

VAN KAMPEN TRUST FOR INVESTMENT GRADE MUNICIPALS

Form N-14 8C

March 18, 2005

As filed with the Securities and Exchange Commission on March 18, 2005

Securities Act File No. _____
Investment Company Act File No. 811-06471

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-14
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

[] PRE-EFFECTIVE AMENDMENT NO. _

[] POST-EFFECTIVE AMENDMENT NO. _

(CHECK APPROPRIATE BOX OR BOXES)

VAN KAMPEN TRUST FOR INVESTMENT GRADE MUNICIPALS

(EXACT NAME OF REGISTRANT AS SPECIFIED IN DECLARATION OF TRUST)

(800) 847-2424
(AREA CODE AND TELEPHONE NUMBER)

1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

AMY R. DOBERMAN, ESQ.
MANAGING DIRECTOR
VAN KAMPEN INVESTMENTS INC.
1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(NAME AND ADDRESS OF AGENT FOR SERVICE)

COPIES TO:

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CHARLES B. TAYLOR, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
333 WEST WACKER DRIVE
CHICAGO, ILLINOIS 60606
(312) 407-0700

Approximate Date of Proposed Offering: As soon as practicable after this
Registration Statement is declared effective.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

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| TITLE OF SECURITIES BEING REGISTERED | AMOUNT BEING REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MA AGGREGATE OF PRICE |
|---|----------------------------|--|--------------------------------------|
| Common Shares (\$0.01 par value) | 1,000 | \$ 14.82 (1) | \$ |
| Auction Preferred Shares (\$0.01 par value) | 40 | 25,000 | \$ |

(1) Average of high and low reported price for common shares on March 16, 2005.

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

EXPLANATORY NOTE

This Registration Statement is organized as follows:

- o Questions and Answers to Shareholders of Van Kampen Municipal Income Trust and Van Kampen Trust for Investment Grade Municipals
- o Notice of Special Meeting of Shareholders of Van Kampen Municipal Income Trust and Van Kampen Trust for Investment Grade Municipals
- o Joint Proxy Statement/Prospectus of Van Kampen Municipal Income Trust and Van Kampen Trust for Investment Grade Municipals
- o Statement of Additional Information regarding the Reorganization of Van Kampen Municipal Income Trust into Van Kampen Trust for Investment Grade Municipals
- o Part C Information
- o Exhibits

-- MAY 2005 --

IMPORTANT NOTICE

TO SHAREHOLDERS OF VAN KAMPEN
MUNICIPAL INCOME TRUST
AND

VAN KAMPEN TRUST
FOR INVESTMENT GRADE MUNICIPALS

QUESTIONS & ANSWERS

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

Q WHY IS A SHAREHOLDER
MEETING BEING HELD?

A Shareholders of
Van Kampen Municipal Income Trust: You are being asked to vote on a
reorganization (the "Reorganization") of Van Kampen Municipal Income Trust (the
"Target Fund") into Van Kampen Trust for Investment Grade Municipals (the
"Acquiring Fund"), a closed-end investment company that has a substantially
similar investment objective and substantially similar investment policies as
the Target Fund. You are also being asked to vote for the election of trustees
of the Target Fund.

Shareholders of Van Kampen Trust for Investment Grade Municipals: You are being
asked to vote on the issuance of common shares of beneficial interest by the
Acquiring Fund in connection with the Reorganization.

Q WHY IS THE
REORGANIZATION BEING RECOMMENDED?

A The Board of Trustees of
each Fund has determined that the Reorganization will benefit common
shareholders of the Target Fund and the Acquiring Fund. The Target Fund and the
Acquiring Fund are substantially similar. Each Fund invests primarily in
investment grade municipal securities and has a substantially similar investment
objective to provide a high level of current income exempt from federal income
taxes with safety of principal or preservation of capital. Each Fund is managed
by the same investment advisory personnel. After the Reorganization, it is
anticipated that common shareholders of each Fund will experience a reduced
overall operating expense ratio, as certain fixed administrative costs

will be spread across the combined fund's larger asset base. It is not
anticipated that the Reorganization will directly benefit holders of preferred
shares of the Funds; however, it is anticipated that preferred shareholders will
not be adversely effected by the Reorganization, and none of the expenses of the
Reorganization will be borne by preferred shareholders.

Q HOW WILL THE
REORGANIZATION AFFECT ME?

A Assuming shareholders of
the Target Fund approve the Reorganization and shareholders of the Acquiring
Fund approve the issuance of common shares of beneficial interest by that Fund,
the assets and liabilities of the Target Fund will be combined with those of the
Acquiring Fund and the Target Fund will dissolve.

Shareholders of the Target Fund: You will become a shareholder of the Acquiring
Fund. If you are a holder of common shares of the Target Fund, you will receive
newly-issued common shares of the Acquiring Fund, and if you are a holder of
preferred shares of the Target Fund, you will receive newly-issued preferred
shares of the Acquiring Fund. The aggregate net asset value of the common shares
you receive in the Reorganization will equal the aggregate net asset value of
the common shares you own immediately prior to the Reorganization less the costs
of the Reorganization (though you may receive cash for fractional shares). The
aggregate liquidation preference of the preferred shares you receive in the
Reorganization will equal the aggregate liquidation preference of the preferred

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shares you own immediately prior to the Reorganization. No certificates for shares of the Acquiring Fund will be issued in connection with the Reorganization, although such certificates will be available upon request.

Shareholders of the Acquiring Fund: You will remain a shareholder of the Acquiring Fund.

Q WILL I HAVE TO PAY ANY SALES LOAD, COMMISSION OR OTHER SIMILAR FEE IN CONNECTION WITH THE REORGANIZATION?

A You will pay no sales loads or commissions in connection with the Reorganization. However, if the Reorganization is completed, the costs associated with the Reorganization, including the costs associated with the shareholder meeting, will be borne by the Target Fund and the Acquiring Fund in proportion to their projected declines in total operating expenses as a consequence of the Reorganization.

Q WILL I HAVE TO PAY ANY FEDERAL TAXES AS A RESULT OF THE REORGANIZATION?

A The Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1986, as amended. If the Reorganization so qualifies, in general, a shareholder of the Target Fund will recognize no gain or loss upon the receipt solely of shares of the Acquiring Fund in connection with the Reorganization. Additionally, the Target Fund will not recognize any gain or loss as a result of the transfer of all of its assets and liabilities solely in exchange for the shares of the Acquiring Fund or as a result of its dissolution. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss in connection with the Reorganization.

Q WHY IS THE VOTE OF HOLDERS OF COMMON SHARES OF THE ACQUIRING FUND BEING SOLICITED?

A Although the Acquiring Fund will continue its legal existence and operations after the Reorganization, the rules of the New York Stock Exchange (the "NYSE"), on which the Acquiring Fund's common shares are listed, require the common shareholders of the Acquiring Fund to approve the issuance of additional common shares of beneficial interest by the Acquiring Fund in connection with the Reorganization.

Q WHY ARE SHAREHOLDERS OF THE TARGET FUND BEING ASKED TO ELECT TRUSTEES?

A NYSE rules call for listed companies to have their annual meeting to elect trustees within a reasonable interval after the close of a company's fiscal year. Since the Target Fund's fiscal year ends on June 30, 2005, the Board of Trustees of the Target Fund is asking shareholders of that Fund to elect trustees at this time. The Special Meeting will serve as the annual meeting of shareholders of the Target Fund.

Q HOW DOES THE BOARD OF TRUSTEES OF MY FUND SUGGEST I VOTE?

A After careful consideration, the Board of Trustees of each Fund recommend that you vote "FOR" each of the items proposed.

Q HOW DO I VOTE MY PROXY?

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

Q WHOM DO I CONTACT FOR FURTHER INFORMATION?

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A You can contact your financial adviser for further information. You may also call Van Kampen's Client Relations Department at (800) 847-2424 (Telecommunication Device for the Deaf users may call (800) 421-2833) or visit our web site at www.vankampen.com where you can send us an e-mail message by selecting "Contact Us."

ABOUT THE PROXY CARD

Please vote on each issue using blue or black ink to mark an X in one of the boxes provided on the proxy card.

SHAREHOLDERS OF VAN KAMPEN MUNICIPAL INCOME TRUST: APPROVAL OF REORGANIZATION - mark "For," "Against" or "Abstain."

ELECTION OF TRUSTEES - mark "For," "Withhold" or "For All Except." To withhold authority for any individual nominee, mark "For All Except" and write the nominee's name on the line provided.

SHAREHOLDERS OF VAN KAMPEN TRUST FOR INVESTMENT GRADE MUNICIPALS: APPROVAL OF ISSUANCE OF COMMON SHARES - mark "For," "Against" or "Abstain."

Sign, date and return the proxy card in the enclosed postage-paid envelope. All registered owners of an account, as shown in the address, must sign the card. When signing as attorney, trustee, executor, administrator, custodian, guardian or corporate officer, please indicate your full title.

[] PLEASE MARK
X VOTES AS IN
THIS EXAMPLE

VAN KAMPEN XXXXX
JOINT SPECIAL MEETING OF SHAREHOLDERS
XX
XX
XX

| | FOR | AGAINST | ABSTAIN | |
|--|-----|---------|---------|---|
| 1. The proposal to approve the Reorganization. | [] | [] | [] | 3. The proposal to approve the issuance of Common Shares. |

| | FOR ALL | WITHHOLD | FOR ALL EXCEPT | FOR | AGAINST | ABSTAIN | |
|---|---------|----------|-------------------|-----|---------|---------|---|
| 2. Authority to vote for the election as Class X Trustees the nominees named below: XXXXXXXXXX, XXXXXXXXXXX, XXXXXXXXXXX | [] | [] | [] | [] | [] | [] | 4. To transact such other business as may properly come before the Meeting. |

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To withhold authority to vote for any one or more individual nominee check "For All Except" and write the nominee's name on the line below.

Please be sure to sign and date this Proxy, Date

Shareholder sign here Co-owner sign here

XX
 SAMPLE

VAN KAMPEN MUNICIPAL INCOME TRUST
 AND
 VAN KAMPEN TRUST FOR INVESTMENT GRADE MUNICIPALS
 1221 AVENUE OF THE AMERICAS
 NEW YORK, NEW YORK 10020
 (800) 847-2424

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS
 TO BE HELD ON JUNE 22, 2005

Notice is hereby given that a joint special meeting of shareholders (the "Special Meeting") of Van Kampen Municipal Income Trust (the "Target Fund") and Van Kampen Trust for Investment Grade Municipals (the "Acquiring Fund") will be held at the offices of Van Kampen Investments Inc., 1 Parkview Plaza, Oakbrook Terrace, Illinois 60181-5555, on June 22, 2005 at 4:00 p.m. for the following purposes:

For shareholders of the Target Fund:

1. To approve an Agreement and Plan of Reorganization (the "Reorganization Agreement") between the Target Fund and Acquiring Fund, the termination of the Target Fund's registration under the Investment Company Act of 1940, as amended, and the dissolution of the Target Fund under applicable state law;
2. To elect four trustees of the Target Fund to serve for a three year term or until a successor shall have been duly elected and qualified;

For shareholders of the Acquiring Fund:

3. To approve the issuance of common shares of beneficial interest, par value \$0.01 per share, of the Acquiring Fund ("Acquiring Fund Common Shares") in connection with and as contemplated by the Reorganization Agreement;

and:

4. To transact such other business as may properly be presented at the Special Meeting or any adjournment thereof.

Shareholders of record as of the close of business on April 25, 2005 are entitled to vote at the Special Meeting or any adjournment thereof. The Special Meeting will serve as the annual meeting of Shareholders of the Target Fund.

THE BOARD OF TRUSTEES OF EACH FUND REQUESTS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING

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SUCH PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES.

THE BOARD OF TRUSTEES OF THE TARGET FUND RECOMMENDS THAT YOU CAST YOUR VOTE:

- FOR THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS.
- FOR THE ELECTION OF EACH OF THE NOMINEES LISTED IN THE JOINT PROXY STATEMENT/PROSPECTUS FOR THE BOARD OF TRUSTEES OF THE TARGET FUND.

THE BOARD OF TRUSTEES OF THE ACQUIRING FUND RECOMMENDS THAT YOU CAST YOUR VOTE:

- FOR THE ISSUANCE OF ADDITIONAL ACQUIRING FUND COMMON SHARES IN CONNECTION WITH THE REORGANIZATION AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD PROMPTLY.

For the Board of Trustees,

Lou Anne McInnis
Assistant Secretary
Van Kampen Municipal Income Trust
Van Kampen Trust for Investment Grade
Municipals

May , 2005

YOUR VOTE IS IMPORTANT.
PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE
ENCLOSED PROXY CARD NO MATTER HOW MANY SHARES YOU OWN.

THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 18, 2005

JOINT PROXY STATEMENT/PROSPECTUS

VAN KAMPEN MUNICIPAL INCOME TRUST

AND

VAN KAMPEN TRUST FOR INVESTMENT GRADE MUNICIPALS

1221 AVENUE OF THE AMERICAS

NEW YORK, NEW YORK 10020

(800) 847-2424

JOINT SPECIAL MEETING OF SHAREHOLDERS

JUNE 22, 2005

This Joint Proxy Statement/Prospectus is furnished to you as a shareholder of Van Kampen Municipal Income Trust (the "Target Fund") or Van Kampen Trust for Investment Grade Municipals (the "Acquiring Fund"). A joint special meeting of shareholders of the Funds (the "Special Meeting") will be held at the offices of Van Kampen Investments Inc., 1 Parkview Plaza, Oakbrook Terrace, Illinois 60181-5555 on June 22, 2005 at 4:00 p.m. to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment thereof, the Board of Trustees of each Fund requests that you vote your shares by completing and returning the enclosed proxy card. The approximate mailing date of this Joint Proxy Statement/Prospectus is May , 2005.

The purposes of the Special Meeting are:

For shareholders of the Target Fund:

1. To approve an Agreement and Plan of Reorganization (the "Reorganization Agreement") between the Target Fund and the Acquiring Fund, the termination of the Target Fund's registration under the Investment Company Act of 1940, as amended (the "1940 Act"), and the dissolution of the Target Fund under applicable state law;
2. To elect four trustees of the Target Fund to serve for a three year term or until a successor shall have been duly elected and qualified;

For shareholders of the Acquiring Fund:

3. To approve the issuance of common shares of beneficial interest, par value \$0.01 per share, by the Acquiring Fund ("Acquiring Fund Common Shares") in connection with and as contemplated by the Reorganization Agreement; and

For shareholders of both Funds:

4. To transact such other business as may properly be presented at the Special Meeting or any adjournment thereof.

The Reorganization Agreement that you are being asked to consider involves a transaction that will be referred to in this Joint Proxy Statement/Prospectus as the "Reorganization." The Reorganization seeks to combine two substantially similar funds to achieve certain economies of scale and other operational efficiencies. Each Fund invests primarily in investment grade municipal securities and has a substantially similar investment objective to provide a high level of current income exempt from federal income taxes with safety of principal or preservation of capital. The Target Fund and the Acquiring Fund are sometimes referred to herein each as a "Fund" and collectively as the "Funds."

In the Reorganization, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for an equal aggregate value of Acquiring Fund Common Shares and newly-issued auction preferred shares of the Acquiring Fund with a par value of \$0.01 per share and a liquidation preference of \$25,000 per share ("Acquiring Fund APS"). The Target Fund will distribute Acquiring Fund Common Shares to holders of common shares of the Target Fund ("Target Fund Common Shares") and Acquiring Fund APS to holders of Rate Adjusted Tax-Exempt Shares of the Target Fund ("Target Fund RATES") (the Target Fund RATES and the Acquiring Fund APS are sometimes referred to herein collectively as "Preferred Shares"), and will then terminate its registration under the Investment Company Act of 1940, as amended

(the "1940 Act"), and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares received in the Reorganization will equal the aggregate net asset value of Target Fund Common Shares held immediately prior to the Reorganization less the costs of the Reorganization (though Shareholders may receive cash for fractional shares). The aggregate liquidation preference of the Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference of the Target Fund RATES held immediately prior to the Reorganization. The Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

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

NYSE rules call for listed companies to have their annual meeting to elect trustees within a reasonable interval after the close of a company's fiscal year. Since the Target Fund's fiscal year ends on June 30, 2005, the Board of Trustees of the Target Fund is asking shareholders of that Fund to elect trustees at this time. The

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Special Meeting will serve as the annual meeting of shareholders of the Target Fund.

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

In the event that Target Fund shareholders do not approve the Reorganization or Acquiring Fund shareholders do not approve the issuance of Acquiring Fund Common Shares, the Target Fund will continue to exist and the Board of Trustees of the Target Fund will consider what additional action, if any, to take.

This Joint Proxy Statement/Prospectus sets forth concisely the information shareholders of the Funds should know before voting on the proposals and constitutes an offering of Acquiring Fund Common Shares and Acquiring Fund APS. Please read it carefully and retain it for future reference. A Statement of Additional Information, dated _____, 2005, relating to this Joint Proxy Statement/Prospectus (the "Reorganization Statement of Additional Information") has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated herein by reference. If you wish to request the Reorganization Statement of Additional Information, please ask for the "Reorganization Statement of Additional Information." Copies of each Fund's most recent annual report and semi-annual report can be obtained on a web site maintained by Van Kampen Investments Inc. at www.vankampen.com. In addition, each Fund will furnish, without charge, a copy of the Reorganization Statement of Additional Information, its most recent annual report and its most recent semi-annual report to any shareholder upon request. Any such request should be directed to the Van Kampen Client Relations Department by calling (800) 847-2424 (TDD users may call (800) 421-2833) or by writing to the respective Fund at 1 Parkview Plaza, P.O. Box 5555, Oakbrook Terrace, Illinois 60181-5555. The address of the principal executive offices of the Funds is 1221 Avenue of the Americas, New York, New York 10020, and the telephone number is (800) 847-2424.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, file reports, proxy statements, proxy material and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or downloaded from the SEC's

web site at www.sec.gov. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at (202) 942-8090. You can also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC's e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, SEC, Washington, DC, 20549-0102.

The Acquiring Fund Common Shares are listed on the New York Stock Exchange (the "NYSE") and the Chicago Stock Exchange (the "CHX") under the ticker symbol "VGM" and will continue to be so listed subsequent to the Reorganization. The Target Fund Common Shares are listed on the NYSE and the CHX under the ticker symbol "VMT." Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

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

The Board of Trustees of each Fund knows of no business other than that discussed above that will be presented for consideration at the Special Meeting. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment.

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

The date of this Joint Proxy Statement/Prospectus is _____, 2005.

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 SUMMARY

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

PROPOSAL 1: REORGANIZATION OF THE TARGET FUND

THE PROPOSED REORGANIZATION. The Board of Trustees of each Fund, including the trustees who are not "interested persons," as defined in the 1940 Act, of each Fund, has unanimously approved the Reorganization Agreement. If the shareholders of the Target Fund approve the Reorganization Agreement and the shareholders of the Acquiring Fund approve the issuance of Acquiring Fund Common Shares (see "Proposal 3: Issuance of Acquiring Fund Common Shares"). Acquiring Fund Common Shares and Acquiring Fund APS will be issued to holders of Target Fund Common Shares and Target Fund RATES, respectively, in exchange for substantially all of the assets of the Target Fund and the assumption of substantially all of the liabilities of the Target Fund. The Target Fund will then terminate its registration under the 1940 Act and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares received in the Reorganization will equal the aggregate net asset value of Target Fund Common Shares held immediately prior to the Reorganization and the aggregate liquidation preference of Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference of Target Fund RATES held immediately prior to the Reorganization.

BACKGROUND AND REASONS FOR THE PROPOSED REORGANIZATION. The Reorganization seeks to combine two substantially similar funds to achieve certain economies of scale and other operational efficiencies. Each Fund is registered as a diversified, closed-end management investment company under the 1940 Act. Each Fund invests primarily in investment grade municipal securities. The investment objective of the Target Fund is to provide a high level of current income exempt from federal income taxes with safety of principal. The Target Fund seeks to achieve its investment objective by investing primarily in a diversified portfolio of investment grade tax-exempt municipal securities. The investment objective of the Acquiring Fund is to provide a high level of current income exempt from federal income tax, consistent with preservation of capital. The Acquiring Fund seeks to achieve its investment objective by investing in a diversified portfolio of municipal securities which the Acquiring Fund's investment adviser believes do not involve undue risk to income or principal. The Funds are managed by the same investment advisory personnel.

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The proposed Reorganization will combine the assets of these similar funds by reorganizing the Target Fund into the Acquiring Fund. The Board of Trustees of the Target Fund (the "Target Fund Board"), based upon its evaluation of all relevant information, anticipates that the Reorganization will benefit holders of Target Fund Common Shares. The Board of Trustees of the Acquiring Fund (the "Acquiring Fund Board"), based upon its evaluation of all relevant information, anticipates that the Reorganization will benefit holders of Acquiring Fund Common Shares. In particular, the Board of Trustees of each Fund believes, based on data presented by Van Kampen Asset Management, investment adviser to each of the Funds (the "Adviser"), that holders of common shares of the Funds will experience a reduced overall operating expense ratio as a result of the Reorganization. The combined fund resulting from the Reorganization will have a larger asset base than either of the Funds has currently; certain fixed administrative costs, such as costs of printing shareholder reports and proxy statements, legal expenses, audit fees, mailing costs and other expenses, will

be spread across this larger asset base, thereby lowering the expense ratio for common shareholders of the combined fund.

The table below illustrates the anticipated reduction in operating expenses expected as a result of the Reorganization. The table sets forth (i) the fees and expenses paid by the Target Fund for the 12-month period ended October 31, 2004, (ii) the fees and expenses paid by the Acquiring Fund for the 12-month period ended October 31, 2004 and (iii) the pro forma fees and expenses for the Acquiring

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Fund for the 12-month period ended October 31, 2004, assuming the Reorganization had been completed at the beginning of such period.

FEE AND EXPENSE TABLE FOR COMMON SHAREHOLDERS OF THE TARGET FUND AND THE ACQUIRING FUND AS OF OCTOBER 31, 2004

| | TARGET FUND | ACTUAL ACQUIRING FUND | PRO FORMA ACQUIRING FUND |
|---|----------------|--------------------------|-----------------------------|
| | ----- | ----- | ----- |
| Common Shareholder Transaction Expenses (a) : | | | |
| Maximum Sales Load (as a percentage of offering price) (b)..... | None | None | None |
| Dividend Reinvestment Plan Fees..... | None | None | None |
| Annual Expenses (as a percentage of net assets attributable to Common Shares) : | | | |
| Investment Advisory Fees (c)..... | 0.85% | 0.86% | 0.86% |
| Interest Payments on Borrowed Funds..... | 0.00% | 0.00% | 0.00% |
| Other Expenses..... | 0.30% | 0.27% | 0.25% |
| Total Annual Expenses (c)..... | 1.15% | 1.13% | 1.11% |

(a) No information is presented with respect to Preferred Shares because holders of Preferred Shares do not bear any operating expenses of either Fund and will not bear any operating expenses of the combined fund.

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

(c) Expense information has been restated to reflect management fees in effect as of November 1, 2004 attributable to Preferred Shares were included, the investment advisory fees for each Fund and for the Acquiring Fund on a pro forma basis would be 0.55%, 0.55% and 0.55% and the Total Annual Expenses would be 0.74%, 0.73% and 0.71%.

The following example is intended to help you compare the costs of investing in the Acquiring Fund, both before and pro forma after the Reorganization, with the costs of investing in the Target Fund. An investor would pay the following expenses on a \$1,000 investment, assuming (1) the operating expense ratio for

each Fund (as

a percentage of net assets attributable to Common Shares) set forth in the table above and (2) a 5% annual return throughout the period:

| | 1 YEAR ----- | 3 YEARS ----- | 5 YEARS ----- | 10 YEARS ----- |
|--------------------------------|-----------------|------------------|------------------|-------------------|
| Target Fund..... | \$12 | \$37 | \$63 | \$140 |
| Acquiring Fund..... | \$12 | \$36 | \$62 | \$137 |
| Pro Forma--Acquiring Fund..... | \$11 | \$35 | \$61 | \$135 |

The example set forth above assumes Common Shares of each Fund were purchased in the initial offerings and the reinvestment of all dividends and distributions and uses a 5% annual rate of return as mandated by SEC regulations. The example should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the example.

FURTHER INFORMATION REGARDING THE REORGANIZATION. The Target Fund Board has determined that the Reorganization is in the best interests of holders of Target Fund Common Shares and that the interests of such shareholders will not be diluted as a result of the Reorganization. Similarly, the Board of Trustees of the Acquiring Fund has determined that the Reorganization is in the best interests of holders of Acquiring Fund Common Shares and that the interests of such shareholders will not be diluted as a result of the Reorganization. It is not anticipated that the Reorganization will directly benefit the holders of Preferred Shares of either Fund; however, it is anticipated that the holders of Preferred Shares of each Fund will not be adversely effected by the Reorganization and the expenses of the Reorganization will not be borne by the holders of Preferred Shares of either Fund. As a result of the Reorganization, however, a shareholder of either Fund will hold a reduced percentage of ownership in the larger combined fund than he or she did in either of the separate Funds.

