 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 obligations. In addition, during 2008, several major dealers of municipal bonds exited the market via acquisition or bankruptcy. These conditions resulted, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. These market conditions may make valuation of some of the Fund's municipal obligations uncertain and/or result in sudden and significant valuation increases or declines in its holdings. During times of reduced market liquidity, such as experienced recently, the Fund may not be able to sell securities readily at prices reflecting the underlying values of such securities or where carried on the Fund's books. Sales of large blocks of securities by market participants that are seeking liquidity can further reduce security prices in an illiquid market. In addition, illiquidity and volatility in the credit markets may directly and adversely affect dividends on the Fund's shares.

In response to the global economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. The Federal Government, Federal Reserve and other governmental and regulatory bodies have taken and are considering additional actions to address the financial crisis. There can be no assurance as to what impact such actions will have on the markets for municipal obligations. 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 obligations might seek protection under the bankruptcy laws.

The current economic and financial market conditions may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets; and may cause further economic uncertainties or

deterioration in the United States and worldwide. The prolonged continuation or further deterioration of the current U.S. and global economic downturn could adversely affect the Fund's investments. The Adviser does 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, markets and securities in the Fund's portfolio. The Adviser intends to monitor developments and seek to manage the Fund's portfolio in a manner consistent with achieving the Fund's investment objective, but there can be no assurance that it will be successful in doing so.

State specific risk

The Fund has no current intention to invest 25% or more of its gross assets (but may invest up to such amounts) in municipal obligations of issuers located in the same state (or U.S. territory), but reserves the flexibility to do so in the future. If the Fund invests 25% or more of its gross assets in any one state (or U.S. territory), the Fund may be more susceptible to adverse economic, political or regulatory occurrences affecting a particular state (or territory).

Sector concentration risk



The Fund may invest 25% or more of its total assets in municipal obligations of issuers located in the same economic sector, including, but not limited to, lease rental obligations of state and local authorities; obligations dependent on annual appropriations by a state's legislature for payment; obligations of state and local housing finance authorities, municipal utilities systems or public housing authorities, obligations of hospitals as well as obligations of the education and transportation sectors. This may make the Fund more susceptible to adverse economic, political, or regulatory occurrences affecting a particular state or economic sector. For example, health care related issuers are susceptible to changes in Medicaid reimbursement policies, and national and state health care legislation. As concentration increases, so does the potential for fluctuation in the NAV of the Fund's shares.

#### Residual interest bond risk

The Fund incurs economic leverage by investing in residual interest bonds. Residual interest bonds are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and provide the economic effect of leverage. Typically, such securities represent beneficial interests in a special purpose trust (sometimes called a "tender option bond trust") formed by a third party sponsor, typically a broker, for the purpose of holding municipal bonds. In general, income on residual interest bonds will decrease when short-term interest rates increase and increase when short-term interest rates decrease. Investments in residual interest bonds may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, residual interest bonds may increase or decrease in value at a greater rate than the underlying securities, which effectively leverages the Fund's investment. The market value of such securities generally will be more volatile than that of conventional fixed rate securities.

Tender option bond trusts generally include liquidation triggers to protect the investor in the tender option bond. Generally, the trusts do not have recourse to the investors (such as the Fund) in the residual interest securities. However, the Fund may invest in residual interest securities that may be subject to recourse provisions. In such instances, the assets of the Fund may be at greater risk of loss. The Fund will segregate or earmark liquid assets with its custodian on a mark-to-market basis to cover these obligations.

Any economic effect of leverage through the Fund's purchase of residual interest bonds will create an opportunity for increased share net income and returns, but will also create the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the residual interest bonds purchased with leverage by the Fund.

The amount of fees paid to Eaton Vance for investment advisory services will be higher if the Fund uses financial leverage because the fees will be calculated based on the Fund's gross assets. Gross assets include assets financed through the creation of tender option bond trusts, the issuance of preferred equity, borrowings and other forms of financial leverage, which may create a conflict of interest between Eaton Vance and the Common Shareholders.

Residual interest bonds have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in the associated tender option bond trust and other factors. The market price of residual interest bonds is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its residual interest bonds at less than favorable prices, or liquidate other Fund portfolio holdings.

#### Leverage risk

As discussed above, the Fund currently uses leverage created by investing in residual interest bonds and through the use of outstanding borrowings. The Adviser anticipates that the use of leverage (from the issuance of any preferred shares, any borrowings, and residual interest bonds) may result in higher income to Common Shareholders over time. Leverage creates risks for Common Shareholders, including the likelihood of greater volatility of NAV and market price of the Common Shares and the risk that fluctuations in dividend rates on preferred shares and costs of borrowings may affect the return to Common Shareholders. To the extent the income derived from investments

purchased with funds received from leverage exceeds the cost of leverage, the Fund's distributions will be greater than if leverage had not been used. Conversely, if the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the amount available for distribution to Common Shareholders will be less than if leverage had not been used. In the latter case, Eaton Vance, in its best judgment, may nevertheless determine to maintain the Fund's leveraged position if it deems such action to be appropriate. While the Fund has preferred shares outstanding, an increase in short-term rates would also result in an increased cost of leverage, which would adversely affect the Fund's income available for distribution. There can be no assurance that a leveraging strategy will be successful.

As discussed under "Management of the Fund," the fee paid to Eaton Vance is calculated on the basis of the Fund's gross assets, including proceeds from the issuance of any preferred shares, borrowings and the purchase of residual interest bonds, so the fees will be higher when leverage is utilized. Common Shareholders bear the portion of the investment advisory fee attributable to the assets purchased with the proceeds, which means that Common Shareholders effectively bear the entire advisory fee.

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Fund's use of derivative instruments exposes the Fund to special risks. See "Investment objective, policies and risks—Additional investment practices" and "Investment objective, policies, and risks—Additional risk considerations."

#### Derivatives risk

In addition to investing in residual interest bonds, the Fund may invest without limitation in other derivative instruments (which are instruments that derive their value from another instrument, security or index) acquired for hedging purposes. The loss on derivative instruments (other than purchased options) may substantially exceed an investment in these instruments. Derivative transactions, including options on securities and securities indices and other transactions in which the Fund may subject the Fund to increased risk of principal loss due to unexpected movements in securities prices and interest rates, and imperfect correlations between the Fund's securities holdings and indices upon which derivative transactions are based. Derivatives can be illiquid, may disproportionately increase losses, and may have a potentially large impact on the Fund's performance. The Fund also will be subject to credit risk with respect to the counterparties to any OTC derivatives contracts entered into by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or no recovery in such circumstances. Derivatives may disproportionately increase losses and have a potentially large negative impact on the Fund's performance.

#### Counterparty risk

Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to its derivatives positions and liquidity providers for the Fund's residual interests bonds or other investments supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the municipals markets have recently incurred significant financial hardships, including bankruptcy and material loss of credit standing as a result of exposure to sub-prime mortgages and other investments that have experienced defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations. By using derivatives or other instruments that expose the Fund to counterparties, the Fund assumes the risk that its counterparties could experience future financial hardship.

#### Hedging risk

The Fund's use of derivatives or other transactions to reduce risks involves costs and will be subject to Eaton Vance's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors. No assurance can be given that Eaton Vance's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. Hedging transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets of the Fund, which creates the possibility that the loss on such instruments may be greater than the gain, if any, in the value of the underlying asset in the Fund's portfolio; the limited availability of such instruments; the loss of principal; the possible default of the other party to the transaction; illiquidity of the derivative investments; and the imperfect correlation between the tax-exempt and taxable markets. Furthermore, the ability to successfully use hedging transactions depends on the Eaton Vance's ability to predict pertinent market movements, which cannot be assured. Thus, the use of hedging transactions may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment, or may cause the Fund to hold a security that it might otherwise sell.