The Reorganization is intended to qualify as a "reorganization" within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code" or "Code"). If the Reorganization so qualifies, in general, a shareholder of the Target Fund will recognize no gain or loss upon the receipt solely of shares of the Acquiring Fund in connection with the Reorganization. Additionally, the Target Fund will not recognize any gain or loss as a result of the transfer of all of its assets and liabilities solely in exchange for the shares of the Acquiring Fund or as a result of its dissolution. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss in connection with the Reorganization.

The Target Fund Board requests that shareholders of the Target Fund approve the proposed Reorganization at the Special Meeting to be held on June 22, 2005. Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the closing date of the transaction (the

"Closing Date") will be after the close of business on or about June 30, 2005,

but it may be at a different time as described herein.

The Target Fund Board recommends that you vote "FOR" the proposed Reorganization.

PROPOSAL 2: ELECTION OF TARGET FUND TRUSTEES

The Joint Special Meeting will serve as the annual meeting of shareholders of the Target Fund for the current fiscal year at which Trustees of the Target Fund will be elected. Shareholders of the Target Fund are being asked to elect four Class I trustees at the Special Meeting to serve until the later of the Target Fund's Annual Meeting of Shareholders in 2008 or until a successor has been duly elected and qualified. Holders of Common Shares, voting as a separate class, will vote with respect to four Class I Trustees (David C. Arch, Jerry D. Choate, Howard J Kerr and Suzanne H. Woolsey) designated to be elected by such class of shares. An affirmative vote of a plurality of the Common Shares is required to elect the respective nominees. It is the intention of the persons named in the enclosed proxy to vote the shares represented by them for the election of the respective nominees listed unless the proxy is marked otherwise.

The Target Fund Board recommends that you vote "FOR" the election of trustees.

PROPOSAL 3: ISSUANCE OF ACQUIRING FUND COMMON SHARES

In connection with the proposed Reorganization, as described under "Proposal 1: Reorganization of the Target Fund," the Acquiring Fund will issue additional Acquiring Fund Common Shares and list such shares on the NYSE. The Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange for the newly-issued Acquiring Fund Common Shares and newly-issued Acquiring Fund APS. The aggregate net asset value of the Acquiring Fund Common Shares received by the Target Fund in the Reorganization will equal the aggregate net asset value of the Target Fund Common Shares immediately prior to the Reorganization. The Reorganization will result in no reduction of net asset value of the Acquiring Fund Common Shares, other than the costs of the Reorganization. No gain or loss will be recognized by the Acquiring Fund or its shareholders in connection with the Reorganization. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganization will benefit holders of Acquiring Fund Common Shares by achieving certain economies of scale and other operational efficiencies.

The Acquiring Fund Board requests that shareholders of the Acquiring Fund approve the issuance of additional Acquiring Fund Common Shares at the Special Meeting to be held on June 22, 2005. Subject to the requisite approval of the

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shareholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be after the close of business on or about June 30, 2005, but it may be at a different time as described herein.

Shareholder approval of the issuance of Acquiring Fund Common Shares requires the affirmative vote of a majority of the votes cast on the proposal, provided that the total votes cast on the proposal represents more than 50% in interest of all securities entitled to vote on the proposal.

The Acquiring Fund Board recommends that you vote "FOR" the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization.

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PROPOSAL 1: REORGANIZATION OF THE TARGET FUND

The Reorganization seeks to combine two substantially similar funds to achieve certain economies of scale and other operational efficiencies. Each Fund is registered as a diversified, closed-end management investment company under the 1940 Act. Each Fund invests primarily in investment grade municipal securities and has a substantially similar investment objective to provide a high level of current income exempt from federal income taxes with safety of principal or preservation of capital. The Funds are managed by the same investment advisory personnel.

In the Reorganization, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for an equal aggregate value of Acquiring Fund Common Shares and Acquiring Fund APS. The Target Fund will distribute Acquiring Fund Common Shares to holders of Target Fund Common Shares and Acquiring Fund APS to holders of Target Fund RATES, and will then terminate its registration under the 1940 Act and dissolve under applicable state law. The aggregate net asset value of Acquiring Fund Common Shares received in the Reorganization will equal the aggregate net asset value on the Target Fund Common Shares held immediately prior to the Reorganization less the costs of the Reorganization (though shareholders may receive cash for fractional shares). The aggregate liquidation preference of Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference Target Fund RATES held immediately prior to the Reorganization. The Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

The Target Fund Board, based upon its evaluation of all relevant information, anticipates that the common shareholders of the Target Fund will benefit from the Reorganization. In particular, the Target Fund Board believes, based on data presented by the Adviser, that common shareholders of the Target Fund will experience a reduced overall operating expense ratio as a result of the Reorganization. The combined fund resulting from the Reorganizations will have a larger asset base than either Fund has currently; certain fixed administrative costs, such as costs of printing shareholder reports and proxy statements, legal expenses, audit fees, mailing costs and other expenses, will be spread across this larger asset base, thereby lowering the expense ratio for common shareholders of the combined fund.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Because each Fund, under normal market conditions, invests substantially all of its assets in investment grade municipal securities, any risks inherent in such investments are equally applicable to both Funds and will apply to the combined

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fund after the Reorganization. The Reorganization itself is not expected to adversely affect the rights of holders of Common Shares or Preferred Shares of either Fund or to create additional risks.

MARKET RISK

Market risk is the possibility that the market values of securities owned by each Fund will decline. The prices of debt securities tend to fall as interest rates rise, and such declines tend to be greater among debt securities with longer maturities. Market risk is often greater among certain types of debt

securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Funds to greater market risk than a fund that does not own these types of securities. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater the Funds' outstanding commitments for these securities, the greater the Funds' exposure to market price fluctuations.

INTEREST RATE RISK

Interest rate risk is the risk that prices of municipal securities generally increase when interest rates decline and decrease when interest rates increase. Prices of longer-term securities generally change more in response to interest rate changes than prices of shorter-term securities.

CREDIT RISK

Credit risk refers to an issuer's ability to make timely payments of interest and principal. The degree of credit risk depends on both the financial condition of the issuer and the terms of the obligation. While the Acquiring Fund invests substantially all of its total assets in municipal securities rated investment grade at the time of investment, it may, consistent with such policy, invest a portion of its assets in municipal securities rated below investment grade. Therefore, to the extent that the Acquiring Fund invests in securities rated below investment grade, it maybe subject to a higher level of credit risk than a fund that invests solely in investment grade securities. Securities rated BBB by S&P or Baa by Moody's are in the lowest of the four investment grades and are considered by the rating agencies to be medium-grade obligations which possess speculative characteristics so that changes in economic conditions or other circumstances are more likely to lead to a weakened capacity of the issuer to make principal and interest payments than in the case of higher-rated securities. The credit quality of non-investment grade securities is considered speculative by recognized rating agencies with respect to the issuer's

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continuing ability to pay interest and principal. Lower-grade securities may have less liquidity and a higher incidence of default than higher-grade securities. The Acquiring Fund may incur higher expenditures to protect its interests in such securities. The credit risks and market prices of lower-grade securities generally are more sensitive to negative issuer developments, such as reduced revenues or increased expenditures, or adverse economic conditions, such as a recession, than are higher-grade securities.

INCOME RISK

The income shareholders receive from a Fund is based primarily on interest rates, which can vary widely over the short- and long-term. If interest rates drop, your income from such Fund may drop as well.

NONPAYMENT RISK

Although substantially all of the municipal securities in which the Funds invest are rated investment grade at the time of investment, municipal securities, like other debt obligations, are subject to the risk of nonpayment. The ability of issuers of municipal securities to make timely payments of interest and principal may be adversely impacted in general economic downturns and as relative governmental cost burdens are allocated and reallocated among

federal, state and local governmental units. Such nonpayment would result in a reduction of income to a Fund and could result in a reduction in the value of them municipal security experiencing nonpayment and a potential decrease in the net asset value of the Fund.

CALL RISK

If interest rates fall, it is possible that issuers of securities with high interest rates will prepay or "call" their securities before their maturity dates. In this event, the proceeds from the called securities would likely be reinvested by the Funds in securities bearing the new, lower interest rates, resulting in a possible decline in the Fund's income and distributions to shareholders.

MUNICIPAL SECURITIES RISK

Under normal market conditions, the Funds invest primarily in municipal securities. The yields of municipal securities may move differently and adversely compared to the yields of overall debt securities markets. Although the interest received from municipal securities generally is exempt from federal income tax, each Fund may invest in municipal securities subject to the federal alternative minimum tax. The Acquiring Fund may invest all or a substantial portion of its total assets in municipal securities subject to the federal alternative minimum tax. In addition, there could be changes in applicable tax laws or tax treatments that reduce or eliminate the current federal income tax exemption on municipal securities or

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otherwise adversely affect the current federal or state tax status of municipal securities.

RISKS OF USING STRATEGIC TRANSACTIONS

Each Fund may engage in certain transactions ("Strategic Transactions") designed to, among other things, reduce its exposure to interest rate movements. For example, each Fund may purchase and sell exchange-listed and over-the-counter put and call options on securities, financial futures and other financial instruments, purchase and sell financial futures contracts and enter into various interest rate transactions such as swaps, caps, floors or collars. If a Fund incorrectly forecasts market values, interest rates or other factors, that Fund's performance could suffer as a result of its Strategic Transactions. Each Fund also may suffer a loss if the other party to the Strategic Transaction fails to meet its obligations. The Funds are not required to use Strategic Transactions and may choose not to do so.

MANAGER RISK

As with any managed fund, the investment adviser to each Fund may not be successful in selecting the best-performing securities or investment techniques, and a Fund's performance may lag behind that of similar funds.

MARKET DISCOUNT RISK

Whether investors will realize gains or losses upon the sale of shares of a Fund will depend upon the market price of the shares at the time of sale and the price at which the Shares were purchased, which may be less or more than such Fund's net asset value per share. Since the market price of the shares will be affected by such factors as the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond the control of the Funds, the Funds cannot predict whether shares of the Funds will trade at, below or above net asset value. Shares of closed-end funds often trade

at a discount to their net asset values, and the Funds' shares may trade at such a discount.

LEVERAGE RISK

Use of leverage, through the issuance of Preferred Shares, involves certain risks to holders of Common Shares of the Funds. For example, each Fund's issuance of Preferred Shares may result in higher volatility of the net asset value of its Common Shares and potentially more volatility in the market value of its Common Shares. In addition, changes in the short-term and medium-term dividend rates on, and the amount of taxable income allocable to, the Preferred Shares of a Fund will affect the yield to holders of Common Shares of the Fund. In certain circumstances, when a Fund is required to allocate taxable income to holders of its Preferred Shares, the Fund may be required to make an additional distribution to such holders in an

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amount approximately equal to the tax liability resulting from the allocation (an "Additional Dividend"). Leverage will allow holders of each Fund's Common Shares to realize a higher current rate of return than if the Fund were not leveraged as long as the Fund, while accounting for its costs and operating expenses, is able to realize a higher net return on its investment portfolio than the then-current dividend rate (and any Additional Dividend) paid on its Preferred Shares. Similarly, since a pro rata portion of each Fund's net realized capital gains is generally payable to holders of the Fund's Common Shares, the use of leverage will increase the amount of such gains distributed to holders of the Fund's Common Shares. However, short-term, medium-term and long-term interest rates change from time to time as do their relationships to each other (i.e., the slope of the yield curve) depending upon such factors as supply and demand forces, monetary and tax policies and investor expectations. Changes in any or all of such factors could cause the relationship between short-term, medium-term and long-term rates to change (i.e., to flatten or to invert the slope of the yield curve) so that short-term and medium-term rates may substantially increase relative to the long-term obligations in which each Fund may be invested. To the extent that the current dividend rate (and any Additional Dividend) on a Fund's Preferred Shares approaches the net return on the Fund's investment portfolio, the benefit of leverage to holders of Common Shares of the Fund will be decreased. If the current dividend rate (and any Additional Dividend) on the Preferred Shares were to exceed the net return on a Fund's portfolio, holders of Common Shares of the Fund would receive a lower rate of return than if the Fund were not leveraged. Similarly, since both the costs of issuing Preferred Shares and any decline in the value of a Fund's investments (including investments purchased with the proceeds from any Preferred Shares offering) will be borne entirely by holders of the Fund's Common Shares, the effect of leverage in a declining market would result in a greater decrease in net asset value to holders of Common Shares than if the Fund were not leveraged. If a Fund is liquidated, holders of that Fund's Preferred Shares will be entitled to receive liquidating distributions before any distribution is made to holders of Common Shares of the Fund.

In an extreme case, a decline in net asset value could affect a Fund's ability to pay dividends on its Common Shares. Failure to make such dividend payments could adversely affect the Fund's qualification as a regulated investment company under the federal tax laws. However, each Fund intends to take all measures necessary to make required Common Share dividend payments. If a Fund's current investment income is ever insufficient to meet dividend payments on either its Common Shares or its Preferred Shares, the Fund may have to liquidate certain of its investments. In addition, each Fund has the authority to redeem its Preferred

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Shares for any reason and may be required to redeem all or part of its Preferred Shares in the following circumstances:

- if the asset coverage for the Preferred Shares declines below 200%, either as a result of a decline in the value of the Fund's portfolio investments or as a result of the repurchase of Common Shares in tender offers or otherwise, or
- in order to maintain the asset coverage guidelines established by Moody's and S&P in rating the Preferred Shares.

Redemption of the Preferred Shares or insufficient investment income to make dividend payments, may reduce the net asset value of a Fund's Common Shares and require the Fund to liquidate a portion of its investments at a time when it may be disadvantageous to do so.

ANTI-TAKEOVER PROVISIONS

The Declaration of Trust of each Fund (in each case, the "Declaration of Trust") includes provisions that could limit the ability of other entities or persons to acquire control of that Fund or to change the composition of its Board of Trustees. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of either Fund.

SPECIAL RISKS RELATED TO PREFERRED SHARES

AUCTION RISK. The dividend rate for the Preferred Shares of each Fund normally is set through an auction process. In the auction, holders of Preferred Shares may indicate the dividend rate at which they would be willing to hold or sell their shares or purchase additional shares. An auction fails if there are more Preferred Shares offered for sale than there are buyers, in which case holders of Preferred Shares may not be able to sell their shares. Also, if holders of Preferred Shares place bids to retain shares at an auction only at a specified dividend rate and that rate exceeds the rate set at the auction, they will not retain their shares. Additionally, if holders of Preferred Shares buy shares or elect to retain shares without specifying a dividend rate below which they would not wish to buy or continue to hold those shares, they could receive a lower rate of return on their shares than the market rate. Finally, the dividend period for the Preferred Shares may be changed by the Fund, subject to certain conditions, including notice to preferred shareholders, which could also affect the liquidity of an investment in Preferred Shares.

SECONDARY MARKET RISK. The Target Fund RATES have not been registered pursuant to the Securities Act of 1933, as amended (the "1933 Act"). Acquiring Fund APS are registered pursuant to the 1933 Act. Target Fund RATES may only be transferred outside of auctions through transactions that are not required to be registered under applicable federal and state securities laws. Broker-dealers may

maintain a secondary trading market in the Acquiring Fund APS outside of auctions; however, they are not obligated to do so and there can be no assurance that such a secondary market will develop or, if it does develop, that it will provide holders of Acquiring Fund APS with a liquid trading market. It may not be possible to sell Acquiring Fund APS between auctions, or it may only be possible to sell them for a price less than their liquidation preference plus any accumulated dividends. An increase in the level of interest rates likely will have an adverse effect on the secondary market price of the Acquiring Fund

APS. Acquiring Fund APS may only be transferred outside of auctions to or through broker-dealers or other persons as the Fund permits.

RATINGS AND ASSET COVERAGE RISKS. Although the Preferred Shares of each Fund have been rated "Aaa" by Moody's and "AAA" by S&P, such ratings do not eliminate or necessarily mitigate the risks of investing in Preferred Shares. Moody's or S&P could downgrade its rating of the Preferred Shares or withdraw its rating at any time, which may make the Preferred Shares less liquid at an auction or in the secondary market. If a Fund fails to satisfy its asset coverage ratios, it will be required to redeem a sufficient number of Preferred Shares in order to return to compliance with the asset coverage ratios. A Fund may voluntarily redeem preferred shares under certain circumstances in order to meet asset coverage tests.

COMPARISON OF THE FUNDS

INVESTMENT OBJECTIVE AND POLICIES

The Funds have substantially similar investment objectives and policies. The Target Fund's investment objective is to provide a high level of current income exempt from federal income taxes with safety of principal. The Acquiring Fund's investment objective is to provide a high level of current income exempt from federal income tax, consistent with preservation of capital.

Each Fund invests primarily in municipal securities rated investment grade at the time of investment. Under normal market conditions, each Fund invests at least 80% of its assets in municipal securities. The foregoing policy is a fundamental policy of each Fund and cannot be changed without shareholder approval. The Target Fund may only invest in municipal securities that are rated investment grade at the time of investment. The Acquiring Fund invests substantially all of its total assets in municipal securities rated investment grade at the time of investment; however, the Acquiring Fund may, consistent with such policy, also invest a portion of its assets in municipal securities rated below investment grade. Each Fund considers securities rated BBB or higher by Standard & Poor's Corporation ("S&P") or Baa or higher by Moody's Investors Service ("Moody's") and equivalent rated short-term obligations to be investment grade.

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Each Fund may invest in municipal securities subject to the alternative minimum tax provisions of federal tax law. The Acquiring Fund has not established any limit on the percentage of its portfolio that may be invested in municipal securities that pay interest subject to the alternative minimum tax provisions of federal tax law, and a substantial portion of the income produced by the Acquiring Fund may be taxable under the alternative minimum tax. The Target Fund may invest up to 20% of its total assets in municipal securities that pay interest subject to the alternative minimum tax. The Funds may not be suitable investments for investors who are already subject to the federal alternative minimum tax or who would become subject to the federal alternative minimum tax as a result of an investment in the Funds.

Each Fund may engage in certain hedging transactions and may purchase and sell put and call options on municipal securities and municipal securities indices. Such transactions are not treated as investments in municipal securities for the purpose of each Fund's policy of investing 80% of its total assets in municipal securities.

MUNICIPAL SECURITIES. Municipal securities are obligations issued by or on behalf of states, certain territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and

instrumentalities, the interest on which is, in the opinion of bond counsel or other counsel to the issuer of such securities, at the time of issuance, not includable in gross income for regular federal income tax purposes. Under normal market conditions, at least 80% of each Fund's net assets are invested in municipal securities. The Acquiring Fund not established any limit on the percentage of their respective portfolios that may be invested in municipal securities that pay interest subject to the alternative minimum tax provisions of federal tax law, and a substantial portion of the income produced by the Acquiring Fund may be taxable under the federal alternative minimum tax. The Target Fund may invest up to 20% of its total assets in municipal securities that pay interest subject to the alternative minimum tax.

The two principal classifications of municipal securities are "general obligation" securities and "revenue" securities. "General obligation" securities are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. "Revenue" securities are usually payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source. Industrial development bonds are usually revenue securities, the credit quality of which is normally directly related to the credit standing of the industrial user involved.

Within these principal classifications of municipal securities, there are a variety of categories of municipal securities, including fixed and variable rate securities, municipal bonds, municipal notes, municipal leases, custodial receipts, participation certificates and municipal securities the terms of which include elements of, or are

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similar in effect to, certain Strategic Transactions in which the Funds may engage. Variable rate securities bear rates of interest that are adjusted periodically according to formulae intended to reflect market rates of interest and include securities whose rates vary inversely with changes in market rates of interest. Municipal notes include tax, revenue and bond anticipation notes of short maturity, generally less than three years, which are issued to obtain temporary funds for various public purposes. Municipal leases are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities. Certain municipal lease obligations may include "nonappropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Custodial receipts are underwritten by securities dealers or banks and evidence ownership of future interest payments, principal payments or both on certain municipal securities. Participation certificates are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities. They may represent participations in a lease, an installment purchase contract, or a conditional sales contract. Municipal securities may not be backed by the faith, credit and taxing power of the issuer. The Funds may also invest in municipal securities backed by original issue insurance or secondary market insurance (collectively, "insurance").

The yields of municipal securities depend on, among other things, general money market conditions, general conditions of the municipal securities market, size of a particular offering, the maturity of the obligation and rating of the issue. The ratings of S&P and Moody's represent their opinions of the quality of the municipal securities they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, municipal securities with the same maturity, coupon and rating may have different yields while municipal securities of the same maturity and coupon with different ratings may have the same yield.

Municipal securities include long-term obligations, often called municipal bonds, as well as short-term municipal notes, participation certificates, municipal leases, and tax-exempt commercial paper. Under normal market conditions, longer-term municipal securities generally provide a higher yield than short-term municipal securities of similar credit quality and therefore each Fund generally emphasizes investments in municipal securities with long-term maturities. There is no limitation as to the maturity of municipal securities in which the Fund may invest. The Adviser may adjust the average maturity of the Fund's portfolio from time to time, depending on its assessment of the relative yields available on securities of different maturities and its expectations of future changes in interest rates.

Each Fund may invest more than 25% of its total assets in a particular segment of the municipal securities market if the Adviser determines that the yields available

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from obligations in a particular segment justify the additional risks of a larger investment in such segment.

Neither Fund has a policy limiting its investments in municipal securities whose issuers are located in the same state. However, it is not the present intention of either Fund to invest more than 25% of the value of its total assets in issuers located in the same state. If a Fund were to invest more than 25% of its total assets in issuers located in the same state, it would be more susceptible to adverse economic, business or regulatory conditions in that state.

Neither Fund will not invest more than 25% of its total assets in any industry, nor invest more than 5% of its total assets in the securities of any single issuer. Governmental issuers of municipal securities are not considered part of any "industry." However, municipal securities backed only by the assets and revenues of non-governmental users may for this purpose be deemed to be issued by such non-governmental users, and the 25% limitation would apply to such obligations.

MUNICIPAL LEASES AND CERTIFICATES OF PARTICIPATION. Included within the general category of municipal securities are participations in lease obligations or installment purchase contract obligations (collectively called "lease obligations") of municipal authorities or entities. Although lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged, a lease obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain lease obligations contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although non-appropriation lease obligations are often secured by the underlying property, disposition of the property in the event of foreclosure might prove difficult.

The Target Fund may only invest 5% of its total assets in lease obligations that contain non-appropriation clauses, and only invests in those non-appropriation lease obligations where (1) the nature of the leased equipment or property is such that its ownership or use is essential to a governmental function of the municipality, (2) the lease payments will commence amortization of principal at an early date resulting in an average life of seven years or less for the lease obligation, (3) appropriate covenants will be obtained from the municipal obligor prohibiting the substitution or purchase of similar equipment if lease payments are not appropriated, (4) the lease obligor has

maintained good market acceptability in the past, (5) the investment is of a size that will be attractive to institutional investors, and (6) the underlying leased equipment has elements of portability and/or use that enhance its marketability in the event foreclosure on the underlying equipment was ever required.

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There is no limitation on the percentage of the Acquiring Fund's assets that may be invested in lease obligations that contain non-appropriation clauses. In evaluating such lease obligations, the Adviser will consider such factors as it deems appropriate, which may include (1) whether the lease can be cancelled, (2) the ability of the lease obligee to direct the sale of the underlying assets, (3) the general creditworthiness of the lease obligor, (4) the likelihood that the municipality will discontinue appropriating funding for the leased property in the event such property is no longer considered essential by the municipality, (5) the legal recourse of the lease obligee in the event of such a failure to appropriate funding and (6) any limitations which are imposed on the lease obligor's ability to utilize substitute property or services than those covered by the lease obligation. The Acquiring Fund invests in lease obligations which contain non-appropriation clauses only if such obligations are rated investment grade at the time of investment.

Participation certificates are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities. They may represent participations in a lease, an installment purchase contract, or a conditional sales contract. Some municipal leases and participation certificates may not be readily marketable.

TEMPORARY DEFENSIVE STRATEGIES. At times, the Adviser may judge that conditions in the markets for municipal securities make pursuing a Fund's basic investment strategy inconsistent with the best interests of its shareholders. At such times the Adviser may use alternative strategies, primarily designed to reduce fluctuations in the value of such Fund's assets. In implementing these "defensive" strategies, a Fund may invest to a substantial degree in other investment grade municipal securities, including liquid, high-quality, short-term municipal securities. If these other municipal securities are not available or, in the Adviser's judgment, do not afford sufficient protection against adverse market conditions, the Fund may invest in investment grade taxable securities. To the extent that the Fund invests in taxable securities for temporary defensive purposes, the Fund will not be invested in a manner primarily designed to achieve its investment objective of seeking to provide common shareholders with a high level of current income exempt from federal income tax.

OTHER INVESTMENT PRACTICES AND POLICIES

In connection with the investment objective and policies described above, each Fund may, but is not required to, utilize various other investment strategies as described below to earn income, to facilitate portfolio management and to mitigate risk. Such strategies are generally accepted by modern portfolio managers and are regularly utilized by many investment companies and other institutional investors. These investment practices entail risks. Although the Adviser believes that these

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investment practices may further the Funds' respective investment objectives, no assurance can be given that these investment practices will achieve this result.

OPTIONS. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. Thus, the following general discussion relates to each of the particular types of options discussed in greater detail below. In general, each Fund may purchase and sell (write) options on up to 20% of its assets. In addition, many Strategic Transactions involving options require segregation of Fund assets in special accounts, as described below under "Use of Segregated and Other Special Accounts."

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index or other instrument at the exercise price. For instance, the Fund's purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. The Fund's purchase of a call option on a security, financial future contract, index or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. An American style put or call option may be exercised at any time during the option period while a European style put or call option may be exercised only upon expiration or during a fixed period prior thereto. The Fund is authorized to purchase and sell exchange listed options and over-the-counter options ("OTC options"). Exchange listed options are issued by a regulated intermediary such as the Options Clearing Corporation ("OCC"), which guarantees the performance of the obligations of the parties to such options. The discussion below uses the OCC as a paradigm, but is also applicable to other financial intermediaries.

With certain exceptions, OCC issued and exchange listed options generally settle by physical delivery of the underlying security or currency, although in the future cash settlement may become available. Index options and Eurodollar instruments are cash settled for the net amount, if any, by which the option is "in-the-money" (i.e., where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option.

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The Fund's ability to close out its position as a purchaser or seller of an OCC or exchange listed put or call option is dependent, in part, upon the liquidity of the option market. Among the possible reasons for the absence of a liquid option market on an exchange are: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities including reaching daily price limits; (iv) interruption of the normal operations of the OCC or an exchange; (v) inadequacy of the facilities of an exchange or OCC to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the relevant market for that option on that exchange would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

The hours of trading for listed options may not coincide with the hours during which the underlying financial instruments are traded. To the extent that the option markets close before the markets for the underlying financial instruments, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

OTC options are purchased from or sold to securities dealers, financial institutions or other parties ("Counterparties") through direct bilateral agreement with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantees and security, are set by negotiation of the parties. The Fund will only enter into OTC options that have a buy-back provision permitting the Fund to require the Counterparty to close the option at a formula price within seven days. The Fund expects generally to enter into OTC options that have cash settlement provisions, although it is not required to do so.

Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the Counterparty fails to make or take delivery of the security, or other instrument underlying an OTC option it has entered into with the Fund or fails to make a cash settlement payment due in accordance with the terms of that option, the Fund will lose any premium it paid for the option as well as any anticipated benefit of the transaction. Accordingly, the Adviser must assess the creditworthiness of each such Counterparty or any guarantor or credit enhancement of the Counterparty's credit to determine the likelihood that the terms of the OTC option will be satisfied. The Fund will engage in OTC option transactions only with U.S. government securities dealers recognized by the Federal Reserve Bank of New York as "primary dealers", or broker-dealers, domestic or foreign banks or other financial institutions which have received (or the guarantors of the obligation of

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which have received) a short-term credit rating of "A-1" from Standard & Poor's ("S&P") or "P-1" from Moody's Investors Service, Inc. ("Moody's") or an equivalent rating from any other nationally recognized statistical rating organization ("NRSRO"). The staff of the SEC currently takes the position that, in general, OTC options on securities (other than U.S. government securities) purchased by the Fund, and portfolio securities "covering" the amount of the Fund's obligation pursuant to an OTC option sold by it (the cost of the sell-back plus the in-the-money amount, if any) are illiquid, and are subject to the Fund's limitation on illiquid securities described herein.

If the Fund sells a call option, the premium that it receives may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying securities or instruments in its portfolio or will increase the Fund's income. The sale of put options can also provide income.

The Fund may purchase and sell call options on securities, including U.S. Treasury and agency securities, municipal obligations, mortgage-backed securities, corporate debt securities that are traded on securities exchanges and in the OTC markets and related futures contracts. All calls sold by the Fund must be "covered" (i.e., the Fund must own the securities or futures contract subject to the call) or must meet the asset segregation requirements described below as long as the call is outstanding. Even though the Fund will receive the option premium to help protect it against loss, a call sold by the Fund exposes the Fund during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require the Fund to hold a security or instrument which it might otherwise have sold. In the event of exercise of a call option sold by the

Fund with respect to securities not owned by the Fund, the Fund may be required to acquire the underlying security at a disadvantageous price to satisfy its obligation with respect to the call option.

The Fund may purchase and sell put options on securities including U.S. Treasury and agency securities, municipal obligations, mortgage-backed securities and corporate debt securities (whether or not it holds the above securities in its portfolio.) In selling put options, there is a risk that the Fund may be required to buy the underlying security at a disadvantageous price above the market price.

FUTURES CONTRACTS. Each Fund may enter into financial futures contracts or purchase or sell put and call options on futures contracts as a hedge against anticipated interest rate or fixed-income market changes, for duration management and for risk management purposes. Futures contracts generally are bought and sold on the commodities exchanges where they are listed with payment of initial and variation margin as described below. The purchase of a futures contract creates a firm obligation by the Fund, as purchaser, to take delivery from the seller of the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures contracts and Eurodollar

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instruments, the net cash amount). The sale of a futures contract creates a firm obligation by the Fund, as seller, to deliver to the buyer the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract and obligates the seller to deliver such option.

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

The Fund will not enter into a futures contract or an option on a futures contracts (except for closing transactions) for other than bona fide hedging purposes if, immediately thereafter, the sum of the amount of its initial margin and premiums on open futures contracts and options thereon would exceed 5% of the Fund's total assets (taken at current value); however, in the case of an option that is in-the-money at the time of the purchase, the in-the-money amount may be excluded in calculating the 5% limitation. The segregation requirements with respect to futures contracts and options thereon are described below.

OPTIONS ON SECURITIES INDICES AND OTHER FINANCIAL INDICES. The Fund also may purchase and sell call and put options on securities indices and other financial indices and in so doing can achieve many of the same objectives it would achieve through the sale or purchase of options on individual securities or other instruments. Options on securities indices and other financial indices are similar to options on a security or other instrument except that, rather than settling by physical delivery of

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the underlying instrument, they settle by cash settlement, i.e., an option on an index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the index upon which the option is based exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option (except if, in the case of an OTC option, physical delivery is specified). This amount of cash is equal to the excess of the closing price of the index over the exercise price of the option, which also may be multiplied by a formula value. The seller of the option is obligated, in return for the premium received, to make delivery of this amount. The gain or loss on an option on an index depends on price movements in the instruments making up the market, market segment, industry or other composite on which the underlying index is based, rather than price movements in individual securities, as is the case with respect to options on securities.

COMBINED TRANSACTIONS. Each Fund may enter into multiple transactions, including multiple options transactions, multiple futures contracts transactions and multiple interest rate transactions and any combination of futures contracts, options and interest rate transactions ("component" transactions), instead of a single Strategic Transaction, as part of a single or combined strategy when, in the opinion of the Adviser, it is in the best interests of the Fund to do so. A combined transaction will usually contain elements of risk that are present in each of its component transactions. Although combined transactions are normally entered into based on the Adviser's judgment that the combined strategies will reduce risk or otherwise more effectively achieve the desired portfolio management goal, it is possible that the combination will instead increase such risks or hinder achievement of the portfolio management objective.

SWAPS, CAPS, FLOORS AND COLLARS. Among the Strategic Transactions into which each Fund may enter are interest rate and index swaps and the purchase or sale of related caps, floors and collars. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio, as a duration management technique or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as hedges and not as speculative investments and will not sell interest rate caps or floors where it does not own securities or other instruments providing the income stream the Fund may be obligated to pay. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. An index swap is an agreement to swap cash flows on a notional amount based on changes in the values of the reference indices. The purchase of a cap entitles the purchaser to receive payments on a notional principal amount from the party selling such cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of a floor entitles the purchaser to receive payments on a notional principal amount from the party selling such floor to the extent that a

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specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates or values.

USE OF SEGREGATED AND OTHER SPECIAL ACCOUNTS. Many Strategic Transactions, in addition to other requirements, require that the Fund segregate cash and/or liquid securities to the extent Fund obligations are not otherwise "covered" through ownership of the underlying security, financial instrument or currency. In general, either the full amount of any obligation by the Fund to pay or deliver securities or assets must be covered at all times by the securities, instruments or currency required to be delivered, or, subject to any regulatory restrictions, the Fund must segregate cash and/or liquid securities in an amount at least equal to the current amount of the obligation. The segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate. For example, a call option written by the Fund will require the Fund to hold the securities subject to the call (or securities convertible into the needed securities without additional consideration) or to segregate cash and/or liquid securities sufficient to purchase and deliver the securities if the call is exercised. A call option sold by the Fund on an index will require the Fund to own portfolio securities which correlate with the index or to segregate cash and/or liquid securities equal to the excess of the index value over the exercise price on a current basis. A put option written by the Fund requires the Fund to segregate cash and/or liquid securities equal to the exercise price.

OTC options entered into by the Fund, including those on securities, financial instruments or indices and OCC issued and exchange listed index options, will generally provide for cash settlement. As a result, when the Fund sells these instruments it will only segregate an amount of cash and/or liquid securities equal to its accrued net obligations, as there is no requirement for payment or delivery of amounts in excess of the net amount. These amounts will equal 100% of the exercise price in the case of a non cash-settled put, the same as an OCC guaranteed listed option sold by the Fund, or the in-the-money amount plus any sell-back formula amount in the case of a cash-settled put or call. In addition, when the Fund sells a call option on an index at a time when the in-the-money amount exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash and/or liquid securities equal in value to such excess. OCC issued and exchange listed options sold by the Fund other than those above generally settle with physical delivery, and the Fund will segregate an amount of cash and/or liquid securities equal to the full value of the option. OTC options settling with physical delivery, or with an election of either physical delivery or cash settlement, will be treated the same as other options settling with physical delivery.

In the case of a futures contract or an option on a futures contract, the Fund must deposit initial margin and possible daily variation margin in addition to segregating

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cash and/or liquid securities sufficient to meet its obligation to purchase or provide securities or currencies, or to pay the amount owed at the expiration of an index-based futures contract.

With respect to swaps, the Fund will accrue the net amount of the excess, if any, of its obligations over its entitlements with respect to each swap on a daily basis and will segregate an amount of cash and/or liquid securities having a value equal to the accrued excess. Caps, floors and collars require segregation of cash and/or liquid securities with a value equal to the Fund's net obligation, if any.

Strategic Transactions may be covered by other means when consistent with applicable regulatory policies. The Fund also may enter into offsetting transactions so that its combined position, coupled with any segregated cash and/or liquid securities, equals its net outstanding obligation in related options and Strategic Transactions. For example, the Fund could purchase a put option if the strike price of that option is the same or higher than the strike price of a put option sold by the Fund. Moreover, instead of segregating cash and/or liquid securities if the Fund held a futures contract or forward contract, it could purchase a put option on the same futures contract or forward contract with a strike price as high or higher than the price of the contract held. Other Strategic Transactions also may be offset in combinations. If the offsetting transaction terminates at the time of or after the primary transaction no segregation is required, but if it terminates prior to such time, cash and/or liquid securities equal to any remaining obligation could need to be segregated.

The Fund's activities involving Strategic Transactions may be limited by the requirements of the Code for qualification as a regulated investment company. Losses resulting from the use of Strategic Transactions would reduce net asset value, and possibly income, and such losses can be greater than if the Strategic Transactions had not been utilized. Income earned or gains realized or deemed to be earned or realized, if any, by a Fund from engaging in Strategic Transactions generally will be taxable income of the Fund. Such income earned or realized by the Target Fund is allocated to the Target Fund RATES. Such income earned or realized by the Acquiring Fund is allocated to the Acquiring Fund Common Shares and the Acquiring Fund APS on a pro rata basis.

"WHEN-ISSUED AND "DELAYED DELIVERY" TRANSACTIONS. Each Fund may also purchase and sell municipal securities on a "when-issued" and "delayed delivery" basis. No income accrues to a Fund on municipal securities in connection with such transactions prior to the date the Fund actually takes delivery of such securities. These transactions are subject to market fluctuation; the value of the municipal securities at delivery may be more or less than their purchase price, and yields generally available on municipal securities when delivery occurs may be higher than yields on the municipal securities obtained pursuant to such transactions. Because the Fund engaging in such transactions relies on the buyer or seller, as the case may

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be, to consummate the transaction, failure by the other party to complete the transaction may result in the Fund missing the opportunity of obtaining a price or yield considered to be advantageous.

INVESTMENT RESTRICTIONS

Each Fund's investment objective, its investment policy with respect to investing at least 80% of its total assets in municipal securities and the following investment restrictions are fundamental and cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (defined in the 1940 Act as the lesser of (i) more than 50% of the Fund's outstanding Common Shares and of its outstanding Preferred Shares, voting by class, or (ii) 67% of such outstanding Common Shares and of its outstanding Preferred Shares, voting by class, present at a meeting at which the holders of more than 50% of the outstanding shares of each such class are present in person or by proxy). All other investment policies or practices are considered by the Funds not to be fundamental and accordingly may be changed without shareholder approval. If a percentage restriction on investment or use of assets set forth below is adhered to at the time a transaction is effected, later changes in percentage resulting from changing market values will not be considered a deviation from policy. The investment restrictions of the Acquiring Fund are set forth below. Except as noted herein the investment restrictions of the Target

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Fund are substantially similar. The Acquiring Fund may not:

1. With respect to 75% of its total assets, purchase any securities (other than tax-exempt obligations guaranteed by the United States Government or by its agencies or instrumentalities), if as a result more than 5% of the Fund's total assets would then be invested in securities of a single issuer or if as a result the Fund would hold more than 10% of the outstanding voting securities of any single issuer, except that the Fund may purchase securities of other investment companies to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the Securities and Exchange Commission under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of the 1940 Act.
 2. Invest more than 25% of its assets in a single industry; however, as described in the Fund's prospectus, the Fund may from time to time invest more than 25% of its assets in a particular segment of the municipal securities market.
 3. Issue senior securities, as defined in the 1940 Act, other than preferred shares of beneficial interest, except to the extent such issuance might be involved with borrowings described under subparagraph (4) below or with respect to hedging and risk management transactions or the writing of options within limits described in the Fund's Prospectus.
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4. Borrow money, except for temporary or emergency purposes from banks or for repurchase of the Fund's shares, and then only in an amount not exceeding one-third of the Fund's total assets, including the amount borrowed. The Fund will not mortgage, pledge or hypothecate any assets except in connection with a borrowing. The Fund will not purchase portfolio securities during any period that such borrowings exceed 5% of the total asset value of the Fund. Notwithstanding this investment restriction, the Fund may enter into "when issued" and "delayed delivery" transactions as described in the Fund's prospectus.
 5. Make loans of money or property to any person, except to the extent the securities in which the Fund may invest are considered to be loans and except that the Fund may lend money or property in connection with maintenance of the value of or the Fund's interest with respect to the securities owned by the Fund.
 6. Buy any securities "on margin." Neither the deposit of initial or variation margin in connection with hedging and risk management transactions nor short-term credits as may be necessary for the clearance of transactions is considered the purchase of a security on margin.
 7. Sell any securities "short," write, purchase or sell puts, calls or combinations thereof, or purchase or sell financial futures or options, except as described in the Fund's prospectus.
 8. Act as an underwriter of securities, except to the extent the Fund may be deemed to be an underwriter in connection with the sale of securities held in its portfolio.
 9. Make investments for the purpose of exercising control or participation in management, except to the extent that exercise by the Fund of its rights under agreements related to municipal securities would be deemed to constitute such control or participation, and except that the Fund may purchase securities of other investment companies to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and

regulations promulgated by the Securities and Exchange Commission under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of the 1940 Act.

10. Invest in securities issued by other investment companies as part of a merger, reorganization or other acquisition and except to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the Securities and Exchange Commission under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of the 1940 Act.

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11. Invest in equity interests in oil, gas or other mineral exploration or development programs except pursuant to the exercise by the Fund of its rights under agreements relating to municipal securities.
12. Purchase or sell real estate, commodities or commodity contracts, except to the extent the securities the Fund may invest in are considered to be interests in real estate, commodities or commodity contracts or to the extent the Fund exercises its rights under agreements relating to such municipal securities (in which case the Fund may liquidate real estate acquired as a result of a default on a mortgage), and except to the extent that financial futures and related options the Fund may invest in are considered to be commodities or commodity contracts.

In addition, the Target Fund may not:

13. Invest in illiquid investments, including securities which are subject to legal or contractual restrictions on resale or for which there is no readily available market (e.g., trading in the securities is suspended or, in the case of unlisted securities, market makers do not exist or will not entertain bids or offers), if more than 25% of the Fund's assets (taken at market value) would be invested in such securities, except that the Fund may purchase securities of other investment companies to the extent permitted by (i) the 1940 Act, as amended from time to time, (ii) the rules and regulations promulgated by the Securities and Exchange Commission under the 1940 Act, as amended from time to time, or (iii) an exemption or other relief from the provisions of the 1940 Act.

MANAGEMENT OF THE FUNDS

THE BOARDS. The Board of each Fund is responsible for the overall supervision of the operations of its respective Fund and performs the various duties imposed on trustees of investment companies by the 1940 Act and under applicable state law.

THE ADVISER. The investment adviser for each Fund is Van Kampen Asset Management. The Adviser is a wholly owned subsidiary of Van Kampen Investments Inc. ("Van Kampen Investments"). Van Kampen Investments is a diversified asset management company that administers more than [three million] retail investor accounts, has extensive capabilities for managing institutional portfolios and has more than \$96 billion under management or supervision as of January 31, 2005. Van Kampen Investments has over 40 open-end funds, more than 30 closed-end funds and more than 2,700 unit investment trusts that are distributed by authorized dealers nationwide. Van Kampen Investments is an indirect wholly owned subsidiary of Morgan Stanley, a preeminent global financial services firm that maintains leading market positions in each of its three primary businesses: securities, asset management and credit services. Morgan Stanley is a full service

securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services. The principal business address of the Adviser and Van Kampen Investments is 1221 Avenue of the Americas, New York, New York 10020.

Pursuant to separate investment advisory agreements between each Fund and the Adviser, each Fund pays the Adviser a monthly fee at the annual rate of 0.55% of such Fund's average daily managed assets, including assets attributable to Preferred Shares. Effective November 1, 2004, the investment advisory fee paid by each Fund was reduced from .60% to .55%. Subsequent to the Reorganization, the Adviser will continue to receive compensation at the rate of 0.55% of the average daily managed assets, including assets attributable to Preferred Shares, of the combined fund.

Under a separate Accounting Services and Legal Services agreement, the Adviser provides accounting and legal services to each Fund. The Adviser allocates the cost of such services to each Fund.

PORTFOLIO MANAGEMENT. Each Fund's portfolio is managed by the Adviser's Municipal Fixed Income team. The team is made up of established investment professionals. Current members of the team include Thomas Byron, Robert Wimmel and John Reynoldson.

Thomas Byron has worked for the Adviser since [] and began managing the Funds in []. Robert Wimmel has worked for the Adviser since [] and began managing the Funds in []. John Reynoldson has worked for the Adviser since [] and began managing the Funds in [].

[] is the lead portfolio manager of each Fund. [] are co-portfolio managers. Members of the team collaborate to manage the assets of each Fund.

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

PORTFOLIO TRANSACTIONS WITH AFFILIATES. The Adviser may place portfolio transactions, to the extent permitted by law, with brokerage firms affiliated with the Funds and the Adviser and with brokerage firms participating in the distribution of the Funds' shares if it reasonably believes that the quality of execution and the commission are comparable to that available from other qualified firms.

LEGAL PROCEEDINGS. The Adviser, certain affiliates of the Adviser, and certain open-end investment companies advised by the Adviser or its affiliates were named as defendants in a number of similar class action complaints which were consolidated. The consolidated amended complaint also names as defendants certain

individual trustees and directors of certain investment companies advised by affiliates of the Adviser; the complaint does not, however, name the individual trustees of any Van Kampen funds. The complaint generally alleges that defendants violated their statutory disclosure obligations and fiduciary duties by failing properly to disclose (i) that the Adviser and certain affiliates of the Adviser allegedly offered economic incentives to brokers and others to steer

investors to the funds advised by the Adviser or its affiliates rather than funds managed by other companies, and (ii) that the funds advised by the Adviser or its affiliates allegedly paid excessive commissions to brokers in return for their alleged efforts to steer investors to these funds. The complaint seeks, among other things, unspecified compensatory damages, rescissionary damages, fees and costs.

The Adviser and certain affiliates of the Adviser are also named as defendants in a derivative suit which additionally names as defendants individual trustees of certain Van Kampen funds; the named open-end investment companies are listed as nominal defendants. The complaint alleges that defendants caused the Van Kampen funds to pay economic incentives to a proprietary sales force to promote the sale of proprietary mutual funds. The complaint also alleges that the Van Kampen funds paid excessive commissions to Morgan Stanley and its affiliates in connection with the sales of the funds. The complaint seeks, among other things, the removal of the current trustees of the funds, rescission of the management contracts for the funds, disgorgement of profits by Morgan Stanley and its affiliates and monetary damages. This complaint has been coordinated with the consolidated complaint described in the preceding paragraph.

The defendants have moved to dismiss each of these actions and otherwise intend to defend them vigorously. The motions to dismiss each action are pending. While the defendants believe that they have meritorious defenses, the ultimate outcome of these matters is not presently determinable at this early stage of litigation.

The Adviser and one of the open-end investment companies advised by the Adviser are named as defendants in a recently filed class action complaint generally alleging that the defendants breached their duties of care to long-term shareholders of the investment company by valuing portfolio securities at the closing prices of the foreign exchanges on which they trade without accounting for significant market information that became available after the close of the foreign exchanges but before calculation of net asset value. As a result, the complaint alleges, short-term traders were able to exploit stale pricing information to capture arbitrage profits that diluted the value of shares held by long-term investors. The complaint seeks unspecified compensatory damages, punitive damages, fees and costs. Defendants have appealed an order of the federal court remanding this case to state court. The federal appeals court has issued a stay of discovery in the state court during the pendency of the appeal. While the defendants believe that they have meritorious

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defenses, the ultimate outcome of this matter is not presently determinable at this early stage of litigation.

The Adviser, certain affiliates of the Adviser and the trustees of certain Van Kampen funds are named as defendants in a recently filed complaint generally alleging that the defendants breached various fiduciary and statutory duties to shareholders in certain Van Kampen open-end funds by failing to ensure that the funds participated in securities class action settlements involving securities held in the funds' portfolios. The complaint seeks, among other things, compensatory and punitive damages on behalf of investors in the funds. While the defendants believe that they have meritorious defenses, the ultimate outcome of this matter is not presently determinable at this early stage of litigation.

OTHER SERVICE PROVIDERS

THE ADMINISTRATOR. Van Kampen Funds Inc. (the "Administrator") serves as administrator to the Acquiring Fund. The principal business address of the Administrator is 1221 Avenue of the Americas, New York, New York 10020. The

administrative services provided by the Administrator include record keeping and reporting responsibilities with respect to the Fund's portfolio and preferred shares and providing certain services to shareholders. Prior to June 1, 2004, the Acquiring Fund paid the Administrator a monthly administrative fee at the annual rate of .05% of the average net assets of the Fund. Effective June 1, 2004, the administrative fee was reduced from .05% to .00%. Subsequent to the Reorganization, the Administrator will continue serve as administrator to the combined fund at the reduced rate.

THE COMMUNICATION SUPPORT SERVICES PROVIDER. Van Kampen Funds Inc. (the "Support Service Provider") serves as the communications support service provider to the Target Fund. The principal business address of the Support Service Provider is 1221 Avenue of the Americas, New York, New York 10020. The communications support services include telephonic and written correspondence with shareholders and brokers. The Target Fund does not pay any fee to the Support Service Provider but bears certain expenses incurred by the Support Service Provider.

CUSTODIAN AND TRANSFER AGENT. State Street Bank and Trust Company is the custodian, transfer agent, dividend paying agent and registrar for the Common Shares of each of the Funds. Its principal business address is P.O. Box 43071, Providence, Rhode Island, 02940-3071.

CAPITALIZATION

The Board of Trustees of each Fund may authorize separate classes of shares together with such designation of preferences, rights, voting powers, restrictions,

limitations, qualifications or terms as may be determined from time to time by the trustees. The table below sets forth the capitalization of the Target Fund and the Acquiring Fund as of October 31, 2004, and the pro forma capitalization of the combined fund as if the Reorganization had occurred on that date.

CAPITALIZATION AS OF OCTOBER 31, 2004 (UNAUDITED)
AMOUNTS IN THOUSANDS

| | TARGET FUND (ACTUAL) | ACQUIRING FUND (ACTUAL) | ACQUIRING FUND (PRO FORMA) |
|---|----------------------------|-------------------------------|-------------------------------|
| | ----- | ----- | ----- |
| NET ASSETS CONSIST OF: | | | |
| Common Shares (\$.01 par value)*... | \$ 270 | \$ 287 | \$ 444 |
| Paid in Surplus..... | 399,274 | 265,829 | 664,817 |
| Net Unrealized Appreciation..... | 66,994 | 33,745 | 100,689 |
| Accumulated Undistributed Net | | | |
| Investment Income..... | 2,903 | 2,046 | 4,949 |
| Accumulated Net Realized Loss..... | (1,056) | 426 | (630) |
| NET ASSETS APPLICABLE TO | | | |
| COMMON SHARES..... | \$468,335 | \$302,333 | \$ 770,269 |
| PREFERRED SHARES (\$.01 par value, liquidation preference of \$25,000 and \$100,000 for Acquiring Fund and Target Fund, respectively)*..... | \$265,000 | \$165,000 | \$ 430,000 |
| NET ASSETS INCLUDING PREFERRED | | | |

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SHARES..... \$733,335 \$467,333 \$1,200,269

* Based on the number of outstanding shares listed in "Outstanding Securities of the Funds" table below.