The purchase or sale of futures or swap contracts may result in losses in excess of the amount invested in the futures or swap contract. While the Fund may enter into futures and swap contracts and options on futures contracts for hedging purposes, the use of futures and swap contracts and options on futures contracts might result in a poorer

overall performance for the Fund than if it had not engaged in any such transactions. There may be an imperfect correlation between the Fund's portfolio holdings and futures or swap contracts or options on futures contracts entered into by the Fund, which may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The degree of imperfection of correlation depends on circumstances such as variations in market demand for futures, swaps, options on futures and their related securities, including technical influences in futures, swaps and futures options trading, and differences between the securities markets and the securities underlying the standard contracts available for trading. Furthermore, the Fund's use of futures and swap contracts and options on futures contracts to reduce risk involves costs and will be subject to Eaton Vance's ability to correctly predict changes in interest rate relationships or other factors.

There are several risks associated with hedging transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its investment objective. A decision as to whether, when and how to use options involves the exercise of

skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events.

#### Inflation risk/deflation 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 thereon can decline. In addition, during periods of rising inflation, short-term interest rates and the Fund's cost of leverage would likely increase, reducing returns to the Common Shareholders to the extent that such increased cost is not offset by commensurately higher income. Also, distribution rates of preferred shares would likely increase, which would tend to further reduce returns to Common Shareholders. Deflation risk is the risk that prices throughout the economy decline over time – the opposite of inflation. Deflation may have an adverse affect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's investments.

#### Duration and maturity risk

The Fund has no set policy regarding portfolio maturity or duration. Holding long duration and long maturity investments will expose the Fund to certain magnified risks. These risks include interest rate risk, credit risk and liquidity risks as discussed above.

#### Tax risk

The value of the Fund's investments and its NAV may be adversely affected by changes in tax rates and policies. Because interest income from municipal obligations normally is not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal obligations. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal obligations. This could, in turn, affect the Fund's NAV and ability to acquire and dispose of municipal obligations at desirable yield and price levels. The Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are otherwise indifferent to the federal income tax consequences of their investments. See "Distributions and taxes."

#### Management risk

The Fund is subject to management risk because it is an actively managed portfolio. Eaton Vance and the individual portfolio managers invest the assets of the Fund as they deem appropriate in implementing the Fund's investment strategy. Accordingly, the success of the Fund depends upon the investment skills and analytical abilities of Eaton Vance and the individual portfolio managers to develop and effectively implement investment strategies that achieve the Fund's investment objective. There is no assurance that Eaton Vance and the individual portfolio managers will be successful in developing and implementing the Fund's investment strategy. Subjective decisions made by Eaton Vance and the individual portfolio managers may cause the Fund to incur losses or to miss profit opportunities on which it could otherwise have capitalized.

#### Market disruption

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

#### Anti-takeover provisions

The Fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Fund or to change the composition of the Board. See "Description of

capital structure—Anti-takeover provisions in the Declaration of Trust.”

#### Management of the Fund

#### BOARD OF TRUSTEES

The management of the Fund, including general supervision of the duties performed by the Adviser under the Advisory Agreement (defined below), is the responsibility of the Fund’s Board under the laws of The Commonwealth of Massachusetts and the 1940 Act.

#### THE ADVISER

Eaton Vance Management acts as the Fund's investment adviser under an Investment Advisory Agreement (the "Advisory Agreement"). The Adviser's principal office is located at Two International Place, Boston, MA 02110. Eaton Vance, its affiliates and predecessor companies have been managing assets of individuals and institutions since 1924 and of investment funds since 1931. As of June 30, 2010, Eaton Vance and its affiliates managed approximately \$165.4 billion of assets, including 64 municipal bond funds with combined assets of about \$27.5 billion. Eaton Vance is a direct, wholly owned subsidiary of Eaton Vance Corp., a publicly held holding company that, through its subsidiaries and affiliates, engages primarily in investment management and administration.