OUTSTANDING SECURITIES OF THE FUNDS AS OF OCTOBER 31, 2004

| TITLE OF CLASS | AMOUNT AUTHORIZED | AMOUNT HELD FOR ITS OWN ACCOUNT | AMOUNT OUTSTANDING EXCLUSIVE OF AMOUNT SHOWN IN PREVIOUS COLUMN |
|-------------------------|-------------------|---------------------------------|---|
| Target Fund (Actual) | | | |
| Common Shares..... | Unlimited | 0 | 28,684,985 |
| Preferred Shares..... | 1,000,000 | 0 | 330 |
| Acquiring Fund (Actual) | | | |
| Common Shares..... | Unlimited | 0 | 27,013,149 |
| Preferred Shares..... | 100,000,000 | 0 | 10,600 |

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ADDITIONAL INFORMATION ABOUT COMMON SHARES OF THE FUNDS

GENERAL. Common shareholders of a Fund are entitled to share equally in dividends declared by the Fund's Board of Trustees payable to holders of the common shares and in the net assets of the Fund available for distribution to holders of the common shares after payment of the preferential amounts payable to preferred shareholders. Common shareholders do not have preemptive or conversion rights and a Fund's common shares are not redeemable. The outstanding common shares of each Fund are fully paid and nonassessable. So long as any preferred shares of a Fund are outstanding, holders of the Fund's common shares will not be entitled to receive any dividends or other distributions from the Fund unless all accumulated dividends on the Fund's outstanding preferred shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to such preferred shares would be at least 200% after giving effect to such distributions.

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

COMMON SHARE PRICE DATA

The following table sets forth the high and low sales prices for Common Shares of each Fund on the NYSE for each full quarterly period within each Fund's two most recent fiscal years and for the first two fiscal quarters of the current fiscal year of the Target Fund and the first fiscal quarter of the current fiscal year of the Acquiring Fund, along with the net asset value and discount or premium to net asset value for each quotation.

| TARGET FUND | | | | | | |
|-------------------------|------------|-----------------|--------------------|-----------|-----------------|--------------------|
| QUARTERLY PERIOD ENDING | HIGH PRICE | NET ASSET VALUE | PREMIUM (DISCOUNT) | LOW PRICE | NET ASSET VALUE | PREMIUM (DISCOUNT) |
| December 31, 2004..... | \$ 9.56 | \$10.58 | \$ (1.02) | \$8.95 | \$10.28 | \$ (1.33) |
| September 30, 2004.... | \$ 9.48 | \$10.58 | \$ (1.10) | \$8.85 | \$10.14 | \$ (1.29) |
| June 30, 2004..... | \$ 9.94 | \$10.59 | \$ (0.65) | \$8.41 | \$ 9.85 | \$ (1.44) |
| March 31, 2004..... | \$10.09 | \$10.94 | \$ (0.85) | \$9.42 | \$10.49 | \$ (1.07) |
| December 31, 2003..... | 9.\$50.... | \$10.50 | \$ (1.00) | \$9.08 | \$10.24 | \$ (1.16) |
| September 30, 2003.... | 9.\$74.... | \$10.74 | \$ (1.00) | \$8.87 | \$10.00 | \$ (1.13) |
| June 30, 2003..... | 9.\$91.... | \$11.07 | \$ (1.16) | \$9.11 | \$10.42 | \$ (1.31) |
| March 31, 2003..... | 9.\$25.... | \$10.67 | \$ (1.42) | \$8.82 | \$10.32 | \$ (1.50) |
| December 31, 2002..... | 9.\$56.... | \$10.64 | \$ (1.08) | \$8.63 | \$10.07 | \$ (1.44) |
| September 30, 2002.... | 9.\$57.... | \$10.66 | \$ (1.09) | \$8.90 | \$ 9.95 | \$ (1.05) |

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| ACQUIRING FUND | | | | | | |
|-------------------------|------------|-----------------|--------------------|-----------|-----------------|--------------------|
| QUARTERLY PERIOD ENDING | HIGH PRICE | NET ASSET VALUE | PREMIUM (DISCOUNT) | LOW PRICE | NET ASSET VALUE | PREMIUM (DISCOUNT) |
| January 31, 2005..... | \$15.40 | \$17.30 | \$ (1.90) | \$14.74 | \$16.93 | \$ (2.19) |
| October 31, 2004..... | \$15.52 | \$17.41 | \$ (1.89) | \$14.85 | \$16.77 | \$ (1.92) |
| July 31, 2004..... | \$14.85 | \$16.84 | \$ (1.99) | \$13.85 | \$16.36 | \$ (2.51) |
| April 30, 2004..... | \$16.55 | \$18.00 | \$ (1.45) | \$14.37 | \$16.66 | \$ (2.29) |
| January 31, 2004..... | \$16.18 | \$17.61 | \$ (1.43) | \$15.50 | \$17.35 | \$ (1.85) |
| October 31, 2003..... | \$15.58 | \$17.15 | \$ (1.57) | \$14.86 | \$16.53 | \$ (1.67) |
| July 31, 2003..... | \$16.74 | \$18.00 | \$ (1.26) | \$15.10 | \$16.54 | \$ (1.44) |
| April 30, 2003..... | \$16.16 | \$17.54 | \$ (1.38) | \$15.48 | \$17.16 | \$ (1.68) |
| January 31, 2003..... | \$15.98 | \$17.60 | \$ (1.62) | \$15.16 | \$17.10 | \$ (1.94) |

As of [], 2005, (i) the net asset value per share for Target Fund Common Shares was \$[] and the market price per share was \$[], representing a discount to net asset value of []%, and (ii) the net asset value per share for Acquiring Fund Common Shares was \$[] and the market price per share was \$[], representing a discount to net asset value of []%.

Target Fund Common Shares have traded at both a premium and a discount to net asset value for extended periods since the Target Fund's inception. Acquiring Fund Common Shares have historically traded at a discount to net asset value. In order to reduce or eliminate a market value discount from net asset value, the Board of Trustees of each Fund may, subject to the terms and conditions of its preferred shares, authorize that Fund from time to time to repurchase the common shares in the open market or to tender for the common shares at net asset value. The Board of Trustees of each Fund, in consultation with the Adviser, will review on a quarterly basis the possibility of open market repurchases and/or tender offers for the common shares. Subject to its borrowing restrictions, each Fund may incur debt to finance such repurchases, which entails risks. The ability of a Fund to enter into tender offers and the common share repurchases may be limited by the 1940 Act asset coverage requirements and any additional asset coverage requirements which may be imposed by a rating agency in

connection with any rating of the preferred shares. No assurance can be given that the Board of Trustees of either Fund will, in fact, authorize the Fund to undertake such repurchases and/or tender offers or that, if undertaken, such actions would result in the common shares trading at a price which is equal or close to net asset value.

DIVIDENDS AND DISTRIBUTIONS. The Funds' current policies with respect to dividends and distributions relating to their respective Common Shares are substantially similar. It is each Fund's present policy, which may be changed by its Board of Trustees, to make monthly distributions to holders of its Common Shares of substantially all of the Fund's net investment income remaining after the payment of dividends on any outstanding Preferred Shares. Net income of each Fund

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consists of all interest income accrued on portfolio assets less all expenses of the Fund. Under current federal tax law, the Target Fund may allocate net capital gains and other taxable income, if any, received by the Target Fund to the Target Fund Common Shares, allowing the Target Fund to pay dividends to the Target Fund RATES which qualify in their entirety as tax exempt distributions. The Acquiring Fund, however, is required to allocate net capital gains and other taxable income, if any, received by the Acquiring Fund among the Acquiring Fund Common Shares and the Acquiring Fund APS on a pro rata basis in the year for which such capital gains and other income is realized.

Expenses of the Fund are accrued each day. Net realized capital gains, if any, are expected to be distributed to shareholders at least once a year. While there are any Preferred Shares of a Fund outstanding, such Fund may declare any cash dividend or other distribution on its Common Shares, unless at the time of such declaration, (1) all accrued Preferred Shares dividends have been paid and (2) the value of the Fund's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Fund, is at least 200% (as required by the 1940 Act) of the liquidation value of the outstanding Preferred Shares (expected to equal the aggregate original purchase price of the outstanding Preferred Shares plus any accrued and unpaid dividends thereon, whether or not earned or declared on a cumulative basis). In addition to the requirements of the 1940 Act, the Fund may be required to comply with other asset coverage requirements as a condition of the Fund obtaining a rating of its Preferred Shares from a nationally recognized rating service. These requirements may include an asset coverage test more stringent than under the 1940 Act. This limitation on a Fund's ability to make distributions on its Common Shares could in certain circumstances impair the ability of the Fund to maintain its qualification for taxation as a regulated investment company. Each Fund intends, however, to the extent possible, to purchase or redeem Preferred Shares from time to time to maintain compliance with such asset coverage requirements and may pay special dividends to the holders of the Preferred Shares in certain circumstances in connection with any such impairment of the Fund's status as a regulated investment company.

For information concerning the manner in which dividends and distributions to holders of each Fund's Common Shares may be reinvested automatically in the Fund's Common Shares, see "Automatic Dividend Reinvestment Plan" below.

DIVIDEND REINVESTMENT PLAN. Each Fund offers a Dividend Reinvestment Plan (each a "Plan," and collectively the "Plans") pursuant to which holders of Common Shares may elect to have all distributions of dividends and all capital gains automatically reinvested in Common Shares pursuant to such Plan. The Plans for the Target Fund and the Acquiring Fund are substantially similar. Unless common shareholders elect to participate in a Plan, all common shareholders will

receive distributions of dividends and capital gains in cash. State Street Bank and Trust Company, as plan agent (the "Plan Agent"), serves as agent for the holders of Common Shares of each Fund in administering the Plans.

After the Reorganization, a holder of shares of a Fund who currently elects to receive dividends in cash will continue to receive dividends in cash; all other holders will have their dividends automatically reinvested in shares of the combined fund. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 8200, Boston, Massachusetts 02101. Telephone calls concerning the Plan may be directed to the Plan Agent between the hours of 7:30 a.m. and 5:00 p.m. Central Standard Time at (800) 341-2929.

ADDITIONAL INFORMATION ABOUT PREFERRED SHARES OF THE FUNDS

GENERAL. The Preferred Shares of each Fund have similar structures. Both Target Fund RATES and Acquiring Fund APS are preferred shares of beneficial interest which entitle their holders to receive dividends when, as and if declared by the Board of Trustees of such Fund, out of funds legally available therefor, at a rate per annum that may vary for the successive dividend periods. The Acquiring Fund APS have a liquidation preference of \$25,000 per share. The Target Fund RATES have a liquidation preference of \$500,000 per share. Neither Target Fund RATES nor Acquiring Fund APS are traded on a stock exchange or over-the-counter. While the Target Fund RATES and Acquiring Fund APS are substantially similar in many respects, there are several differences that shareholders should consider.

Holders of each Fund's preferred shares do not have preemptive rights to purchase any shares of RATES or APS, respectively, or any other preferred shares that might be issued. The net asset value per share of a Fund's RATES or APS equals its liquidation preference plus accumulated but unpaid dividends per share.

SERIES. Under the 1940 Act, each Fund is permitted to have outstanding more than one series of preferred shares as long as no single series has priority over another series as to the distribution of assets of the Fund or the payment of dividends. The Target Fund currently has three series of RATES outstanding, Series A RATES, Series B RATES and Series C RATES. Except as described in the private placement memorandum offering the Target Fund RATES, the terms of each series of Target Fund RATES are the same. The Acquiring Fund currently has four series of APS outstanding, Series A APS, Series B APS, Series C APS and Series D APS. Except with regard to the length of the regular dividend period applicable to each series and as otherwise described in the Prospectus offering the Acquiring Fund APS, the terms of each series of Acquiring Fund APS are the same.

PURCHASE AND SALE. Both Target Fund RATES and Acquiring Fund APS are purchased and sold at auctions conducted on a regular basis.

Target Fund RATES generally are purchased and sold at auctions conducted on a regular basis by Deutsche Bank (the "Auction Agent"). Each Auction requires the participation of one or more auction placement agents, selected by the Fund (each an "Auction Placement Agent"), who have entered into an agreement with the Trust Company, through whom existing or prospective holders may submit orders to the Trust Company in an auction. On each auction date, each holder may submit orders through an Auction Placement Agent to buy, sell or hold RATES. Each prospective purchaser of Target Fund RATES must sign and deliver to the Fund a Master Purchaser's Letter, in which such prospective purchaser agrees,

among other things, that (a) shares of Target Fund RATES may be transferred only (i) pursuant to a Bid or Sell Order placed in an auction or (ii) to or through an Auction Placement Agent to Eligible Person or to the Fund and (b) ownership of shares of Target Fund RATES will be registered in the name of the Securities Depository or its nominee and will be maintained in book entry form only.

Acquiring Fund APS generally are purchased and sold at auctions conducted on a regular basis by the Auction Agent. Unless otherwise permitted by the Funds, existing and potential holders of Acquiring Fund APS only may participate in auctions through broker-dealers who have entered into agreements with the Auction Agent ("Broker-Dealers"). Broker-Dealers submit orders to the Auction Agent on behalf of their respective customers who are existing and potential holders of Acquiring Fund APS. On or prior to each auction date for the Acquiring Fund APS, each holder may submit orders to buy, sell or hold Acquiring Fund APS to its Broker-Dealer. Outside of these auctions, shares of Acquiring Fund APS may be purchased or sold through Broker-Dealers in a secondary trading market maintained by the broker-dealers. However, there can be no assurance that a secondary market will develop or if it does develop, that it will provide holders with a liquid trading market for the Acquiring Fund APS of either fund. Each prospective purchaser of Acquiring Fund APS or its Broker-Dealer is required to sign a Master Purchaser's Letter, in which such purchaser agrees, among other things that (a) shares of Acquiring Fund APS may be transferred only (i) pursuant to a Bid or Sell Order placed in an auction or (ii) to or through a Broker-Dealer and (b) ownership of shares of Acquiring Fund APS will be registered in the name of the Securities Depository or its nominee and will be maintained in book entry form only.

Auctions are generally held every four weeks for Target Fund RATES, and every 28 days for Series A APS and Series B APS, every three months for Series C APS and every six months for Series D APS. In connection with the Reorganization, holders of Target Fund RATES would receive Acquiring Fund APS which have regular dividend periods of similar length as the Target Fund RATES, [such as Series A APS, SERIES B APS or APS or a newly designated series with a regular dividend period of 28 days.]

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REGISTRATION. The Target Fund RATES have not been registered pursuant to the 1933 Act, but are offered pursuant to the private placement exemption contained in Section 4 of the 1933 Act. Therefore, Target Fund RATES may be resold only at auctions or through an Auction Placement Agent in a transaction that is not required to be registered under applicable federal and state securities laws. The Master Purchaser's Letter, which each potential purchaser of Target Fund RATES must sign, places additional restrictions on the resale of Target Fund RATES. Acquiring Fund APS are registered pursuant to the 1933 Act. Broker-Dealers may maintain a secondary trading market in the Acquiring Fund APS outside of auctions. They have no obligation to do so, however, and there can be no assurance that a secondary market for the Acquiring Fund APS will develop or, it does develop, that it will provide holders with liquidity of investment.

DIVIDENDS AND DISTRIBUTIONS. The holders of each Fund's Preferred Shares are entitled to receive, when, as and if declared by the Board of Trustees of the Fund, out of funds legally available therefor, cumulative cash dividends on their shares. Dividends on each Fund's Preferred Shares so declared and payable shall be paid (i) in preference to and in priority over any dividends so declared and payable on the Fund's Common Shares, and (ii) to the extent permitted under the Internal Revenue Code and to the extent available, out of net tax-exempt income earned on the Target Fund's investments.

Prior to each dividend payment date, the relevant Fund is required to deposit with the Auction Agent sufficient funds for the payment of such declared

dividends. Neither Fund intends to establish any reserves for the payment of dividends, and no interest will be payable in respect of any dividend payment or payment on a Fund's Preferred Shares which may be in arrears.

If a Fund retroactively allocates any net capital gains or other income subject to regular federal income tax to its Preferred Shares without having given advance notice thereof as described above, the Fund will make certain payments to holders of its Preferred Shares to which such allocation was made to offset substantially the tax effect thereof. In no other instances will the Fund be required to make payments to holders of its Preferred Shares to offset the tax effect of any reallocation of net capital gains or other taxable income.

Holders of Target Fund RATES generally receive dividends out of the Fund's available net tax-exempt income, which qualify in their entirety as distributions of tax-exempt interest income for federal income tax purposes. The Acquiring Fund, however, is required to allocate net capital gains and other taxable income, if any, proportionately between its Common Shares and APS. The amount of taxable income allocated to the APS depends upon the amount of such income realized by the Fund, but is generally not expected to be significant.

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In normal circumstances, whenever the Acquiring Fund intends to include any net capital gains or other taxable income in any dividend on APS, the Fund will notify the Auction Agent of the amount to be so included prior to the Auction establishing the Applicable Rate for such dividend. The Auction Agent will in turn notify each Broker-Dealer who will notify existing and potential holders of Acquiring Fund APS. As a result, auction participants may, in response to such information, place bids which take account of the inclusion of net capital gains or other taxable income in the dividend. If the Acquiring Fund retroactively allocates any net capital gains or other taxable income to the APS without having given notice to the Auction Agent, the Fund will pay an Additional Dividend to offset substantially the tax effect thereof. As a result of the notice and additional dividend provisions, the after-tax return to a holders of Target Fund RATES and Acquiring Fund APS is not expected to differ substantially.

DIVIDEND RATES. The following table provides information about the dividend rates for each Fund's Preferred Shares as of a recent auction.

| AUCTION DIVIDEND DATE | FUND | RATE |
|-----------------------|-------------------------------------|------|
| ----- | ---- | ---- |
| [], 2005 | Target Fund RATES Acquiring Fund | []% |
| [], 2005 | APS | []% |

REDEMPTIONS. The redemption provisions pertaining to each Fund's Preferred Shares are substantially similar. It is anticipated that shares of each Fund's Preferred Shares will generally be redeemable at the option of the Fund at a price equal to their liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) to the date of redemption plus, in certain circumstances, a redemption premium. Each Fund's Preferred Shares are also subject to mandatory redemption at a price equal to their liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) to the date of redemption upon the occurrence of certain specified events, such as the failure of a Fund to maintain asset coverage requirements for the Preferred Shares specified by Moody's and S&P in connection with their

issuance of ratings on the Preferred Shares. The liquidation preference of Target Fund RATES is \$500,000 and the liquidation preference of Acquiring Fund APS is \$25,000.

RATINGS. The Target Fund RATES and the Acquiring Fund APS have each been assigned a rating of "AAA" from S&P and "Aaa" from Moody's. Each Fund intends that, so long as its Preferred Shares are outstanding, the composition of its portfolio will reflect guidelines established by S&P and Moody's in connection with each Fund's receipt of a rating for such shares of at least "AAA" from S&P and "Aaa" from Moody's. S&P and Moody's, which are nationally recognized statistical rating organizations, issue ratings for various securities reflecting the perceived creditworthiness of such securities. The guidelines for rating such preferred shares have been developed by S&P and Moody's in connection with issuances of

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asset-backed and similar securities, including debt obligations and variable rate preferred stock, generally on a case-by-case basis through discussions with the issuers of these securities. The guidelines are designed to ensure that assets underlying outstanding debt or preferred stock will be varied sufficiently and will be of sufficient quality and amount to justify investment grade ratings. The guidelines do not have the force of law but have been adopted by each Fund in order to satisfy current requirements necessary for S&P and Moody's to issue the above-described ratings for Preferred Shares, which ratings generally are relied upon by institutional investors in purchasing such securities. The guidelines provide a set of tests for portfolio composition and asset coverage that supplement (and in some cases are more restrictive than) the applicable requirements under the 1940 Act.

Each Fund may, but is not required to, adopt any modifications to these guidelines that hereafter may be established by S&P or Moody's. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of the ratings altogether. In addition, any rating agency providing a rating for a Fund's Preferred Shares, at any time, may change or withdraw any such rating. As set forth in the Certificate of Vote of Trustees Establishing Preferred Shares of each Fund (each a "Certificate of Vote"), the Board of Trustees of each Fund, without shareholder approval, may modify certain definitions or restrictions that have been adopted by the Fund pursuant to the rating agency guidelines, provided the Board of Trustees has obtained written confirmation from S&P and Moody's that any such change would not impair the ratings then assigned by S&P and Moody's to the Preferred Shares. For so long as any shares of the Target Fund RATES or Acquiring Fund APS are rated by S&P or Moody's, as the case may be, a Fund's use of options and financial futures contracts and options thereon will be subject to certain limitations mandated by the rating agencies.

LIQUIDATION RIGHTS. Upon any liquidation, dissolution or winding up of either Fund, whether voluntary or involuntary, the holders of each Fund's Preferred Shares will be entitled to receive, out of the assets of such Fund available for distribution to shareholders, before any distribution or payment is made upon any of the Fund's Common Shares or any other capital shares of the Fund ranking junior in right of payment upon liquidation to the Preferred Shares, the liquidation preference of such Preferred Shares, together with the amount of any dividends accumulated but unpaid (whether or not earned or declared) thereon to the date of distribution, and after such payment the holders of Preferred Shares will be entitled to no other payments except for any Additional Dividends. The liquidation preference per share of the Target Fund RATES is \$500,000 and the liquidation preference per share of the Acquiring Fund APS is \$25,000. If the assets of a Fund are insufficient to make the full liquidation payment on the Preferred Shares of such Fund and liquidation payments on any other outstanding

class or series of preferred shares of such Fund ranking on a parity with the Preferred Shares as to payment upon liquidation, then such assets will be distributed among the holders of Preferred

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Shares and the holders of shares of such other class or series ratably in proportion to the respective preferential amounts to which they are entitled. After payment of the full amount of liquidation distribution to which they are entitled, the holders of a Fund's Preferred Shares will not be entitled to any further participation in any distribution of assets by the Fund except for any Additional Dividends. A consolidation, merger or share exchange of a Fund with or into any other entity or entities or a sale, whether for cash, shares of stock, securities or properties, of all or substantially all or any part of the assets of the Fund shall not be deemed or construed to be a liquidation, dissolution or winding up of the Fund for this purpose.

ADDITIONAL INFORMATION. For additional information, Target Fund shareholders should consult the Reorganization Statement of Additional Information, which contains a more complete summary of the terms of the Acquiring Fund APS, and the Certificate of Vote governing the Acquiring Fund APS, included as Appendix B to the Reorganization Statement of Additional Information.

GOVERNING LAW

Each Fund is organized as a business trust under the laws of The Commonwealth of Massachusetts. The Target Fund was organized on July 6, 1987 and commenced operations on August 19, 1988; the Acquiring Fund was organized on November 13, 1991 and commenced operations on January 24, 1992.

Under Massachusetts law, shareholders of a business trust may, under certain circumstances, be held personally liable as partners for its obligations. However, the Declaration of Trust of each Fund contains an express disclaimer of shareholder liability for acts or obligations of the Fund and provides for indemnification and reimbursement of expenses out of the Fund's property for any shareholder held personally liable for the obligations of that Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund itself would be unable to meet its obligations. Given the nature of each Fund's assets and operations, the possibility of a Fund being unable to meet its obligations is remote and, in the opinion of counsel to the Funds, the risk to the Funds' respective shareholders is remote.

Each Fund is also subject to federal securities laws, including the 1940 Act and the rules and regulations promulgated by SEC thereunder, and applicable state securities laws. Each Fund is registered as a non-diversified, closed-end management investment company under the 1940 Act.

CERTAIN PROVISIONS OF THE DECLARATIONS OF TRUST

Each Fund's Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees, and could have the effect of

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depriving common shareholders of an opportunity to sell their Common Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. The Board of Trustees of each Fund is divided into three classes, with the term of one class expiring at the annual meeting of

shareholders. At each annual meeting, each class whose term is expiring will be elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the Board of Trustees. A Trustee may be removed from office only for cause by a written instrument signed by at least two-thirds of the remaining Trustees or by a vote of the holders of at least two-thirds of the class of shares of the Fund that elected such Trustee and entitled to vote on the matter.

In addition, each Fund's Declaration of Trust requires the favorable vote of the holders of at least 75% of the outstanding shares of each class of the Fund, voting as a class, then entitled to vote to approve, adopt or authorize certain transactions with 5%-or-greater holders of a class of shares and their associates, unless the Board of Trustees shall by resolution have approved a memorandum of understanding with such holders, in which case normal voting requirements would be in effect. For purposes of these provisions, a 5%-or-greater holder of a class of shares (a "Principal Shareholder") refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of any class of beneficial interest of the Fund. The transactions subject to these special approval requirements are: (i) the merger or consolidation of the Fund or any subsidiary of the Fund with or into any Principal Shareholder; (ii) the issuance of any securities of the Fund to any Principal Shareholder for cash (except pursuant to the Dividend Reinvestment Plan); (iii) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period); or (iv) the sale, lease or exchange to the Fund or any subsidiary thereof, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period).

The Board of Trustees of each Fund has determined that the 75% voting requirements described above, which are greater than the minimum requirements under Massachusetts law or the 1940 Act, are in the best interest of shareholders of each respective Fund generally. Reference should be made to the Declaration of Trust of each Fund on file with the SEC for the full text of these provisions.

The Declaration of Trust of each Fund further provides that no trustee, officer, employee or agent of the Fund is liable to the Fund or to any shareholder, nor is any trustee, officer, employee or agent liable to any third persons in connection with the

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affairs of the Fund, except as such liability may arise from his or her own bad faith, willful misfeasance, gross negligence, or reckless disregard of their duties. It also provides that all third persons shall look solely to the Fund property for satisfaction of claims arising in connection with the affairs of the Fund. With the exceptions stated, the Declaration of Trust provides that a trustee or officer is entitled to be indemnified against all liability in connection with the affairs of the Fund.

CONVERSION TO OPEN-END FUND

Each Fund may be converted to an open-end investment company at any time by an amendment to its Declaration of Trust. Each Fund's Declaration of Trust provides that such an amendment would require the approval of (a) a majority of the

Trustees, including the approval by a majority of the disinterested Trustees of the Fund, and (b) the lesser of (i) more than 50% of the Fund's outstanding common and preferred shares, each voting as a class or (ii) 67% of the common and preferred shares, each voting as a class, present at a meeting at which holders of more than 50% of the outstanding shares of each such class are present in person or by proxy. If approved in the foregoing manner, conversion of the Fund could not occur until 90 days after the shareholders' meeting at which such conversion was approved and would also require at least 30 days prior notice to all shareholders. Conversion of a Fund to an open-end investment company would require the redemption of all outstanding preferred shares, which would eliminate the leveraged capital structure of the Fund. In the event of conversion, the Common Shares would cease to be listed on the NYSE, the AMEX, the NASDAQ National Market System or other national securities exchange or national market system. Shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of a redemption. If a Fund were converted to an open-end fund, it is likely that new Common Shares would be sold at net asset value plus a sales load. Following any such conversion, it is also possible that certain of the Fund's investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In particular the Fund would be required to maintain its portfolio such that not more than 15% of its assets would be invested in illiquid securities. Such requirement could cause the Fund to dispose of portfolio securities or other assets at a time when it is not advantageous to do so, and could adversely affect the ability of the Fund to meet its investment objective.

VOTING RIGHTS

Voting rights are identical for the holders of each Fund's Common Shares. Holders of each Fund's Common Shares are entitled to one vote for each share held. Except as set forth above under "Certain Provisions of the Declarations of Trust" or "Conversion to Open-End Fund," or except as expressly required by applicable law or expressly set forth in the designation of rights and preferences

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with respect to a Fund's Preferred Shares, holders of Preferred Shares have no voting rights. When holders of a Fund's Preferred Shares are entitled to vote, they are also entitled to cast one vote per share held.

Holders of Preferred Shares of Fund, voting as a class, are entitled to elect two of each Fund's trustees. Under the 1940 Act, if at any time dividends on a Fund's Preferred Shares are unpaid in an amount equal to two full years dividends thereon, the holders of all outstanding Preferred Shares, voting as a class, are entitled to elect a majority of the Fund's Trustees until all dividends have been paid or declared and set apart for payment.

Unless a higher percentage is provided for herein, the affirmative vote of the holders of a majority of a Fund's outstanding Preferred Shares, voting as a class, is required to approve any action requiring a vote of security holders under Section 13(a) of the 1940 Act including, among other things, changes in the Fund's investment objective or changes in the Fund's fundamental investment restrictions.

The affirmative vote of a majority of the holders of Acquiring Fund APS, voting as a class, is required to amend, alter or repeal any of the preferences, rights or powers of holders of Acquiring Fund APS so as to materially and adversely affect such preferences, rights or powers, or increase or decrease the number of preferred shares authorized to be issued.

In addition to any vote or consent of shareholders required by law, without the affirmative consent of the holders of at least 66 2/3% of the shares of Target Fund RATES at the time outstanding, given in person or by proxy, either by written consent without a meeting or by vote at any meeting called for that purpose, the Target Fund shall not:

- (1) institute any proceedings to be adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against it, or file a petition seeking or consenting to reorganization or relief under any applicable Federal or state law relating to bankruptcy, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or a substantial part of its property, or make any assignment for the benefit of creditors, or, except as may be required by applicable law, admit in writing its inability to pay its debts generally as they become due, or take any corporate action in furtherance of any such action;
- (2) create, authorize or issue shares of any class or series of beneficial interest ranking senior to the RATES with respect to the payment of dividends or the distribution of assets, or any securities convertible into, or warrants, options or similar rights to purchase, acquire or receive, such shares of beneficial interest ranking senior to the RATES or reclassify any authorized shares of beneficial interest of the Company into any share ranking senior to the RATES;
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- (3) create, authorize, issue, incur or suffer to exist any indebtedness for borrowed money or any direct or indirect guarantee of such indebtedness in excess of \$10,000,000 outstanding at any one time provided, however, that transfers of assets by the Company subject to an obligation to repurchase shall not be deemed to be indebtedness for purposes of this provision to the extent that after any such transaction the Company meets the Minimum Asset Coverage and Required Liquid Asset Test as of the immediately preceding Valuation Date with Eligible Assets not subject to any reverse repurchase agreement; and provided further that (a) if the RATES is then rated by Standard & Poor's, the Company may not incur any indebtedness unless such indebtedness is rated "AAA" by Standard & Poor's or is would not adversely affect the current rating by Standard & Poor's or unless the holders of such indebtedness at the time such indebtedness is incurred agree that they will not file a petition or any claim against the Company pursuant to the Federal Bankruptcy Code and the Company obtains an opinion of counsel to the effect that such agreement is enforceable, and (b) if the RATES is then rated by Moody's, the Company may not incur any indebtedness in an amount in excess of \$10,000,000 without the approval of Moody's;
- (4) create, incur or suffer to exist, or agree to create, incur or suffer to exist, or consent to cause or permit in the future (upon the happening of a contingency or otherwise) the creation, incurrence or existence of any material lien, mortgage, pledge, charge, security interest, security agreement, conditional sale or trust receipt or other material encumbrance of any kind upon any of the Eligible Assets, except (a) liens the validity of which are being contested in good faith by appropriate proceedings, (b) liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (c) liens, pledges, charges, security interests, security agreements or other encumbrances arising in connection with any indebtedness or reverse repurchase agreements permitted under clause (3) above, (d) liens to secure payment for services rendered by the Trust Company in connection with the RATES and (a) any hedging transactions as contemplated by the Prospectus;

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- (5) amend, alter or repeal any of the rights of the holders of RATES so as to affect materially and adversely the preferences, rights or powers of the shares of RATES, or increase the number of shares of RATES authorized to be issued;
- (6) in addition to the voting rights set forth in Section 9.7 of the Amended and Restated Declaration of Trust, consolidate or merge with or into any other corporation (except to the extent that applicable law does not permit such a vote to be required in the Amended and Restated Declaration of Trust), or

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sell, lease or convey all or substantially all of the assets of the Company (other than with respect to sales, leases and conveyances of assets in the normal course of selling and investing in Eligible Assets); and

- (7) voluntarily dissolve the Company.

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FINANCIAL HIGHLIGHTS

TARGET FUND. The following schedule presents financial highlights for one Target Fund Common Share outstanding throughout the periods indicated.

| | 2004 | 2003 | 2002 (E) | 2001 | 2000 |
|--|----------|----------|----------|----------|----------|
| | ---- | ---- | ----- | ---- | ---- |
| NET ASSET VALUE, BEGINNING OF THE PERIOD..... | \$ 10.73 | \$ 9.99 | \$ 9.62 | \$ 8.99 | \$ 9.62 |
| Net Investment Income..... | .65 | .66 | .70 | .75 | .66 |
| Net Realized and Unrealized Gain/Loss..... | (.62) | .70 | .31 | .66 | (.62) |
| Common Share Equivalent of Distributions Paid to Preferred Shareholders: | | | | | |
| Net Investment Income..... | (.06) | (.07) | (.11) | (.23) | (.06) |
| Total from Investment Operations... | (.03) | 1.29 | .90 | 1.18 | (.03) |
| Distributions Paid to Common Shareholders: | | | | | |
| Net Investment Income..... | (.60) | (.55) | (.53) | (.55) | (.60) |
| Net Realized Gain..... | (.05) | -0- | -0- | -0- | (.05) |
| NET ASSET VALUE, END OF THE PERIOD..... | \$ 10.05 | \$ 10.73 | \$ 9.99 | \$ 9.62 | \$ 8.99 |
| Common Share Market Price at End of the Period..... | \$ 8.87 | \$ 9.66 | \$ 8.85 | \$ 8.89 | \$ 8.68 |
| Total Return(a)..... | -1.63% | 15.76% | 5.64% | 8.88% | -3.00% |
| Net Assets Applicable to Common Shares at End of the Period (In millions)..... | \$ 288.2 | \$ 307.9 | \$ 286.4 | \$ 276.0 | \$ 258.0 |
| Ratio of Expenses to Average Net Assets Applicable to Common | | | | | |

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| | | | | | |
|---|-------------|-------------|-------------|-------------|-----------|
| Shares (b)..... | 1.23% | 1.21% | 1.25% | 1.27% | 1.3 |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares (b)..... | 6.25% | 6.35% | 6.99% | 7.94% | 9.0 |
| Portfolio Turnover..... | 22% | 35% | 41% | 50% | 5 |
| SUPPLEMENTAL RATIOS: | | | | | |
| Ratio of Expenses to Average Net Assets Including Preferred Shares (b)..... | .79% | .78% | .79% | .79% | .8 |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares (c)..... | 5.72% | 5.67% | 5.92% | 5.50% | 6.5 |
| SENIOR SECURITIES: | | | | | |
| Total Preferred Shares Outstanding..... | 330 | 330 | 330 | 330 | 3 |
| Asset Coverage Per Preferred Share (d)..... | \$1,373,451 | \$1,433,101 | \$1,368,316 | \$1,336,403 | \$1,281,8 |
| Involuntary Liquidating Preference Per Preferred Share..... | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,0 |
| Average Market Value Per Preferred Share..... | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,000 | \$ 500,0 |

| | YEAR ENDED JUNE 30 | | |
|---|--------------------|----------|-----------|
| | 1997 | 1996 | 1995 |
| | ---- | ---- | ---- |
| NET ASSET VALUE, BEGINNING OF THE PERIOD..... | \$ 9.76 | \$ 9.76 | \$ 9.92 |
| Net Investment Income..... | .92 | .94 | .96 |
| Net Realized and Unrealized Gain/Loss..... | .26 | .05 | (.06) |
| Common Share Equivalent of Distributions Paid to Preferred Shareholders: | | | |
| Net Investment Income..... | (.21) | (.22) | (.22) |
| Total from Investment Operations... Distributions Paid to Common Shareholders: | .97 | .77 | .68 |
| Net Investment Income..... | (.72) | (.77) | (.84) |
| Net Realized Gain..... | -0- | -0- | -0- |
| NET ASSET VALUE, END OF THE PERIOD..... | \$ 10.01 | \$ 9.76 | \$ 9.76 |
| Common Share Market Price at End of the Period..... | \$ 10.875 | \$ 9.875 | \$ 11.125 |
| Total Return(a)..... | 18.32% | -4.27% | 8.59% |
| Net Assets Applicable to Common Shares at End of the Period (In millions)..... | \$ 283.2 | \$ 273.7 | \$ 271.1 |
| Ratio of Expenses to Average Net Assets Applicable to Common Shares (b)..... | 1.28% | 1.31% | 1.33% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares (b)..... | 9.25% | 9.47% | 9.85% |
| Portfolio Turnover..... | 53% | 29% | 38% |
| SUPPLEMENTAL RATIOS: | | | |
| Ratio of Expenses to Average Net | | | |

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| | | | |
|---|-------------|-------------|-------------|
| Assets Including Preferred Shares (b)..... | .80% | .82% | .83% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares (c)..... | 7.18% | 7.26% | 7.56% |
| SENIOR SECURITIES: | | | |
| Total Preferred Shares Outstanding..... | 330 | 330 | 330 |
| Asset Coverage Per Preferred Share (d)..... | \$1,358,326 | \$1,329,390 | \$1,321,483 |
| Involuntary Liquidating Preference Per Preferred Share..... | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Average Market Value Per Preferred Share..... | \$ 500,000 | \$ 500,000 | \$ 500,000 |

- (a) Total return assumes an investment at the common share market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Trust's dividend reinvestment plan, and sale of all shares at the closing common share market price at the end of the period indicated.
- (b) Ratios do not reflect the effect of distributions to preferred shareholders.
- (c) Ratios reflect the effect of distributions to preferred shareholders.
- (d) Calculated by subtracting the Trust's total liabilities (not including the preferred shares) from the Trust's total assets and dividing this by the number of preferred shares outstanding.
- (e) As required, effective July 1, 2001, the Trust has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting market discount on fixed income securities. The effect of this change for the year ended June 30, 2002 was to increase net investment income per share by \$.01, decrease realized and unrealized gains and losses per share by \$.01, and increase the ratio of net investment income to average net assets applicable to common shares by .04%. Per shares, supplemental data for the period prior to June 30, 2002 have not been restated to reflect this change in presentation.

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ACQUIRING FUND. The following schedule presents financial highlights for one Acquiring Fund Common Share outstanding throughout the periods indicated.

| | YEAR ENDED OCTOBER 31, | | | | | |
|--|------------------------|----------|----------|----------|----------|----------|
| | 2004 | 2003 | 2002 (A) | 2001 | 2000 | 1999 |
| | ---- | ---- | ----- | ---- | ---- | ---- |
| NET ASSET VALUE, BEGINNING OF THE PERIOD..... | \$ 17.15 | \$ 17.46 | \$ 17.51 | \$ 16.22 | \$ 15.63 | \$ 17.64 |
| Net Investment Income..... | 1.09 | 1.10 | 1.18 | 1.25 | 1.32 | 1.33 |
| Net Realized and Unrealized Gain/Loss..... | .31 | .09 | .18 | 1.24 | .64 | (1.94) |
| Common Share Equivalent of Distributions Paid to Preferred Shareholders: | | | | | | |
| Net Investment Income..... | (.10) | (.08) | (.10) | (.32) | (.40) | (.32) |
| Net Realized Gain..... | (.01) | (.03) | (.07) | -0- | -0- | (.02) |

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| | | | | | | |
|--|----------|----------|----------|----------|-----------|-----------|
| Total from Investment Operations... | 1.29 | 1.08 | 1.19 | 2.17 | 1.56 | (.95) |
| Distributions Paid to Common Shareholders: | | | | | | |
| Net Investment Income..... | (1.00) | (1.07) | (1.03) | (.88) | (.97) | (.99) |
| Net Realized Gain..... | (.10) | (.32) | (.21) | -0- | -0- | (.07) |
| NET ASSET VALUE, END OF THE PERIOD..... | \$ 17.34 | \$ 17.15 | \$ 17.46 | \$ 17.51 | \$ 16.22 | \$ 15.63 |
| Common Share Market Price at End of the Period..... | \$ 15.34 | \$ 15.58 | \$ 15.80 | \$ 14.94 | \$13.5625 | \$13.6875 |
| Total Return(b)..... | 5.76% | 7.60% | 14.56% | 16.85% | 6.41% | -13.97% |
| Net Assets Applicable to Common Shares at End of the Period (In millions)..... | \$ 468.3 | \$ 463.3 | \$ 471.6 | \$ 473.0 | \$ 438.1 | \$ 422.2 |
| Ratio of Expenses to Average Net Assets Applicable to Common Shares(c)..... | 1.27% | 1.28% | 1.41% | 1.55% | 1.68% | 1.61% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares(c)..... | 6.43% | 6.40% | 6.89% | 7.37% | 8.44% | 7.87% |
| Portfolio Turnover..... | 18% | 23% | 33% | 29% | 31% | 33% |
| SUPPLEMENTAL RATIOS: | | | | | | |
| Ratio of Expenses to Average Net Assets Including Preferred Shares(c)..... | .80% | .82% | .89% | .98% | 1.03% | 1.02% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares(d)..... | 5.82% | 5.92% | 6.30% | 5.49% | 5.86% | 6.00% |
| SENIOR SECURITIES: | | | | | | |
| Total Preferred Shares Outstanding..... | 10,600 | 10,600 | 10,600 | 10,600 | 10,600 | 10,600 |
| Asset Coverage Per Preferred Share(e)..... | \$69,204 | \$68,721 | \$69,511 | \$69,623 | \$ 66,332 | \$ 64,827 |
| Involuntary Liquidating Preference Per Preferred Share..... | \$25,000 | \$25,000 | \$25,000 | \$25,000 | \$ 25,000 | \$ 25,000 |
| Average Market Value Per Preferred Share..... | \$25,000 | \$25,000 | \$25,000 | \$25,000 | \$ 25,000 | \$ 25,000 |

YEAR ENDED OCTOBER 31,
1997 1996 1995

| | | | |
|--|----------|----------|----------|
| NET ASSET VALUE, BEGINNING OF THE PERIOD..... | \$ 16.58 | \$ 16.58 | \$ 15.03 |
| Net Investment Income..... | 1.37 | 1.38 | 1.42 |
| Net Realized and Unrealized Gain/Loss..... | .74 | .11 | 1.65 |
| Common Share Equivalent of Distributions Paid to Preferred Shareholders: | | | |
| Net Investment Income..... | (.35) | (.35) | (.38) |
| Net Realized Gain..... | -0- | -0- | -0- |
| Total from Investment Operations... | 1.76 | 1.14 | 2.69 |
| Distributions Paid to Common Shareholders: | | | |
| Net Investment Income..... | (1.05) | (1.14) | (1.14) |
| Net Realized Gain..... | -0- | -0- | -0- |

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| | ----- | ----- | ----- |
|--|-----------|-----------|-----------|
| NET ASSET VALUE, END OF THE PERIOD..... | \$ 17.29 | \$ 16.58 | \$ 16.58 |
| | ===== | ===== | ===== |
| Common Share Market Price at End of the Period..... | \$ 16.125 | \$ 15.813 | \$ 15.75 |
| Total Return(b)..... | 8.92% | 7.84% | 21.15% |
| Net Assets Applicable to Common Shares at End of the Period (In millions)..... | \$ 467.0 | \$ 447.8 | \$ 447.9 |
| Ratio of Expenses to Average Net Assets Applicable to Common Shares(c)..... | 1.60% | 1.62% | 1.68% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares(c)..... | 8.16% | 8.37% | 8.96% |
| Portfolio Turnover..... | 40% | 30% | 15% |
| SUPPLEMENTAL RATIOS: | | | |
| Ratio of Expenses to Average Net Assets Including Preferred Shares(c)..... | 1.01% | 1.02% | 1.04% |
| Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares(d)..... | 6.06% | 6.24% | 6.55% |
| SENIOR SECURITIES: | | | |
| Total Preferred Shares Outstanding..... | 5,300 | 5,300 | 5,300 |
| Asset Coverage Per Preferred Share(e)..... | \$138,116 | \$134,491 | \$134,501 |
| Involuntary Liquidating Preference Per Preferred Share..... | \$ 50,000 | \$ 50,000 | \$ 50,000 |
| Average Market Value Per Preferred Share..... | \$ 50,000 | \$ 50,000 | \$ 50,000 |

- (a) As required effective November 1, 2001, the Trust has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting market discount on fixed income securities. The effect of this change for the year ended October 31, 2002 was to increase net investment income per share by \$.01, decrease net realized and unrealized gains and losses per share by \$.01 and increase the ratio of net investment income to average net assets applicable to common shares by .02%. Per share, ratios and supplemental data for periods prior to October 31, 2002 have not been restated to reflect this change in presentation.
- (b) Total return assumes an investment at the common share market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Trust's dividend reinvestment plan, and sale of all shares at the closing common share market price at the end of the period indicated.
- (c) Ratios do not reflect the effect of dividend payments to preferred shareholders.
- (d) Ratios reflect the effect of dividend payments to preferred shareholders.
- (e) Calculated by subtracting the Trust's total liabilities (not including the preferred shares) from the Trust's total assets and dividing this by the number of preferred shares outstanding.

INFORMATION ABOUT THE REORGANIZATION

GENERAL

Under the Reorganization Agreement (attached as Appendix A to the Reorganization Statement of Additional Information), the Acquiring Fund will acquire substantially all of the assets, and will assume substantially all of the liabilities, of the Target Fund, in exchange for Acquiring Fund Common Shares and Acquiring Fund APS to be issued by the Acquiring Fund. The Acquiring Fund will issue and cause to be listed on the NYSE and the CHX additional Acquiring Fund Common Shares. The Acquiring Fund Common Shares issued to the Target Fund will have an aggregate net asset value equal to the aggregate net asset value of the Target Fund Common Shares less the costs of the Reorganization (except that cash will be paid in lieu of any fractional shares), and the Acquiring Fund APS to be issued to the Target Fund will have an aggregate liquidation preference equal to the aggregate liquidation preference of the Target Fund RATES. Upon receipt by the Target Fund of such shares, the Target Fund will (i) distribute the Acquiring Fund Common Shares to the holders of Target Fund Common Shares and (ii) distribute the Acquiring Fund APS to the holders of Target Fund RATES. As soon as practicable after the Closing Date for the Reorganization, the Target Fund will deregister as an investment company under the 1940 Act and dissolve under applicable state law.

The Target Fund will distribute the Acquiring Fund Common Shares and the Acquiring Fund APS received by it pro rata to its holders of record of Target Fund Common Shares and Target Fund RATES, as applicable, in exchange for such shareholders' shares in the Target Fund. Such distribution would be accomplished by opening new accounts on the books of the Acquiring Fund in the names of the common and preferred shareholders of the Target Fund and transferring to those shareholder accounts the Acquiring Fund Common Shares and the Acquiring Fund APS previously credited on those books to the accounts of the Target Fund. Each newly-opened account on the books of the Acquiring Fund for the previous holders of the Target Fund would represent the respective pro rata number of Acquiring Fund Common Shares (rounded down, in the case of fractional shares, to the next largest number of whole shares) due such holder of Common Shares. No fractional Acquiring Fund Common Shares will be issued. In lieu thereof, the Acquiring Fund's transfer agent will aggregate all fractional Acquiring Fund Common Shares and sell the resulting whole shares on the NYSE for the account of all holders of fractional interests, and each such holder will be entitled to the pro rata share of the proceeds from such sale upon surrender of the Target Fund Common Share certificates. Similarly, each newly-opened account on the books of the Acquiring Fund for the previous holders of Target Fund RATES would represent the respective pro rata number of Acquiring Fund APS due such holder. See "Terms of the Reorganization Agreement -- Surrender and Exchange of Share

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Certificates" below for a description of the procedures to be followed by Target Fund shareholders to obtain their Acquiring Fund Common Shares or Acquiring Fund APS (and cash in lieu of fractional shares, if any).

As a result of the Reorganization, every holder of Target Fund Common Shares would own Acquiring Fund Common Shares that (except for cash payments received in lieu of fractional shares) would have an aggregate net asset value immediately after the Closing Date equal to the aggregate net asset value of that shareholder's Target Fund Common Shares immediately prior to the Closing Date less the costs of the Reorganization. Since the Acquiring Fund Common Shares would be issued at net asset value in exchange for the net assets of the Target Fund having a value equal to the aggregate net asset value of those Acquiring Fund Common Shares, the net asset value per share of Acquiring Fund

Common Shares should remain virtually unchanged by the Reorganization except for its share of the reorganization costs. Similarly, the aggregate liquidation preference of the Acquiring Fund APS to be issued to the Target Fund will equal the aggregate liquidation preference of the Target Fund RATES. Every holder of Target Fund RATES would receive Acquiring Fund APS that would have an aggregate liquidation preference immediately after the Closing Date equal to the aggregate liquidation preference of that shareholder's Target Fund RATES immediately prior to the Closing Date. The liquidation preference per share of the Acquiring Fund APS will remain unchanged by the Reorganization. Thus, the Reorganization will result in no dilution of net asset value of the Target Fund Common Shares or Acquiring Fund Common Shares, other than to reflect the costs of the Reorganization, and will result in no dilution of the value per share of Acquiring Fund APS or Target Fund RATES. However, as a result of the Reorganization, a shareholder of either Fund will hold a reduced percentage of ownership in the larger combined entity than he or she did in either Fund prior to the Reorganization.

No sales charge or fee of any kind will be charged to shareholders of the Target Fund in connection with their receipt of Acquiring Fund Common Shares or Acquiring Fund APS in the Reorganization. Holders of Target Fund RATES will find that the auction dates and dividend payment dates for the Acquiring Fund APS received in the Reorganization are ordinarily (i.e., except in the case of a special dividend period) on a 28 day schedule, similar to the schedule of dividend payment dates for Target Fund RATES. Any change in the standard dividend period should not materially affect the value of the Preferred Shares held by holders of Target Fund RATES. The auction procedures for the Acquiring Fund APS and the Target Fund RATES are substantially similar. As a result of the Reorganization, the last dividend period for the Target Fund RATES prior to the Closing Date may be shorter than the dividend period for such RATES determined as set forth in its applicable Certificate of Vote.