Eaton Vance employs [24] personnel in its municipal bond department, including [eight portfolio managers, five traders and nine research analysts. Eaton Vance was one of the first advisory firms to manage a registered municipal bond investment company, and has done so continuously since 1978. Eaton Vance and certain of its subsidiaries currently manage [ten] national municipal investment companies, [50] single state municipal investment companies, and [one] money market municipal investment company, with assets of about \$27.5 billion. Of the municipal income funds managed by Eaton Vance, [20] are closed-end funds.

Under the general supervision of the Fund's Board, Eaton Vance will carry out the investment and reinvestment of the assets of the Fund, will furnish continuously an investment program with respect to the Fund, will determine which securities should be purchased, sold or exchanged, and will implement such determinations. The Adviser will furnish to the Fund investment advice and office facilities, equipment and personnel for servicing the investments of the Fund. The Adviser will compensate all Trustees and officers of the Fund who are members of the Adviser's organization and who render investment services to the Fund, and will also compensate all other Adviser personnel who provide research and investment services to the Fund. In return for these services, facilities and payments, the Fund has agreed to pay the Adviser as compensation under the Advisory Agreement an annual fee in the amount of 0.65% of the average weekly gross assets of the Fund. The Fund began operations on August 30, 2002. For purposes of the Advisory Agreement, gross assets of the Fund shall be calculated by deducting accrued liabilities of the Fund not including the amount of any preferred shares outstanding or the principal amount of any indebtedness for money borrowed. During any future periods in which the Fund is using leverage, the fees paid to Eaton Vance for investment 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 gross assets, including proceeds from any borrowings and from the issuance of preferred shares. As of [June 30], 2010, the Fund had [\$\_\_\_] in outstanding borrowings. Pursuant to a fee reduction agreement with the Adviser, average weekly gross assets are calculated by adding to net assets the amount payable by the Fund to floating rate note holders, such adjustment being limited to the value of outstanding preferred shares prior to any preferred redemptions by the Fund. In addition, the Adviser has contractually agreed to reimburse the Fund for fees and other expenses at an annual rate of 0.32% of average weekly gross assets of the Fund during the first five full years of its operations, 0.24% of the Fund's average weekly gross assets in year six, 0.16% in year seven and 0.08% in year eight. This agreement is scheduled to expire on [August 30, 2010].

William H. Ahern is the portfolio manager of the Fund and is responsible for day-to-day management of the Fund's investments. Mr. Ahern also manages other Eaton Vance portfolios, has been a portfolio manager for more than 5 years and is Vice President of Eaton Vance. He is a CFA charterholder and is a member of the CFA Institute, the Market Technicians Association, the Boston Security Analysts Society, and the Boston Municipal Analysts Forum.

The Fund and the Adviser have adopted a Code of Ethics relating to personal securities transactions. The Code of Ethics permits Adviser personnel to invest in securities (including securities that may be purchased or held by the Fund) for their own accounts, subject to certain pre-clearance, reporting and other restrictions and procedures contained in such Codes of Ethics.

#### THE ADMINISTRATOR

Eaton Vance serves as administrator of the Fund, but currently receives no compensation for providing administrative services to the Fund. Under an Administration Agreement with the Fund (the “Administration Agreement”), Eaton Vance is responsible for managing the business affairs of the Fund, subject to the supervision of the Fund’s Board. Eaton Vance will furnish to the Fund all necessary office facilities, equipment and personnel for administering the affairs of the Fund. Eaton Vance’s administrative services include recordkeeping, preparation and filing of documents required to comply with federal and state securities laws, supervising the activities of the Fund’s custodian and transfer agent, providing assistance in connection with the Board and shareholders’ meetings, providing service in connection with any repurchase offers and other administrative services necessary to conduct the Fund’s business. In addition to the management fee and administration fee, the Fund pays all costs and expenses of its operation, including compensation of its Trustees (other than those affiliated with the Adviser), custodial expenses, dividend disbursing expenses, legal fees, expenses of independent auditors, expenses of preparing Fund documents and reports to governmental agencies, and taxes and filing or other fees, if any.