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TERMS OF THE REORGANIZATION AGREEMENT

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

VALUATION OF ASSETS AND LIABILITIES. The respective assets of each of the Funds will be valued on the business day prior to the Closing Date (the "Valuation Date"). The valuation procedures are the same for each Fund: the net asset value per Common Share of each Fund will be determined after the close of business on the NYSE (generally, 4:00 p.m., Eastern time) on the Valuation Date. For the purpose of determining the net asset value of a Common Share of each Fund, the value of the securities held by the issuing Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses) and the aggregate liquidation value of the outstanding Preferred Shares of the issuing Fund is divided by the total number of Common Shares of the issuing Fund outstanding at such time. Daily expenses, including the fees payable to the Adviser, will accrue on the Valuation Date.

AMENDMENTS AND CONDITIONS. The Reorganization Agreement may be amended at any time prior to the Closing Date with respect to any of the terms therein. The obligations of each Fund pursuant to the Reorganization Agreement are subject to various conditions, including a registration statement on Form N-14 being declared effective by the SEC, approval of the Reorganization by the shareholders of the Target Fund, approval of the issuance of Acquiring Fund Common Shares by Common Shareholders of the Acquiring Fund, receipt of an

opinion of counsel as to tax matters, receipt of an opinion of counsel as to corporate and securities matters and the continuing accuracy of various representations and warranties of the Funds being confirmed by the respective parties.

POSTPONEMENT; TERMINATION. Under the Reorganization Agreement, the Board of Trustees of either Fund may cause the Reorganization to be postponed or abandoned in certain circumstances should such Board determine that it is in the best interests of the shareholders of its respective Fund to do so.

The Reorganization Agreement may be terminated, and the Reorganization abandoned at any time (whether before or after adoption thereof by the shareholders of either of the Funds) prior to the Closing Date, or the Closing Date may be postponed: (i) by mutual consent of the Boards of Trustees of the Funds and (ii) by the Board of Trustees of either Fund if any condition to that Fund's obligations set forth in the Reorganization Agreement has not been fulfilled or waived by such Board.

SURRENDER AND EXCHANGE OF SHARE CERTIFICATES. After the Closing Date, each holder of an outstanding certificate or certificates formerly representing Target

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Fund Common Shares will be entitled to receive, upon surrender of his or her certificate or certificates, a certificate or certificates representing the number of Acquiring Fund Common Shares distributable with respect to such holder's Target Fund Common Shares, together with cash in lieu of any fractional Acquiring Fund Common Shares. Promptly after the Closing Date, the transfer agent for the Acquiring Fund Common Shares will mail to each holder of certificates formerly representing Target Fund Common Shares a letter of transmittal for use in surrendering his or her certificates for certificates representing Acquiring Fund Common Shares and cash in lieu of any fractional shares.

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

From and after the Closing Date, certificates formerly representing Target Fund Common Shares will be deemed for all purposes to evidence ownership of the number of full Acquiring Fund Common Shares distributable with respect to the Target Fund Common Shares held before the Reorganization as described above and as shown in the table above, provided that, until such share certificates have been so surrendered, no dividends payable to the holders of record of Target Fund Common Shares as of any date subsequent to the Closing Date will be reinvested pursuant to the Acquiring Fund's Dividend Reinvestment Plan, but will instead be paid in cash. Once such Target Fund share certificates have been surrendered, participants in the Target Fund's Dividend Reinvestment Plan will automatically be enrolled in the Dividend Reinvestment Plan of the Acquiring Fund.

From and after the Closing Date, there will be no transfers on the share transfer books of the Target Fund. If, after the Closing Date, certificates representing Target Fund Common Shares are presented to the Acquiring Fund, they will be cancelled and exchanged for certificates representing Acquiring Fund Common Shares, as applicable, and cash in lieu of fractional shares, if any, distributable with respect to such Target Fund Common Shares in the Reorganization.

Preferred Shares are held in "street name" by the Depository Trust Company and

all transfers will be accomplished by book entry.

EXPENSES OF THE REORGANIZATION. In the event the Reorganization is completed, the expenses of the Reorganization will be shared by the Target Fund and the Acquiring Fund in proportion to their projected declines in total operating expenses as a result of the Reorganization. The expenses of the Reorganization will not be borne by the holders of Preferred Shares of either Fund. Management of the Funds estimates total costs of the Reorganization to be approximately \$. Of these expenses, approximately will be borne by the Target Fund and approximately will be borne by the Acquiring Fund. In the event the

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Reorganization is not completed, the Adviser will bear the costs associated with the Reorganization. The Board of Trustees of each Fund has reviewed and approved the foregoing arrangements with respect to expenses and other charges relating to the Reorganization.

Expenses incurred in connection with the Reorganization include, but are not limited to: all costs related to the preparation and distribution of materials distributed to each Fund's Board; all expenses incurred in connection with the preparation of the Reorganization Agreement and a registration statement on Form N-14; SEC and state securities commission filing fees and legal and audit fees in connection with the Reorganization; the costs of printing and distributing this Joint Proxy Statement/Prospectus; legal fees incurred preparing materials for the Board of each Fund, attending each Fund's Board meetings and preparing the minutes; auditing fees associated with each Fund's financial statements; portfolio transfer taxes (if any); and any similar expenses incurred in connection with the Reorganization. Neither the Funds nor the Adviser will pay any expenses of shareholders arising out of or in connection with the Reorganization.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE REORGANIZATION

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

It is a condition to closing the Reorganization that each of the Target Fund and the Acquiring Fund receives an opinion from Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps"), dated as of the Closing Date, regarding the characterization of the Reorganization as a "reorganization" within the meaning of

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Section 368(a) of the Internal Revenue Code. As such a reorganization, the federal income tax consequences of the Reorganization can be summarized as follows:

- No gain or loss will be recognized by the Target Fund or the Acquiring Fund upon the transfer to the Acquiring Fund of substantially all of the assets of the Target Fund in exchange solely for Acquiring Fund Common Shares and Acquiring Fund APS and the assumption by the Acquiring Fund of substantially all of the liabilities of the Target Fund and the subsequent liquidation of the Target Fund.
- No gain or loss will be recognized by a shareholder of the Target Fund who exchanges, as the case may be, all of his, her or its Target Fund Common Shares solely for Acquiring Fund Common Shares pursuant to the Reorganization or all of his, her or its Target Fund RATES solely for Acquiring Fund APS pursuant to the Reorganization (except with respect to cash received in lieu of a fractional share of the Acquiring Fund, as discussed below).
- The aggregate tax basis of the Acquiring Fund Common Shares or Acquiring Fund APS, as the case may be, received by a shareholder of the Target Fund pursuant to the Reorganization will be the same as the aggregate tax basis of the shares of the Target Fund surrendered in exchange therefor (reduced by any amount of tax basis allocable to a fractional share for which cash is received).
- The holding period of the Acquiring Fund Common Shares or Acquiring Fund APS, as the case may be, received by a shareholder of the Target Fund pursuant to the Reorganization will include the holding period of the shares of the Target Fund surrendered in exchange therefor.
- A shareholder of the Target Fund that receives cash in lieu of a fractional share of the Acquiring Fund pursuant to the Reorganization will recognize capital gain or loss with respect to the fractional share in an amount equal to the difference between the amount of cash received for the fractional share and the portion of such shareholder's tax basis in its Target Fund shares that is allocable to the fractional share. The capital gain or loss will be long-term if the holding period for such Target Fund Common Shares or Target Fund RATES, as the case may be, is more than one year as of the date of the exchange.
- The Acquiring Fund's tax basis in the Target Fund's assets received by the Acquiring Fund pursuant to the Reorganization will equal the tax basis of such assets in the hands of the Target Fund immediately prior to the Reorganization, and the Acquiring Fund's holding period of such assets will include the period during which the assets were held by the Target Fund.

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The opinion of Skadden Arps will be based on federal income tax law in effect on the Closing Date. In rendering its opinion, Skadden Arps will also rely upon certain representations of the management of the Acquiring Fund and the Target Fund and assume, among other things, that the Reorganization will be consummated in accordance with the Reorganization Agreement and as described herein. An opinion of counsel is not binding on the IRS or any court.

The Acquiring Fund intends to continue to be taxed under the rules applicable to regulated investment companies as defined in Section 851 of the Internal Revenue Code, which are the same rules currently applicable to the Target Fund

and its shareholders

Pursuant to the grandfather relief granted in Revenue Ruling 89-81, 1989-1 C.B. 226, Target Fund is permitted to designate that dividends paid on the Target Fund RATES consist of more than the Target Fund RATES's pro rata share of tax-exempt income earned by the Target Fund. The Acquiring Fund, however, is not eligible to make such disproportionate designations. Accordingly, designations made by the Acquiring Fund with respect to dividends paid on the Acquiring Fund APS will be treated as consisting of a pro rata portion of each type of income so designated.

For five years after the Closing Date, the combined fund will not be allowed to offset certain pre-Reorganization built-in gains attributable to one Fund with capital loss carryforwards (and certain built-in losses) attributable to the other Fund.

SHAREHOLDER APPROVAL

Under the Declaration of Trust of the Target Fund (as amended to date and including the Certificate of Vote of Trustees Establishing Preferred Shares of the Target Fund), relevant Massachusetts law and the rules of the NYSE, shareholder approval of the Reorganization Agreement requires the affirmative vote of shareholders of the Target Fund representing more than 50% of the outstanding Target Fund Common Shares and 66 2/3% of the outstanding Target Fund RATES, each voting separately as a class.

LEGAL MATTERS

Certain legal matters concerning the federal income tax consequences of the Reorganization and the issuance of Acquiring Fund Common Shares and Acquiring Fund APS will be passed upon by Skadden Arps, which serves as counsel to the Target Fund and the Acquiring Fund. Wayne W. Whalen, a partner of Skadden Arps, is a trustee of both the Target Fund and the Acquiring Fund.

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PROPOSAL 2: ELECTION OF TARGET FUND TRUSTEES

NYSE rules call for listed companies to have their annual meeting to elect trustees within a reasonable interval after the close of a company's fiscal year. Since the Target Fund's current fiscal year ends on June 30, 2005, the Target Fund Board is asking shareholders of that Fund to elect trustees at this time. The Special Meeting will serve as the annual meeting of shareholders of the Target Fund. The Target Fund Board believes that combining the proposals related to the proposed Reorganization with the proposal to elect trustees of the Target Fund into one Joint Proxy Statement/Prospectus is cost effective. The fiscal year end of the Acquiring Fund occurs later in the year, and thus the Acquiring Fund Board will ask shareholders of the Acquiring Fund to elect trustees at a separate meeting to take place later in the year.

This Joint Proxy Statement/Prospectus asks shareholders of the Target Fund to elect four Class I trustees at the Special Meeting, to serve until the later of such Fund's Annual Meeting of Shareholders in 2008 or until successors have been duly elected and qualified. Holders of Common Shares, voting as a separate class, will vote with respect to four Class I Trustees (David C. Arch, Jerry D. Choate, Howard J Kerr and Suzanne H. Woolsey) designated to be elected by such class of shares.

As in the past, only one class of trustees is being submitted to shareholders of the Target Fund for election at the Special Meeting. The Declaration of Trust of the Target Fund provides that the Target Fund Board shall consist of trustees

divided into three classes, the classes to be as nearly equal in number as possible. The trustees of only one class are elected at each annual meeting so that the regular term of only one class of trustees will expire annually and any particular trustee stands for election only once in each three-year period. This type of classification may prevent replacement of a majority of trustees of the Target Fund for up to a two-year period. The foregoing is subject to the provisions of the 1940 Act, applicable state law and the Target Fund's Declaration of Trust and Bylaws.

SHAREHOLDER APPROVAL

An affirmative vote of a plurality of the Common Shares present at the Special Meeting in person or by proxy is required to elect the respective nominees. It is the intention of the persons named in the enclosed proxy to vote the shares represented by them for the election of the respective nominees listed unless the proxy is marked otherwise.

THE BOARD OF TRUSTEES RECOMMENDS A VOTE "FOR ALL" OF THE NOMINEES.

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INFORMATION REGARDING TRUSTEES AND NOMINEES FOR ELECTION AS TRUSTEE

The tables below list the incumbent trustees and nominees for trustee, their principal occupations during the last five years, other directorships held by them and their affiliations, if any, with the Adviser, Van Kampen Funds Inc., Van Kampen Advisors Inc., Van Kampen Exchange Corp. and Van Kampen Investor Services, Inc. The term "Fund Complex" includes each of the investment companies advised by the Adviser as of the date of this Joint Proxy Statement/ Prospectus. Trustees of the Funds generally serve three year terms or until their successors are duly elected and qualified. All nominees have consented to being named in this Joint Proxy Statement/Prospectus and have agreed to serve if elected.

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INDEPENDENT TRUSTEES

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|---|----------------------------|--|--|
| David C. Arch (59) Blistex Inc. 1800 Swift Drive Oak Brook, IL 60523 | Trustee | Trustee since 2003 | Chairman and Chief Executive Officer of Blistex Inc., a consumer health care products manufacturer. Director of the Heartland Alliance, a nonprofit organization serving human needs based in Chicago. Director of St. Vincent de Paul Center, a Chicago based day care facility serving the children of low income families. Board member of the Illinois Manufacturers' Association. |

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| | | | |
|---|---------|-----------------------|--|
| Jerry D. Choate (66) 33971 Selva Road Suite 130 Dana Point, CA 92629 | Trustee | Trustee since 1999 | Prior to January 1999, Chairman and Chief Executive Officer of the Allstate Corporation ("Allstate") and Allstate Insurance Company. Prior to January 1995, President and Chief Executive Officer of Allstate. Prior to August 1994, various management positions at Allstate. |
|---|---------|-----------------------|--|

NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

OTHER DIRECTORSHIPS
HELD BY TRUSTEE

David C. Arch (59)
Blistex Inc.
1800 Swift Drive
Oak Brook, IL 60523

Trustee/Director/Managing
General Partner of funds in the
Fund Complex.

Jerry D. Choate (66)
33971 Selva Road
Suite 130
Dana Point, CA 92629

Trustee/Director/Managing
General Partner of funds in the
Fund Complex. Director of Amgen
Inc., a biotechnological
company, and Director of Valero
Energy Corporation, an
independent refining company.

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS | NUM FU CO OV BY |
|---|----------------------------------|--|--|-----------------------------|
|---|----------------------------------|--|--|-----------------------------|

Rod Dammeyer+ (64)
CAC, L.L.C.
4350 LaJolla Village Drive
Suite 980
San Diego, CA 92122-6223

Trustee
Trustee
since 2003

President of CAC, L.L.C., a private company offering capital investment and management advisory services. Prior to February 2001, Vice Chairman and Director of Anixter International, Inc., a global distributor of wire, cable and communications connectivity products. Prior to July 2000, Managing Partner of Equity Group Corporate Investment (EGI), a company that makes private investments in other companies.

NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

OTHER DIRECTORSHIPS
HELD BY TRUSTEE

Rod Dammeyer+ (64)
CAC, L.L.C.
4350 LaJolla Village Drive

Trustee/Director/Managing
General Partner of funds in the
Fund Complex. Director of

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Suite 980
San Diego, CA 92122-6223

Stericycle, Inc., Ventana Medical Systems, Inc., and GATX Corporation, and Trustee of The Scripps Research Institute and the University of Chicago Hospitals and Health Systems. Prior to April 2004, Director of TheraSense, Inc. Prior to January 2004, Director of TeleTech Holdings Inc. and Arris Group, Inc. Prior to May 2002, Director of Peregrine Systems Inc. Prior to February 2001, Director of IMC Global Inc. Prior to July 2000, Director of Allied Riser Communications Corp., Matria Healthcare Inc., Transmedia Networks, Inc., CNA Surety, Corp. and Grupo Azcarero Mexico (GAM).

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS | NUM FU CO OV BY |
|--|-------------------------------------|--|--|-----------------|
| Linda Hutton Heagy (56) Heidrick & Struggles 233 South Wacker Drive Suite 7000 Chicago, IL 60606 | Trustee | Trustee since 1995 | Managing Partner of Heidrick & Struggles, an executive search firm. Trustee on the University of Chicago Hospitals Board, Vice Chair of the Board of the YMCA of Metropolitan Chicago and a member of the Women's Board of the University of Chicago. Prior to 1997, Partner of Ray & Berndtson, Inc., an executive recruiting firm. Prior to 1996, Trustee of The International House Board, a fellowship and housing organization for international graduate students. Prior to 1995, Executive Vice President of ABN AMRO, N.A., a bank holding company. Prior to 1992, Executive Vice President of La Salle National Bank. | |
| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | OTHER DIRECTORSHIPS HELD BY TRUSTEE | | | |

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Linda Hutton Heagy (56)
 Heidrick & Struggles
 233 South Wacker Drive
 Suite 7000
 Chicago, IL 60606

Trustee/Director/Managing
 General Partner of funds in the
 Fund Complex.

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|---|----------------------------------|--|--|
| R. Craig Kennedy (52) 1744 R Street, NW Washington, DC 20009 | Trustee | Trustee since 1995 | Director and President of the German Marshall Fund of the United States, an independent U.S. foundation created to deepen understanding, promote collaboration and stimulate exchanges of practical experience between Americans and Europeans. Formerly, advisor to the Dennis Trading Group Inc., a managed futures and option company that invests money for individuals and institutions. Prior to 1992, President and Chief Executive Officer, Director and member of the Investment Committee of the Joyce Foundation, a private foundation. |
| Howard J Kerr (69) 736 North Western Avenue P.O. Box 317 Lake Forest, IL 60045 | Trustee | Trustee since 2003 | Prior to 1998, President and Chief Executive Officer of Pocklington Corporation, Inc., an investment holding company. Director of the Marrow Foundation. |

NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

OTHER DIRECTORSHIPS
HELD BY TRUSTEE

R. Craig Kennedy (52)
 1744 R Street, NW
 Washington, DC 20009

Trustee/Director/Managing
 General Partner of funds in the
 Fund Complex.

Howard J Kerr (69)
 736 North Western Avenue
 P.O. Box 317
 Lake Forest, IL 60045

Trustee/Director/Managing
 General Partner of funds in the
 Fund Complex. Director of the
 Lake Forest Bank & Trust.

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--|----------------------------------|--|--|
| Jack E. Nelson (68) 423 Country Club Drive Winter Park, FL 32789 | Trustee | Trustee since 1995 | President of Nelson Investment Planning Services, Inc., a financial planning company and registered investment adviser in the State of Florida. President of Nelson Invest Brokerage Services Inc., a member of the NASD, Securities Investors Protection Corp. and the Municipal Securities Rulemaking Board. President of Nelson Sales and Services Corporation, a marketing and services company to support affiliated companies. |

| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|--|---|
| Jack E. Nelson (68) 423 Country Club Drive Winter Park, FL 32789 | Trustee/Director/Managing General Partner of funds in the Fund Complex. |

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| NAME, AGE AND ADDRESS OF INDEPENDENT TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--|----------------------------------|--|---|
| Hugo F. Sonnenschein+ (64) 1126 E. 59th Street Chicago, IL 60637 | Trustee | Trustee since 2003 | President Emeritus and Honorary Trustee of the University of Chicago and the Adam Smith Distinguished Service Professor in the Department of Economics at the University of Chicago. Prior to July 2000, President of the University of Chicago. Trustee of the University of Rochester and a member of its investment committee. Member of the National Academy of Sciences, the American Philosophical Society and a fellow |

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of the American Academy of Arts and Sciences.

NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

OTHER DIRECTORSHIPS
HELD BY TRUSTEE

Hugo F. Sonnenschein+ (64)
1126 E. 59th Street
Chicago, IL 60637

Trustee/Director/Managing
General Partner of funds in the
Fund Complex. Director of
Winston Laboratories, Inc.

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NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

POSITION(S)
HELD WITH
FUND

TERM OF
OFFICE AND
LENGTH OF
TIME
SERVED

PRINCIPAL OCCUPATION(S)
DURING PAST 5 YEARS

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BY

Suzanne H. Woolsey, Ph.D. (63)
815 Cumberstone Road
Harwood, MD 20776

Trustee

Trustee
since 1999

Chief Communications Officer of
the National Academy of Sciences/
National Research Council, an
independent, federally chartered
policy institution, from 2001 to
November 2003 and Chief Operating
Officer from 1993 to 2001.
Director of the Institute for
Defense Analyses, a federally
funded research and development
center, Director of the German
Marshall Fund of the United
States, Director of the Rocky
Mountain Institute and Trustee of
Colorado College. Prior to 1993,
Executive Director of the
Commission on Behavioral and
Social Sciences and Education at
the National Academy of
Sciences/National Research
Council. From 1980 through 1989,
Partner of Coopers & Lybrand.

NAME, AGE AND ADDRESS
OF INDEPENDENT TRUSTEE

OTHER DIRECTORSHIPS
HELD BY TRUSTEE

Suzanne H. Woolsey, Ph.D. (63)
815 Cumberstone Road
Harwood, MD 20776

Trustee/Director/Managing
General Partner of funds in the
Fund Complex. Director of Fluor
Corp., an engineering,
procurement and construction
organization, since January
2004 and Director of Neurogen

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Corporation, a pharmaceutical company, since January 1998.

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INTERESTED TRUSTEES*

| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--|--|---|---|
| Mitchell M. Merin* (51) 1221 Avenue of the Americas New York, NY 10020 | Trustee, President and Chief Executive Officer | Trustee since 1999; President and Chief Executive Officer since 2002 | President and Chief Executive Officer of f Complex. Chairman, President, Chief Execut Director of the Adviser and Van Kampen Adv December 2002. Chairman, President and Chi Officer of Van Kampen Investments since De Director of Van Kampen Investments since D Chairman and Director of Van Kampen Funds December 2002. President, Director and Chi Officer of Morgan Stanley Investment Manag December 1998. President and Director sinc Chief Executive Officer since June 1998 of Investment Advisors Inc. and Morgan Stanle Inc. Chairman, Chief Executive Officer and Morgan Stanley Distributors Inc. since Jun since June 1998, and Director since Januar Stanley Trust. Director of various Morgan subsidiaries. President of the Morgan Stan May 1999. Previously Chief Executive Offic Funds Inc. from December 2002 to July 2003 Officer of Morgan Stanley Investment Advis Morgan Stanley Services Company Inc. and E President of Morgan Stanley Distributors I 1997 to June 1998. Chief Executive Officer 2002 to April 2003 and Vice President from 1999 of the Morgan Stanley Funds. |

| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|--|---|
| Mitchell M. Merin* (51) 1221 Avenue of the Americas New York, NY 10020 | Trustee/Director/ Managing General Partner of funds in the Fund Complex. |

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POSITION(S) TERM OF OFFICE AND LENGTH OF

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| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | HELD WITH FUND | TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|---|----------------|--------------------|--|
| Richard F. Powers, III* (58) 1221 Avenue of the Americas New York, NY 10020 | Trustee | Trustee since 1999 | Advisory Director of Morgan Stanley. Prior Chairman, Director, President, Chief Executive Managing Director of Van Kampen Investment investment advisory, distribution and other Prior to December 2002, President and Chief Officer of funds in the Fund Complex. Prior Executive Vice President and Director of Morgan Stanley and Director of Dean Witter, Discount Witter Realty. Prior to 1996, Director of Reynolds Inc. |
| Wayne W. Whalen* (65) 333 West Wacker Drive Chicago, IL 60606 | Trustee | Trustee since 1995 | Partner in the law firm of Skadden, Arps, Flom LLP, legal counsel to funds in the Fund |

| NAME, AGE AND ADDRESS OF INTERESTED TRUSTEE | OTHER DIRECTORSHIPS HELD BY TRUSTEE |
|---|--|
| Richard F. Powers, III* (58) 1221 Avenue of the Americas New York, NY 10020 | Trustee/Director/ Managing General Partner of funds in the Fund Complex. |
| Wayne W. Whalen* (65) 333 West Wacker Drive Chicago, IL 60606 | Trustee/Director/ Managing General Partner of funds in the Fund Complex. Director of the Abraham Lincoln Presidential Foundation. |

* Such trustee is an "interested person" (within the meaning of Section 2(a)(19) of the 1940 Act). Messrs. Merin and Powers are interested persons of funds in the Fund Complex and the Adviser by reason of their current or former positions with Morgan Stanley or its affiliates. Mr. Whalen is an interested person of certain funds in the Fund Complex by reason of he and his firm currently providing legal services as legal counsel to such funds in the Fund Complex.

+ Designated as Preferred Shares Trustee.

REMUNERATION OF TRUSTEES

The compensation of trustees and executive officers that are affiliated persons (as defined in 1940 Act) of the Adviser or Van Kampen Investments, Inc. is paid by the respective entity. The funds in the Fund Complex, including the Target Fund, pay the non-affiliated trustees an annual retainer and meeting fees.

Each fund in the Fund Complex (except the Van Kampen Exchange Fund) provides a

deferred compensation plan to its non-affiliated trustees that allows such trustees to defer receipt of compensation and earn a return on such deferred amounts based upon the return of the common shares of the funds in the Fund Complex as selected by the respective non-affiliated trustees. Each fund in the Fund Complex (except the Van Kampen Exchange Fund) also provides a retirement plan to its non-affiliated trustees that provides non-affiliated trustees with compensation after retirement, provided that certain eligibility requirements are met as more fully described below.

Each non-affiliated trustee generally can elect to defer receipt of all or a portion of the compensation earned by such non-affiliated trustee until retirement. Amounts deferred are retained by the respective fund and earn a rate of return determined by reference to the return on the common shares of such fund or other funds in the Fund Complex as selected by the respective non-affiliated trustee, with the same economic effect as if such non-affiliated trustee had invested in one or more funds in the Fund Complex, including the Funds. To the extent permitted by the 1940 Act, each Fund may invest in securities of those funds selected by the non-affiliated trustees in order to match the deferred compensation obligation. The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the respective fund.

The Target Fund has adopted a retirement plan. Under the retirement plan, a non-affiliated trustee who is receiving trustee's compensation from a fund prior to such non-affiliated trustee's retirement, has at least 10 years of service (including years of service prior to adoption of the retirement plan) for such fund and retires at or after attaining the age of 60, is eligible to receive a retirement benefit each year for ten years following such trustee's retirement from such Fund. Non-affiliated trustees retiring prior to the age of 60 or with fewer than 10 years but more than 5 years of service may receive reduced retirement benefits from a fund.

Additional information regarding compensation and benefits for trustees is set forth below. As indicated in the notes accompanying the table, the amounts relate to either the Target Fund's most recently completed fiscal year end in 2004 or the Fund Complex's most recently completed calendar year ended December 31, 2004.

COMPENSATION TABLE

| NAME | AGGREGATE COMPENSATION FROM TARGET FUND | FUND COMPLEX | | |
|-------------------------|--|--|--|--|
| | | AGGREGATE PENSION OR RETIREMENT BENEFITS ACCRUED PART OF AS EXPENSES (3) | AGGREGATE ESTIMATED MAXIMUM ANNUAL BENEFITS ACCRUED AS PART OF EXPENSES (4) | TOTAL COMPENSATION BEFORE DEFERRAL FROM FUND COMPLEX (5) |
| INDEPENDENT TRUSTEES | | | | |
| David C. Arch..... | | \$35,277 | \$147,500 | \$192,530 |
| Jerry D. Choate..... | | 82,527 | 126,000 | 200,002 |
| Rod Dammeyer..... | | 63,782 | 147,500 | 208,000 |
| Linda Hutton Heagy..... | | 24,465 | 142,500 | 184,784 |
| R. Craig Kennedy..... | | 16,911 | 142,500 | 200,002 |
| Howard J Kerr..... | | 140,743 | 147,500 | 208,000 |

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| | | | |
|--------------------------|--------|---------|---------|
| Jack E. Nelson..... | 97,294 | 109,500 | 200,002 |
| Hugo F. Sonnenschein.... | 64,476 | 147,500 | 208,000 |
| Suzanne H. Woolsey..... | 58,450 | 142,500 | 200,002 |
| INTERESTED TRUSTEE | | | |
| Wayne W. Whalen(1)..... | 72,001 | 147,500 | 208,000 |

 (1) Trustees not eligible for compensation and retirement benefits are not included in the Compensation Table. Mr. Whalen is an "interested person" (within the meaning of Section 2(a)(19) of the 1940 Act) of the Target Fund and certain other funds in the Fund Complex. J. Miles Branagan retired as a member of the Board of Trustees of the Fund and other funds in the Fund Complex as of December 31, 2004. Theodore A. Myers retired from the Board of Trustees of the Fund and other funds in the Fund Complex as of December 31, 2003.

(2) The amounts shown in this column represent the aggregate compensation before deferral by the Trustees with respect to the Target Fund's fiscal year ended June 30, 2004. The following Trustees deferred compensation from the Target Fund during the fiscal year ended June 30, 2004: Mr. Choate, \$; Mr. Dammeyer, \$; Ms. Heagy, \$; Mr. Nelson, \$; Mr. Sonnenschein, \$; and Mr. Whalen, \$. The cumulative deferred compensation (including interest) accrued with respect to each trustee, including former trustees, from the Target Fund as of June 30, 2004 is as follows: Mr. Branagan, \$; Mr. Choate, \$; Mr. Dammeyer, \$; Ms. Heagy, \$; Mr. Kennedy, \$; Mr. Miller, \$; Mr. Nelson, \$; Mr. Rees, \$; Mr. Robinson, \$; Mr. Rooney, \$; Mr. Sisto, \$; Mr. Sonnenschein, \$; and Mr. Whalen, \$. The deferred compensation plan is described above the table. Amounts deferred are retained by the respective Fund and earn a rate of return determined by reference to either the return on the Common Shares of the Fund or the common shares of other funds in the Fund Complex as selected by the respective Trustee. To the extent permitted by the 1940 Act, the Fund may invest in securities of these

funds selected by the Trustees in order to match the deferred compensation obligation.

(3) The amounts shown in this column represent the sum of the estimated pension or retirement benefit accruals expected to be accrued by the operating funds in the Fund Complex for their respective fiscal years ended in 2004.

(4) For each Trustee, the amounts shown in this column represent the sum of the estimated annual benefits upon retirement payable per year by the current operating funds in the Fund Complex for each year of the 10-year period commencing in the year of such person's anticipated retirement. The retirement plan is described above the compensation table.

(5) The amounts shown in this column are accumulated from the aggregate compensation of the operating investment companies in the Fund Complex for the calendar year ended December 31, 2004 before deferral by the Trustees under the deferred compensation plan. Because the funds in the Fund Complex have different fiscal year ends, the amounts shown in this column are presented on a calendar year basis.

BOARD COMMITTEES AND MEETINGS

The Board of Trustees has three standing committees (an audit committee, a

brokerage and services committee and a governance committee). Each committee is comprised solely of "Independent Trustees", which is defined for purposes herein as trustees who: (1) are not "interested persons" of the Fund as defined by the 1940 Act and (2) are "independent" of the Fund as defined by the NYSE, American Stock Exchange and CSX listing standards.

The Board's audit committee consists of Jerry D. Choate, Rod Dammeyer and R. Craig Kennedy. In addition to being Independent Trustees as defined above, each of these trustees also meets the additional independence requirements for audit committee members as defined by the NYSE, American Stock Exchange and CSX listing standards. The audit committee makes recommendations to the Board of Trustees concerning the selection of the Fund's independent registered public accounting firm, reviews with such independent registered public accounting firm the scope and results of the Fund's annual audit and considers any comments which the independent registered public accounting firm may have regarding the Fund's financial statements, books of account or internal controls. The Board of Trustees has adopted a formal written charter for the audit committee which sets forth the audit committee's responsibilities. The audit committee has reviewed and discussed the financial statements of each Fund with management as well as with the independent registered public accounting firm of the Fund, and discussed with the independent registered public accounting firm the matters required to be discussed under the Statement of Auditing Standards No. 61. The audit committee has received the written disclosures and the letter from the independent registered public accounting firm required under Independence Standards Board Standard

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No. 1 and has discussed with the independent registered public accounting firm its independence. Based on this review, the audit committee recommended to the Board of Trustees of the Fund that the Fund's audited financial statements be included in each Fund's annual report to shareholders for the most recent fiscal year for filing with the SEC.

In accordance with proxy rules promulgated by the SEC, a fund's audit committee charter is required to be filed at least once every three years as an exhibit to a fund's proxy statement. The audit committee charter of the Target Fund was attached as an exhibit to the Van Kampen Joint Closed-End Fund Proxy Statement, filed with the SEC on May 19, 2004.

The Board's brokerage and services committee consists of Linda Hutton Heagy, Hugo F. Sonnenschein and Suzanne H. Woolsey. The brokerage and services committee reviews the Fund's allocation of brokerage transactions and soft-dollar practices and reviews the transfer agency and shareholder servicing arrangements with Investor Services.

The Board's governance committee consists of David C. Arch, Howard J Kerr and Jack E. Nelson. In addition to being Independent Trustees as defined above, each of these trustees also meets the additional independence requirements for nominating committee members as defined by the NYSE, American Stock Exchange and CSX listing standards. The governance committee identifies individuals qualified to serve as Independent Trustees on the Board and on committees of the Board, advises the Board with respect to Board composition, procedures and committees, develops and recommends to the Board a set of corporate governance principles applicable to the Fund, monitors corporate governance matters and makes recommendations to the Board, and acts as the administrative committee with respect to Board policies and procedures, committee policies and procedures and codes of ethics. The Independent Trustees of the Fund select and nominate any other nominee Independent Trustees for the Fund. While the Independent Trustees of the Fund expect to be able to continue to identify from their own resources an ample number of qualified candidates from the Board of Trustees as they deem

appropriate, they will consider nominations from shareholders to the Board. Nominations from shareholders should be in writing and sent to the Independent Trustees as described below.

In accordance with proxy rules promulgated by the SEC, a fund's nominating committee charter is required to be filed at least once every three years as an exhibit to a fund's proxy statement. The governance committee charter of the Target Fund was attached as an exhibit to the Van Kampen Joint Closed-End Fund Proxy Statement, filed with the SEC on May 19, 2004.

During the Target Fund's last fiscal year, the Board of Trustees held meetings. During such Fund's last fiscal year, the audit committee of the Board held

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meetings, the brokerage and services committee of the Board held 4 meetings and the governance committee of the Board and held [] meetings. During the last fiscal year, each of the trustees of the Target Fund during such period such trustee served as a trustee attended at least 75% of the meetings of the Board of Trustees and all committee meetings thereof of which such trustee was a member.

OTHER INFORMATION

EXECUTIVE OFFICERS OF THE FUNDS

The following information relates to the executive officers of the Target Fund who are not trustee nominees. Each officer also serves in the same capacity for all or a number of the other investment companies advised by the Adviser or affiliates of the Adviser. The officers the Target Fund are appointed annually by the trustees and serve for one year or until their respective successors are chosen and qualified. The Funds' officers receive no compensation from the funds in the Fund Complex but may also be officers of the Adviser or officers of affiliates of the Adviser and receive compensation in such capacities.

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OFFICERS

| NAME, AGE AND ADDRESS OF OFFICER | POSITION(S) HELD WITH FUND | TERM OF OFFICE AND LENGTH OF TIME SERVED | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS |
|--|------------------------------|--|---|
| Stefanie V. Chang Yu (38) 1221 Avenue of the Americas New York, NY 10020 | Vice President and Secretary | Officer since 2003 | Executive Director of Morgan Stanley; Vice President and Secretary of f |
| Amy R. Doberman (42) 1221 Avenue of the Americas New York, NY 10020 | Vice President | Officer since 2004 | Managing Director and General Cou Management; Managing Director of Management, Inc., Morgan Stanley and the Adviser. Vice President o Institutional and Retail Funds si President of funds in the Fund Co |

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| | | | |
|---|--|-----------------------|---|
| James W. Garrett (36) 1221 Avenue of the Americas New York, NY 10020 | Chief Financial Officer and Treasurer | Officer since 2005 | Previously, Managing Director and Americas, UBS Global Asset Manage 2004 and General Counsel of Aeltu Inc from January 1997 to July 200 Executive Director of Morgan Stan Chief Financial Officer and Treas Institutional Funds since 2002 an Complex since 2005. |
| Joseph J. McAlinden (62) 1221 Avenue of the Americas New York, NY 10020 | Executive Vice President and Chief Investment Officer | Officer since 2002 | Managing Director and Chief Inves Stanley Investment Advisors Inc., Management Inc. and Morgan Stanle Director of Morgan Stanley Trust Vice President and Chief Investme Fund Complex. Managing Director a of Van Kampen Investments, the Ad Advisors Inc. since December 2002 |

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| NAME, AGE AND ADDRESS OF OFFICER ----- | POSITION(S) HELD WITH FUND ----- | TERM OF OFFICE AND LENGTH OF TIME SERVED ----- | PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS ----- |
|---|--|---|---|
| Ronald E. Robison (66) 1221 Avenue of the Americas New York, NY 10020 | Executive Vice President and Principal Executive Officer | Officer since 2003 | Executive Vice President and Prin Funds in the Fund Complex since M Officer and Chairman of Investor of Morgan Stanley. Chief Administ Director and Director of Morgan S Inc., Morgan Stanley Services Com Director and Director of Morgan S Chief Executive Officer and Direc Trust. Executive Vice President a Officer of the Institutional and Funds; Director of Morgan Stanley Global Operations Officer and Man Stanley Investment Management Inc |
| John L. Sullivan (49) 1 Parkview Plaza Oakbrook Terrace, IL 60181 | Chief Compliance Officer | Officer since 1996 | Chief Compliance Officer of funds August 2004. Prior August 2004, D Director of Van Kampen Investment Advisors Inc. and certain other s Investments, Vice President, Chie Treasurer of funds in the Fund Co Accounting for Morgan Stanley Inv to December 2002, Executive Direc Investments, the Adviser and Van |

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TRUSTEE BENEFICIAL OWNERSHIP OF SECURITIES

Excluding deferred compensation balances as described in the Compensation Table above, as of April , 2005, each trustee beneficially owned equity securities of the Target Fund and other funds in the Fund Complex overseen by the trustees in the dollar range amounts as specified below.

TRUSTEE BENEFICIAL OWNERSHIP OF SECURITIES

INDEPENDENT TRUSTEES

| | TRUSTEE | | | | | | | |
|---|---------|--------|----------|-------|---------|------|--------|---------------|
| | ARCH | CHOATE | DAMMEYER | HEAGY | KENNEDY | KERR | NELSON | SONNENSCHNEIN |
| Dollar range of equity securities owned in the Target Fund..... | | | | | | | | |
| Aggregate dollar range of equity securities owned in all registered investment companies overseen by trustee in Fund Complex..... | | | | | | | | |

INTERESTED TRUSTEES

| | TRUSTEE | | |
|---|---------|--------|--------|
| | MERIN | POWERS | WHALEN |
| Dollar range of equity securities in the Target Fund..... | | | |
| Aggregate dollar range of equity securities in all registered investment companies overseen by trustee in Fund Complex..... | | | |

Including deferred compensation balances as described in the Compensation Table, as of April , 2005, each Trustee owned the dollar ranges of amounts of the Target Fund and other funds in the Fund Complex as specified below.

TRUSTEE BENEFICIAL OWNERSHIP AND DEFERRED COMPENSATION

INDEPENDENT TRUSTEES

| | TRUSTEE | | | | | | | |
|--|---------|--------|----------|-------|---------|------|--------|---------------|
| | ARCH | CHOATE | DAMMEYER | HEAGY | KENNEDY | KERR | NELSON | SONNENSCHNEIN |

 Dollar range of equity securities and deferred compensation in the Target Fund.....
 Aggregate dollar range of equity securities and deferred compensation in all registered investment companies overseen by trustee in Fund Complex.....

INTERESTED TRUSTEES

| TRUSTEE | | |
|---------|--------|--------|
| MERIN | POWERS | WHALEN |

Dollar range of equity securities owned in the Target Fund.....
 Aggregate dollar range of equity securities owned in all registered investment companies overseen by trustee in Fund Complex.....

INDEPENDENT AUDITORS

The Board of Trustees of each Fund, including a majority of the Trustees who are not "interested persons" of each Fund (as defined by the 1940 Act), has selected [] as the independent auditors to examine the financial statements for the current fiscal year of each Fund. The selection of [] for the current fiscal year was recommended and approved by each Fund's audit committee and approved by each Fund's Board. Each of the Funds knows of no direct or indirect financial interest of [] in such Fund.

AUDIT AND OTHER FEES

Each Fund and certain "covered entities" were billed the amounts listed below by [] during the Target Fund's most recent two fiscal years.

FISCAL YEAR ENDED JUNE 30, 2004

| ENTITY | AUDIT FEES | NON-AUDIT FEES | | | | TOTAL NON-AUDIT | TOTAL |
|--------|------------|----------------|-----|-----------|--|-----------------|-------|
| | | AUDIT RELATED | TAX | ALL OTHER | | | |

Target Fund.....
 Covered Entities*.....

FISCAL YEAR ENDED JUNE 30, 2003

| ENTITY | AUDIT FEES | NON-AUDIT FEES | | | TOTAL NON-AUDIT | TOTAL |
|------------------------|------------|----------------|-----|-----------|--------------------|-------|
| | | AUDIT RELATED | TAX | ALL OTHER | | |
| Target Fund..... | | | | | | |
| Covered Entities*..... | | | | | | |

* Covered Entities include the Adviser and any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Target Fund.

The audit committee of each Board has considered whether the provision of non-audit services performed by [] to the Funds and "covered entities" is compatible with maintaining []'s independence in performing audit services. Beginning with non-audit service contracts entered into on or after May 6, 2003, the audit committee also is required to pre-approve services to "covered entities" to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Funds. 100% of such services were pre-approved by the audit committee pursuant to the audit committee's pre-approval policies and procedures. The Board's pre-approval policies and procedures are included as part of the Board's audit committee charter, which was attached to the Van Kampen Joint Closed-End Fund Proxy Statement, filed with the SEC on May 19, 2004.

Representatives of [] will attend the Special Meeting, will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions.

PROPOSAL 3: ISSUANCE OF ACQUIRING FUND COMMON SHARES

THE REORGANIZATION

Pursuant to the Reorganization Agreement, which is described more fully under "Proposal 1: Reorganization of the Target Fund" herein, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for an equal aggregate value of Acquiring Fund Common Shares and Acquiring Fund APS. The Target Fund will distribute Acquiring Fund Common Shares to holders of Target Fund Common Shares and Acquiring Fund APS to holders of Target Fund RATES, and will then terminate its registration under the 1940 Act and dissolve under applicable state law. The Acquiring Fund Board, based upon its evaluation of all relevant information, anticipates that the Reorganization will benefit holders of Acquiring Fund Common Shares.

The aggregate net asset value of Acquiring Fund Common Shares received in the Reorganization will equal the aggregate net asset value on the Target Fund Common Shares held immediately prior to the Reorganization less the costs of the Reorganization (though you may receive cash for fractional shares). The aggregate liquidation preference of Acquiring Fund APS received in the Reorganization will equal the aggregate liquidation preference Target Fund RATES held immediately prior to the Reorganization. The Reorganization will result in no dilution of net asset value of the Acquiring Fund Common Shares, other than to reflect the costs of the Reorganization. No gain or loss will be recognized by the Acquiring Fund or its shareholders in connection with the Reorganization. The Acquiring Fund will continue to operate as a registered closed-end investment company with the investment objective and policies described in this Joint Proxy Statement/Prospectus.

In connection with the Reorganization and as contemplated by the Reorganization Agreement, the Acquiring Fund will issue additional Acquiring Fund Common Shares and list such shares on the NYSE and the CHX.

SHAREHOLDER APPROVAL

While applicable state and federal law does not require the shareholders of the Acquiring Fund to approve the Reorganization, applicable NYSE rules require the common shareholders of the Acquiring Fund to approve the issuance of additional Acquiring Fund Common Shares to be issued in connection with the Reorganization. Shareholder approval of the issuance of Acquiring Fund Common Shares requires the affirmative vote of a majority of the votes cast on the proposal, provided that the total votes cast on the proposal represents more than 50% in interest of all securities entitled to vote on the proposal.

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OTHER INFORMATION

VOTING INFORMATION AND REQUIREMENTS

RECORD DATE. The Board of Trustees of each Fund has fixed the close of business on April 25, 2005 as the record date (the "Record Date") for the determination of shareholders entitled to notice of, and to vote at, the Special Meeting or any adjournment thereof. Shareholders on the Record Date will be entitled to one vote for each share held, with no shares having cumulative voting rights. At the Record Date, the Target Fund had outstanding [] Target Fund Common Shares and [] Target Fund RATES and the Acquiring Fund had outstanding [] Acquiring Fund Common Shares.

PROXIES. Shareholders may vote by appearing in person at the Special Meeting, by returning the enclosed proxy card or by casting their vote via telephone or the internet using the instructions provided on the enclosed proxy card. Any person giving a proxy may revoke it at any time prior to its exercise by giving written notice of the revocation to the Secretary of the Fund at the address indicated above, by delivering a duly executed proxy bearing a later date, or by attending the Special Meeting and voting in person. The giving of a proxy will not affect your right to vote in person if you attend the Special Meeting and wish to do so.

All properly executed proxies received prior to the Special Meeting will be voted in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted "FOR" the approval of each proposal. Abstentions and broker non-votes

(i.e., where a nominee such as a broker, holding shares for beneficial owners, indicates that instructions have not been received from the beneficial owners, and the nominee does not exercise discretionary authority) are not treated as votes "FOR" a proposal.

With respect to Proposal 1, abstentions and broker non-votes (i.e., where a nominee such as a broker holding shares for beneficial owners votes on certain matters pursuant to discretionary authority or instructions from beneficial owners, but with respect to one or more proposals does not receive instructions from beneficial owners or does not exercise discretionary authority) have the same effect as votes "AGAINST" the proposals since their approvals are based on the affirmative vote of a majority of the total Target Fund Common Shares outstanding and 66 2/3% of the Target Fund RATES outstanding. With respect to Proposal 2, abstentions and broker non-votes are disregarded since only votes "FOR" are considered in a plurality voting requirement. With respect to Proposal 3, [abstentions will not be treated as votes "FOR" the proposal but will be counted as votes cast on the proposal and will therefore have the same effect as votes "AGAINST" the proposal.] Broker non-votes will not be treated as vote "FOR" the proposal and

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will not be counted as votes cast on the proposal and will therefore have the effect of reducing the aggregate number of shares voting on the proposal and reducing the number of votes "FOR" the proposal required to approve the proposal.

With respect to each proposal, a majority of the outstanding shares entitled to vote on the proposal must be present in person or by proxy to have a quorum to conduct business at the Special Meeting. Abstentions and broker non-votes will be deemed present for quorum purposes.

CERTAIN VOTING INFORMATION REGARDING TARGET FUND RATES. Target Fund RATES held in "street name" may be voted under certain conditions by broker-dealer firms and counted for purposes of establishing a quorum of that Fund if no instructions are received one business day before the Special Meeting or, if adjourned, one business day before the day to which the Special Meeting is adjourned. These conditions include, among others, that (i) at least 30% of the Target Fund's preferred shares outstanding have voted on the Reorganization and (ii) less than 10% of the Target Fund's preferred shares outstanding have voted against the Reorganization. In such instance, the broker-dealer firm will vote such uninstructed Target Fund RATES on the Reorganization in the same proportion as the votes cast by all holders of Target Fund RATES who voted on the Reorganization. The Fund will include shares held of record by broker-dealers as to which such authority has been granted in its tabulation of the total number of shares present for purposes of determining whether the necessary quorum of shareholders of the Fund exists.

SHAREHOLDER INFORMATION

Except as set forth below, as of [], to the knowledge of the Funds, no shareholder owned beneficially more than 5% of a class of a Fund's outstanding shares:

[insert]

As of [], no trustees or executive officers owned, directly or beneficially, Common Shares or Preferred Shares of either Fund. As of [], the trustees and executive officers of the Funds individually and as a group owned less than []% of the outstanding shares of each Fund.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 30(f) of the 1940 Act and Section 16(a) of the Securities Exchange Act of 1934, as amended, require the Funds' trustees, officers, investment adviser, affiliated persons of the investment adviser and persons who own more than 10% of a registered class of the Fund's equity securities to file forms with the SEC and the NYSE, as applicable, reporting their affiliation with the Fund and reports of ownership and changes in ownership of Fund shares. These persons and entities are required by SEC regulation to furnish the Fund with copies of all such forms they

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file. Based on a review of these forms furnished to each Fund, each Fund believes that during its last fiscal year, its trustees, officers, investment adviser and affiliated persons of the investment adviser complied with the applicable filing requirements.

SHAREHOLDER PROPOSALS

To be considered for presentation at a shareholders' meeting, rules promulgated by the SEC generally require that, among other things, a shareholder's proposal must be received at the offices of the relevant Fund a reasonable time before a solicitation is made. Timely submission of a proposal does not necessarily mean that such proposal will be included. Any shareholder who wishes to submit a proposal for consideration at a meeting of such shareholder's Fund should send such proposal to the respective Fund at 1221 Avenue of the Americas, New York, New York 10020.

SOLICITATION OF PROXIES

Solicitation of proxies is being made primarily by the mailing of this Notice and Joint Proxy Statement/Prospectus with its enclosures on or about May [], 2005. Shareholders whose shares are held by nominees such as brokers can vote their proxies by contacting their respective nominee. In addition to the solicitation of proxies by mail, employees of the Adviser and its affiliates as well as dealers or their representatives may, without additional compensation, solicit proxies in person or by mail, telephone, telegraph, facsimile or oral communication. The Funds have retained ALAMO Direct Mail Services, Inc. ("ALAMO") to make telephone calls to shareholders to remind them to vote. In addition, ALAMO may also be retained to assist with any necessary solicitation of proxies. In the event of a solicitation, ALAMO would be paid a project management fee as well as fees charged on a per call basis and certain other expenses. Management estimates that any such solicitation would cost approximately \$. The Funds estimate that any such solicitation would cost approximately for the Target Fund and for the Acquiring Fund. Proxy solicitation expenses are an expense of the Reorganization which will be borne by the Target Fund and the Acquiring Fund in proportion to their projected declines in total operating expenses as a result of the Reorganization.

OTHER MATTERS TO COME BEFORE THE MEETING

The Board of Trustees of each Fund knows of no business other than that described in this Joint Proxy Statement/Prospectus which will be presented for consideration at the Special Meeting. If any other matters are properly presented, it is the intention of the persons named on the enclosed proxy card to vote proxies in accordance with their best judgment.