## Plan of distribution

The Fund intends to enter into a Distribution Agreement with EVD, a form of which will be filed as an exhibit to the Registration Statement of which this prospectus is a part. The summary of the Distribution Agreement contained herein is qualified by reference to the Distribution Agreement. Subject to the terms and conditions of the Distribution Agreement, the Fund may issue and sell Common Shares of the Fund from time to time through EVD, which is the principal underwriter of the Common Shares, through certain broker-dealers which will have entered into selected dealer agreements with EVD. The Common Shares will only be sold on such days as shall be agreed to by the Fund and EVD.

The Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE Amex, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current NAV per Common Share plus the per Common Share amount of the commission to be paid to EVD. The Fund and EVD will suspend the sale of Common Shares if the per Common Share price of the Common Shares is less than the minimum price.

The Fund will compensate EVD with respect to sales of the Common Shares at a fixed commission rate based upon the premium at which the Fund's Common Shares are trading on the NYSE Amex on the day of the sale transaction according to the following schedule:

Market Price Premium of Common Shares to NAV on Day of Sale	Commission
1.0% up to and including 2.0%	[1.0%]
Over 2.0% up to and including 3.0%	[1.75%]
Over 3.0% up to and including 4.0%	[2.5%]
Over 4.0%	[3.0%]

EVD will compensate broker-dealers participating in the offering based on the number of Common Shares sold by the broker-dealer in an amount equal to 80% of the applicable gross commission paid by the Fund to EVD according to the schedule above. EVD may from time to time change the dealer re-allowance. The Fund will retain the value of the difference between the premium of the Common Shares and the commission paid on the sale of the Common Shares in the Offering. In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share. As of [June 30], 2010, the last reported sales price of a Common Share of the Fund on the NYSE Amex was \$[\_\_\_\_].

In all cases, the Fund will receive as net proceeds per Common Share sold an amount at least equal to the NAV per Common Share.

Settlements of sales of Common Shares will occur on the third business day following the date on which any such sales are made. Unless otherwise indicated in a further prospectus supplement, EVD as underwriter will act as underwriter on a reasonable efforts basis, unless otherwise indicated by a prospectus supplement.

In connection with the sale of the Common Shares on behalf of the Fund, EVD may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended (the "1933 Act"), and the compensation of EVD may be deemed to be underwriting commissions or discounts.

The offering of Common Shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Common Shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and EVD each have the right to terminate the Distribution Agreement in its discretion at any time.

The Adviser will pay the expenses of the Offering (other than the applicable commissions). Offering expenses generally include, but are not limited to, the preparation, review and filing with the SEC of the Fund's registration statement (including this prospectus and the Statement of Additional Information ("SAI")), the preparation, review and filing of any associated marketing or similar materials, costs associated with the printing, mailing or other distribution of the prospectus, SAI and/or marketing materials, associated filing fees, NYSE listing fees, and legal and auditing fees associated with the Offering.

Distributions and taxes [to be updated]

The Fund intends to make monthly distributions of net investment income, after payment of any dividends on any outstanding preferred shares. The Fund will distribute annually any net short-term capital gain and any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss). Distributions to Shareholders cannot be assured, and the amount of each monthly distribution is likely to vary. While there are any preferred shares outstanding, the Fund might not be permitted to declare any cash dividend or other distribution on its Shares in certain circumstances. See "Description of Capital Structure."

Federal Income Tax Matters. The following discussion of federal income tax matters is based on the advice of K&L Gates LLP, counsel to the Fund.

The Fund intends to invest a sufficient portion of its assets in tax-exempt municipal securities so that it will be permitted to pay "exempt-interest dividends" (as defined under applicable federal income tax law). Each distribution of exempt-interest dividends, whether paid in cash or reinvested in additional Shares, ordinarily will constitute income exempt from regular federal income tax. Furthermore, exempt-interest dividends are included in determining what portion, if any, of a person's social security and railroad retirement benefits will be includible in gross income subject to regular federal income tax. Distributions of any taxable net investment income and net short-term capital gain are taxable as ordinary income. Distributions of the Fund's net capital gain ("capital gain dividends"), if any, are taxable to Shareholders as long-term capital gains, regardless of the length of time Shares have been held by Shareholders. Distributions, if any, in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's Shares and, after that basis has been reduced to zero, will constitute capital gains to the Shareholder (assuming the Shares are held as a capital asset). See below for a summary of the maximum tax rates applicable to capital gains (including capital gain dividends). Interest on indebtedness incurred or continued by a Shareholder to purchase or carry Shares is not deductible for federal income tax purposes if the Fund distributes exempt-interest dividends during the Shareholder's taxable year.

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

Selling Shareholders will generally recognize gain or loss in an amount equal to the difference between the Shareholder's adjusted tax basis in the Shares and the amount received. If the Shares are held as a capital asset, the gain or loss will be a capital gain or loss. The maximum tax rate applicable to net capital gains recognized by individuals and other non-corporate taxpayers is (i) the same as the maximum ordinary income tax rate for gains recognized on the sale of capital assets held for one year or less, (ii) 20% for gains recognized on the sale of capital assets held for more than one year (as well as capital gain dividends) (10% for individuals in the 10% or 15% tax bracket) or (iii) 18% for gains on the sale of certain capital assets held more than five (5) years. Any loss on a disposition of Shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received with respect to those Shares, and will be disallowed to the extent of any exempt-interest dividends received with respect to those Shares. For purposes of determining whether Shares have been held for six months or less, the holding period is suspended for any periods during which the Shareholder's risk of loss is diminished as a result of holding one or more other positions in substantially similar or related property, or through certain options or short sales. Any loss realized on a sale or exchange of Shares will be disallowed to the extent those Shares are replaced by other Shares within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the Shares (which could occur, for example, if the Shareholder is a participant in the Plan (as defined below)). In that event, the basis of the replacement Shares will be adjusted to reflect the disallowed loss.

Distributions by the Fund of net tax-exempt interest income that are properly designated as "exempt-interest dividends" may be treated by shareholders as interest excludable from gross income under Section 103(a) of the Code. In order for the Fund to be entitled to pay the tax-exempt interest income as exempt-interest dividends to its shareholders, the Fund must and intends to satisfy certain requirements, including the requirement that, at the close of each quarter of its taxable year, at least 50% of the value of its total assets consists of obligations the interest on which is exempt from regular federal income tax under Code Section 103(a). Interest on certain municipal obligations is treated as a tax preference item for purposes of the alternative minimum tax. Shareholders of the Fund are required to report tax-exempt interest on their federal income tax returns.

An investor should be aware that if Shares are purchased shortly before the record date for any taxable dividend (including a capital gain dividend), the purchase price likely will reflect the value of the dividend and the investor then would receive a taxable distribution likely to reduce the trading value of such Shares, in effect resulting in a taxable

return of some of the purchase price. Taxable distributions to individuals and certain other non-corporate Shareholders, including those who have not provided their correct taxpayer identification number and other required certifications, may be subject to "backup" federal income tax withholding at the rate of 30%.

The foregoing briefly summarizes some of the important federal income tax consequences to Shareholders of investing in Shares, reflects the federal tax law as of the date of this Prospectus, and does not address special tax rules applicable to certain types of investors, such as corporate and foreign investors. Investors should consult their tax advisors regarding other federal, state or local tax considerations that may be applicable in their particular circumstances, including state alternative minimum tax as well as any proposed tax law changes.