In the event that a quorum is present at the Special Meeting but sufficient votes to approve the proposed Reorganization are not received, proxies (including

abstentions and broker non-votes) will be voted in favor of one or more adjournments of the Special Meeting to permit further solicitation of proxies on the proposed Reorganization, provided that the Board of Trustees of each Fund determines that such an adjournment and additional solicitation is reasonable and in the interest of shareholders based on a consideration of all relevant factors, including the percentage of votes then cast, the percentage of negative votes cast, the nature of the proposed solicitation activities and the nature of the reasons for such further solicitation. Any such adjournment will require the affirmative vote of the holders of a majority of the outstanding shares voted at the session of the Special Meeting to be adjourned.

If you cannot be present in person at the Special Meeting, please fill in, sign and return the enclosed proxy card promptly. No postage is necessary if mailed in the United States.

Lou Anne McInnis
Assistant Secretary
Van Kampen Municipal Income Trust
Van Kampen Trust for Investment
Grade Municipals

May , 2005

[VAN KAMPEN INVESTMENTS LOGO]

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 18, 2005

STATEMENT OF ADDITIONAL INFORMATION

RELATING TO THE ACQUISITION OF THE ASSETS AND LIABILITIES OF

VAN KAMPEN MUNICIPAL INCOME TRUST

BY AND IN EXCHANGE FOR SHARES OF

VAN KAMPEN TRUST FOR INVESTMENT MUNICIPALS

DATED , 2005

This Statement of Additional Information is available to the shareholders of Van Kampen Municipal Income Trust (the "Target Fund") in connection with a proposed transaction (the "Reorganization") whereby Van Kampen Trust for Investment Grade Municipals (the "Acquiring Fund") will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for an equal aggregate value of newly-issued common shares of beneficial interest, par value \$0.01 per share ("Acquiring Fund Common Shares"), and newly-issued auction preferred shares with a par value of \$0.01 per share and a liquidation preference of \$25,000 per share ("Acquiring Fund APS"). A copy of a form of the Agreement and Plan of Reorganization between the

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Target Fund and the Acquiring Fund is attached hereto as Appendix A. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Proxy Statement/Prospectus.

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Proxy Statement/Prospectus dated May 2, 2005 relating to the proposed Reorganization of the Target Fund into the Acquiring Fund. A copy of the Proxy Statement/Prospectus may be obtained, without charge, by writing to the Van Kampen Client Relations Department at 1 Parkview Plaza, P.O. Box 5555, Oakbrook Terrace, Illinois 60181-5555 or by calling (800) 847-2424 (TDD users may call (800) 421-2833). The Acquiring Fund will provide, without charge, upon the written or oral request of any person to whom this Statement of Additional Information is delivered, a copy of any and all documents that have been incorporated by reference in the registration statement of which this Statement of Additional Information is a part.

This Statement of Additional Information is intended to provide Target Fund shareholders with certain additional information about the Acquiring Fund, which will hereinafter sometimes be referred to simply as the "Fund."

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TRUSTEES AND OFFICERS

GENERAL

The business and affairs of the Fund are managed under the direction of the Fund's Board of Trustees and the Fund's officers appointed by the Board of Trustees. The Acquiring Fund and Target Fund share the same Board of Trustees and executive officers. Information regarding the trustees and executive

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officers of the Acquiring Fund, including their principal occupations during the last five years, other directorships held by trustees and certain affiliates, can be found in the Joint Proxy Statement/Prospectus under "Proposal 2: Election of Target Fund Trustees." The term "Fund Complex" includes each of the investment companies advised by the Adviser as of the date of this Statement of Additional Information.

COMPENSATION

Each trustee/director/managing general partner (hereinafter referred to in this section as "trustee") who is not an affiliated person (as defined in the 1940 Act) of Van Kampen Investments, the Adviser or the Distributor (each a "Non-Affiliated Trustee") is compensated by an annual retainer and meeting fees for services to funds in the Fund Complex. Each fund in the Fund Complex (except Van Kampen Exchange Fund) provides a deferred compensation plan to its Non-Affiliated Trustees that allows trustees to defer receipt of their compensation until retirement and earn a return on such deferred amounts. Amounts deferred are retained by the Fund and earn a rate of return determined by reference to the return on the common shares of the Fund or other funds in the Fund Complex as selected by the respective Non-Affiliated Trustee. To the extent permitted by the 1940 Act, the Fund may invest in securities of those funds selected by the Non-Affiliated Trustees in order to match the deferred compensation obligation. The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the Fund. Deferring compensation has the same economic effect as if the Non-Affiliated Trustee reinvested his or her compensation into the funds. Each fund in the Fund Complex (except Van Kampen Exchange Fund) provides a retirement plan to its Non-Affiliated Trustees that provides Non-Affiliated Trustees with compensation after retirement, provided that certain eligibility requirements are met. Under the retirement plan, a Non-Affiliated Trustee who is receiving compensation from the Fund prior to such Non-Affiliated Trustee's retirement, has at least 10 years of service (including years of service prior to adoption of the retirement plan) and retires at or after attaining the age of 60, is eligible to receive a retirement benefit per year for each of the 10 years following such retirement from the Fund. Non-Affiliated Trustees retiring prior to the age of 60 or with fewer than 10 years but more than 5 years of service may receive reduced retirement benefits from the Fund.

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Additional information regarding compensation and benefits for trustees is set forth below for the periods described in the notes accompanying the table.

COMPENSATION TABLE

| Name (1) | Aggregate Compensation from the Fund(2) | Fund Complex | | Total Compensation before Deferral Fund Complex |
|----------------------|---|--|---|---|
| | | Aggregate Pension or Retirement Benefits Accrued as Part of Expenses (3) | Aggregate Estimated Maximum Annual Benefits from the Fund Complex Upon Retirement (4) | |
| INDEPENDENT TRUSTEES | | | | |
| David C. Arch | \$ | \$ 35,277 | \$147,500 | \$192,530 |
| Jerry D. Choate | | 82,527 | 126,000 | 200,002 |
| Rod Dammeyer | | 63,782 | 147,500 | 208,000 |
| Linda Hutton Heagy | | 24,465 | 142,500 | 184,784 |

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| | | | |
|----------------------|---------|---------|---------|
| R. Craig Kennedy | 16,911 | 142,500 | 200,002 |
| Howard J Kerr | 140,743 | 147,500 | 208,000 |
| Jack E. Nelson | 97,294 | 109,500 | 200,002 |
| Hugo F. Sonnenschein | 64,476 | 147,500 | 208,000 |
| Suzanne H. Woolsey | 58,450 | 142,500 | 200,002 |
| INTERESTED TRUSTEE | | | |
| Wayne W. Whalen(1) | 72,001 | 147,500 | 208,000 |

- (1) Trustees not eligible for compensation are not included in the Compensation Table. Mr. Whalen is an "interested person" (within the meaning of Section 2(a)(19) of the 1940 Act) of the Fund and certain other funds in the Fund Complex. J. Miles Branagan retired as a member of the Board of Trustees of the Fund and other funds in the Fund Complex on December 31, 2004.
- (2) The amounts shown in this column represent the aggregate compensation before deferral with respect to the Fund's fiscal year ended December 31, 2004. The following Trustees deferred compensation from the Fund during the fiscal year ended December 31, 2004: Mr. Choate, \$; Mr. Dammeyer, \$; Ms. Heagy, \$; Mr. Nelson, \$; Mr. Sonnenschein, \$; and Mr. Whalen, \$. The cumulative deferred compensation (including interest) accrued with respect to each trustee, including former trustees, from the Fund as of December 31, 2004 is as follows: Mr. Branagan, \$; Mr. Choate, \$; Mr. Dammeyer, \$; Ms. Heagy, \$; Mr. Kennedy, \$; Mr. Miller, \$; Mr. Nelson, \$; Mr. Robinson, \$; Mr. Rooney, \$; Mr. Sisto, \$; Mr. Sonnenschein, \$; and Mr. Whalen, \$. The deferred compensation plan is described above the Compensation Table.
- (3) The amounts shown in this column represent the sum of the retirement benefits accrued by the operating funds in the Fund Complex for each of the trustees for the funds' respective fiscal years ended in 2004. The retirement plan is described above the Compensation Table.
- (4) For each trustee, this is the sum of the estimated maximum annual benefits payable by the funds in the Fund Complex for each year of the 10-year period commencing in

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the year of such person's anticipated retirement. The retirement plan is described above the Compensation Table.

- (5) The amounts shown in this column represent the aggregate compensation paid by all of the funds in the Fund Complex as of December 31, 2004 before deferral by the trustees under the deferred compensation plan. Because the funds in the Fund Complex have different fiscal year ends, the amounts shown in this column are presented on a calendar year basis.

BOARD COMMITTEES

Information regarding the standing committees of the Board of Trustees, including the members and responsibilities of each committee and the number of meetings held by each committee in the Fund's last fiscal year is included in the Joint Proxy Statement/ Prospectus under "Proposal 2: Election of Target Fund Trustees."

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SHARE OWNERSHIP

In addition to deferred compensation balances as described in the Compensation Table, as of December 31, 2004, the most recently completed calendar year prior to the date of this Statement of Additional Information, each trustee of the Fund beneficially owned equity securities of the Fund and of all of the funds in the Fund Complex overseen by the trustee in the dollar range amounts specified below.

2004 TRUSTEE BENEFICIAL OWNERSHIP OF SECURITIES

INDEPENDENT TRUSTEES

| | TRUSTEE | | | | | |
|---|--------------------|--------------|----------------|-------------------|----------------|--------------|
| | ARCH | CHOATE | DAMMEYER | HEAGY | KENNEDY | KERR |
| Dollar range of equity securities in the Fund..... | | | | | | |
| Aggregate dollar range of equity securities in all registered investment companies overseen by Trustee in the Fund Complex..... | \$50,001-\$100,000 | \$1-\$10,000 | over \$100,000 | \$10,001-\$50,000 | over \$100,000 | \$1-\$10,000 |

INTERESTED TRUSTEES

| | TRUSTEE | | |
|---|----------------|----------------|----------------|
| | MERIN | POWERS | WHALEN |
| Dollar range of equity securities in the Fund..... | | | |
| Aggregate dollar range of equity securities in all registered investment companies overseen by Trustee in the Fund Complex..... | over \$100,000 | over \$100,000 | over \$100,000 |

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Including deferred compensation balances (which are amounts deferred and thus retained by the Fund as described in the Compensation Table), as of December 31, 2004, the most recently completed calendar year prior to the date of this Statement of Additional Information, each trustee of the Fund had in the aggregate, combining beneficially owned equity securities and deferred compensation of the Fund and of all of the funds in the Fund Complex overseen by the trustee, the dollar range of amounts specified below.

2004 TRUSTEE BENEFICIAL OWNERSHIP AND DEFERRED COMPENSATION

INDEPENDENT TRUSTEES

TRUSTEE

| | ARCH | CHOATE | DAMMEYER | HEAGY | KENNEDY | KERR | NE |
|---|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------|
| Dollar range of equity securities and deferred compensation in the Fund..... | | | | | | | |
| Aggregate dollar range of equity securities and deferred compensation in all registered investment companies overseen by Trustee in Fund Complex..... | \$50,001- \$100,000 | over \$100,000 | over \$100,000 | over \$100,000 | over \$100,000 | over \$100,000 | o \$10 |

INTERESTED TRUSTEES

TRUSTEE

| | MERIN | POWERS | WHALEN |
|---|-------------------|-------------------|-------------------|
| Dollar range of equity securities and deferred compensation in the Fund..... | | | |
| Aggregate dollar range of equity securities and deferred compensation in all registered investment companies overseen by Trustee in the Fund Complex..... | over \$100,000 | over \$100,000 | over \$100,000 |

As of , 2005, the trustees and officers of the Fund as a group owned less than 1% of the shares of the Fund.

CODE OF ETHICS

The Fund, the Adviser, and the Distributor have adopted a Code of Ethics (the "Code of Ethics") that sets forth general and specific standards relating to the securities trading activities of their employees. The Code of Ethics does not prohibit employees from acquiring securities that may be purchased or held by the Fund, but is intended to ensure that all employees conduct their personal transactions in a manner that does not interfere with the portfolio transactions of the Fund or other Van Kampen funds, or that such employees take unfair advantage of their relationship with the Fund. Among other things, the Code of Ethics prohibits certain types of transactions absent prior approval, imposes various trading restrictions (such as time periods during which personal transactions may or may not be made) and requires quarterly reporting of securities transactions and other reporting matters. All reportable securities transactions and other required reports are to be reviewed by appropriate personnel for compliance with the Code of Ethics. Additional restrictions apply to portfolio managers, traders, research analysts and others who may have access to nonpublic information about the trading activities of the Fund or other Van Kampen funds or who otherwise are involved in the investment advisory process.

Exceptions to these and other provisions of the Code of Ethics may be granted in particular circumstances after review by appropriate personnel.

INVESTMENT ADVISORY AGREEMENT

The Fund and the Adviser are parties to an investment advisory agreement (the "Advisory Agreement"). Under the Advisory Agreement, the Fund retains the Adviser to manage the investment of the Fund's assets, including the placing of orders for the purchase and sale of portfolio securities. The Adviser obtains and evaluates economic, statistical and financial information to formulate strategy and implement the Fund's investment objective. The Adviser also furnishes offices, necessary facilities and equipment, provides administrative services to the Fund, renders periodic reports to the Fund's Board of Trustees and permits its officers and employees to serve without compensation as trustees or officers of the Fund if elected to such positions. The Fund, however, bears the costs of its day-to-day operations, including service fees, distribution fees, custodian fees, legal and independent registered public accounting firm fees, the costs of reports and proxies to shareholders, compensation of trustees of the Fund (other than those who are affiliated persons of the Adviser, Distributor or Van Kampen Investments) and all other ordinary business expenses not specifically assumed by the Adviser. The Advisory Agreement also provides that the Adviser shall not be liable to the Fund for any actions or omissions in the absence of willful misfeasance, bad faith, negligence or reckless disregard of its obligations and duties under the Advisory Agreement.

The fee payable to the Adviser is reduced by any commissions, tender solicitation and other fees, brokerage or similar payments received by the Adviser or any other direct or indirect majority owned subsidiary of Van Kampen Investments in connection with the purchase and sale of portfolio investments less any direct expenses incurred by such subsidiary of Van Kampen Investments in connection with obtaining such commissions, fees, brokerage or similar payments. The Adviser agrees to use its best efforts to recapture tender solicitation fees and exchange offer fees for the Fund's benefit and to advise the trustees of the Fund of any other commissions, fees, brokerage or similar payments which may be possible for the Adviser or any other direct or indirect majority owned subsidiary of Van Kampen Investments to receive in connection with the Fund's portfolio transactions or other arrangements which may benefit the Fund.

The Advisory Agreement may be continued from year to year if specifically approved at least annually (a) (i) by the Fund's Board of Trustees or (ii) by a vote of a majority of the Fund's outstanding voting securities and (b) by a vote of a majority of the trustees who are not parties to the agreement or interested persons of any such party by votes cast in person at a meeting called for such purpose. The Advisory Agreement provides that it shall terminate automatically if assigned and that it may be terminated without penalty by either party on 60 days' written notice.

In approving the Advisory Agreement, the Board of Trustees, including the non-interested trustees, considered the nature, quality and scope of the services provided by the Adviser, the performance, fees and expenses of the Fund compared to other similar investment companies, the Adviser's expenses in providing the services and the profitability of the Adviser and its affiliated companies. The Board of Trustees also reviewed the benefit to the Adviser of receiving research paid for by Fund assets and the propriety of such an arrangement and evaluated other benefits the Adviser derives from its relationship with the

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Fund. The Board of Trustees considered the extent to which any economies of scale experienced by the Adviser are shared with the Fund's shareholders, and the propriety of existing and alternative breakpoints in the Fund's advisory fee schedule. The Board of Trustees considered comparative advisory fees of the Fund and other investment companies at different asset levels, and considered the trends in the industry versus historical and projected sales and redemptions of the Fund. The Board of Trustees reviewed reports from third parties about the foregoing factors and considered changes, if any, in such items since its previous approval. The Board of Trustees discussed the financial strength of the Adviser and its affiliated companies and the capability of the personnel of the Adviser. The Board of Trustees reviewed the statutory and regulatory requirements for approval of advisory agreements. The Board of Trustees, including the non-interested trustees, evaluated all of the foregoing and determined, in the exercise of its business judgment, that approval of the Advisory Agreement was in the best interests of the Fund and its shareholders.

Prior to the date of this Statement of Additional Information, Van Kampen Advisors Inc., an affiliate of the Adviser, acted as sub-adviser to the Fund. Van Kampen Advisors Inc. was located at 40 Broad Street, Suite 915, Boston, Massachusetts 02109. The Adviser paid to Van Kampen Advisors Inc. on a monthly basis a portion of the net advisory fees that the Adviser received from the Fund.

ADVISORY FEES

| | FISCAL YEAR ENDED NOVEMBER 30, | | |
|--|--------------------------------|------|------|
| | 2004 | 2003 | 2002 |
| The Adviser received the approximate advisory fees of..... | \$ | \$ | \$ |

PORTFOLIO MANAGERS

OTHER ACCOUNTS MANAGED BY THE PORTFOLIO MANAGERS

As of [], Thomas Byron managed [] registered investment companies with a total of \$[] billion in assets; [] pooled investment vehicles other than registered investment companies with a total of \$[] million in assets; and [] other accounts with a total of \$[] billion in assets.

As of [], Robert Wimmel managed [] registered investment companies with a total of \$[] billion in assets; [] pooled investment vehicles other than registered investment companies with a total of \$[] million in assets; and [] other accounts with a total of \$[] billion in assets.

As of [], John Reynoldson managed [] registered investment companies with a total of \$[] billion in assets; [] pooled investment vehicles other than registered investment companies with a total of \$[] million in assets; and [] other accounts with a total of \$[] billion in assets.

Because the portfolio managers manage assets for other mutual funds, pooled investment vehicles, institutional clients, pension plans and certain high net worth individuals, there may be incentive to favor one client over another resulting in conflicts of interest. For instance, the Adviser may receive fees

from certain accounts that are higher

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than the fee it receives from the Fund, or it may receive a performance-based fee on certain accounts. In those instances, the portfolio managers may have an incentive to favor the higher and/or performance-based fee accounts over the Fund. The Adviser has adopted policies and procedures reasonably designed to address these and other conflicts of interest.

PORTFOLIO MANAGER COMPENSATION

BASE COMPENSATION. Generally, portfolio managers receive base compensation based on the level of their position with the Adviser.

DISCRETIONARY COMPENSATION. In addition to base compensation, portfolio managers may receive discretionary compensation. Discretionary compensation can include:

- Cash Bonus;
- Morgan Stanley's Equity Incentive Compensation Program (EICP) awards--a mandatory program that defers a portion of discretionary year-end compensation into restricted stock units or other awards based on Morgan Stanley common stock that are subject to vesting and other conditions;
- Investment Management Deferred Compensation Plan (IMDCP) awards--a mandatory program that defers a portion of discretionary year-end compensation and notionally invests it in certain Morgan Stanley Funds [HR/tax: referenced--need different term]. The award is subject to vesting and other conditions. Portfolio managers must notionally invest a minimum of 25% to a maximum of 50% of the IMDCP deferral into a combination of the [referenced] funds they manage or directly support that are included in the IMDCP fund menu. [Need more tailored language for AIP and parts of Fixed Income.]
- Select Employees' Capital Accumulation Program (SECAP) awards--a voluntary program that permits employees to elect to defer a portion of their discretionary compensation and notionally invest the deferred amount across a range of [referenced] investment funds, including Morgan Stanley funds; and
- Voluntary Equity Incentive Compensation Program (VEICP) awards--a voluntary program that permits employees to elect to defer a portion of their discretionary compensation to invest in Morgan Stanley stock units.

Several factors determine discretionary compensation, which can vary by portfolio management team and circumstances. In order of relative importance, these factors include:

- Investment performance. The majority of a portfolio manager's compensation is linked to the Fund's pre-tax investment performance. Investment performance is calculated for one-, three- and five-year periods measured against the Fund's benchmark [HR: please confirm--is it the primary benchmark if there is more than one benchmark?], indexes and/or peer groups. Generally, the greatest weight is placed on the three- and five-year periods.
- The Fund's revenue.

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- Contribution to the business objectives of the Adviser.
- The dollar amount of assets managed by the portfolio manager.
- Market/compensation survey.
- Other qualitative factors, such as contributions to client objectives.
- Performance of other affiliated entities, including Morgan Stanley and Morgan Stanley Investment Management, and the Global Investor Group, a division of Morgan Stanley Investment Management.

Occasionally, to attract new hires or to retain key employees, the total amount of compensation will be guaranteed in advance of the fiscal year end based on current market levels. In limited circumstances, the guarantee may continue for more than one year. The guaranteed compensation comprises the same factors as those comprising overall compensation described above.

The same methodology is used to determine portfolio manager compensation for all accounts.

SECURITIES OWNERSHIP OF PORTFOLIO MANAGERS

As of the end of the Fund's most recently completed fiscal year, the dollar range of securities beneficially owned by each portfolio manager in the Fund is shown below:

| BYRON | WIMMEL | REYNOLDSON |
|-----------|-----------|------------|
| ----- | ----- | ----- |
| [] | [] | [] |

PORTFOLIO TRANSACTIONS AND BROKERAGE ALLOCATION

The Adviser is responsible for decisions to buy and sell securities for the Fund, the selection of brokers and dealers to effect the transactions and the negotiation of prices and any brokerage commissions on such transactions. While the Adviser will be primarily responsible for the placement of the Fund's portfolio business, the policies and practices in this regard are subject to review by the Fund's Board of Trustees.

As most transactions made by the Fund are principal transactions at net prices, the Fund generally incurs little or no brokerage costs. The portfolio securities in which the Fund invests are normally purchased directly from the issuer or in the over-the-counter market from an underwriter or market maker for the securities. Purchases from underwriters of portfolio securities include a commission or concession paid by the issuer to the underwriter and purchases from dealers serving as market makers include a spread or markup to the dealer between the bid and asked price. Sales to dealers are effected at bid prices. The Fund may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid, or may purchase and sell listed securities on an exchange, which are effected through brokers who charge a commission for their services.

The Adviser is responsible for placing portfolio transactions and does so in a manner deemed fair and reasonable to the Fund and not according to any formula. The primary

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consideration in all portfolio transactions is prompt execution of orders in an effective manner at the most favorable price. In selecting broker-dealers and in negotiating prices and any brokerage commissions on such transactions, the Adviser considers the firm's reliability, integrity and financial condition and the firm's execution capability, the size and breadth of the market for the security, the size of and difficulty in executing the order, and the best net price. There are many instances when, in the judgment of the Adviser, more than one firm can offer comparable execution services. In selecting among such firms, consideration may be given to those firms which supply research and other services in addition to execution services. The Adviser is authorized to pay higher commissions to brokerage firms that provide it with investment and research information than to firms which do not provide such services if the Adviser determines that such commissions are reasonable in relation to the overall services provided. No specific value can be assigned to such research services which are furnished without cost to the Adviser. Since statistical and other research information is only supplementary to the research efforts of the Adviser to the Fund and still must be analyzed and reviewed by its staff, the receipt of research information is not expected to reduce its expenses materially. The investment advisory fee is not reduced as a result of the Adviser's receipt of such research services. Services provided may include (a) furnishing advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody). Research services furnished by firms through which the Fund effects its securities transactions may be used by the Adviser in servicing all of its advisory accounts; not all of such services may be used by the Adviser in connection with the Fund.

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

The Adviser may place portfolio transactions at or about the same time for other advisory accounts, including other investment companies. The Adviser seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities for the Fund and another advisory account. In some cases, this procedure could have an adverse effect on the price or the amount of securities available to the Fund. In making such allocations among the Fund and other advisory accounts, the main factors considered by the Adviser are the respective sizes of the Fund and other advisory accounts, the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and opinions of the persons responsible for recommending the investment.

Certain broker-dealers, through which the Fund may effect securities transactions, are affiliated persons (as defined in the 1940 Act) of the Fund or affiliated persons of such affiliates, including Morgan Stanley or its subsidiaries. The Fund's Board of Trustees has adopted certain policies incorporating the standards of Rule 17e-1 issued by the SEC under the 1940 Act which require that the commissions paid to affiliates of the Fund must

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be reasonable and fair compared to the commissions, fees or other remuneration received or to be received by other brokers in connection with comparable transactions involving similar securities during a comparable period of time. The rule and procedures also contain review requirements and require the Adviser to furnish reports to the trustees and to maintain records in connection with such reviews. After consideration of all factors deemed relevant, the trustees will consider from time to time whether the advisory fee for the Fund will be reduced by all or a portion of the brokerage commission paid to affiliated brokers.

Unless otherwise disclosed below, the Fund paid no commissions to affiliated brokers during the last three fiscal years. The Fund paid the following commissions to brokers during the fiscal years shown:

| | ALL BROKERS | AFFILIATED BROKERS MORGAN STANLEY DW INC. |
|--|-------------|--|
| | ----- | ----- |
| COMMISSIONS PAID: | | |
| Fiscal year ended October 31, 2004..... | \$23,000 | \$0 |
| Fiscal year ended October 31, 2003..... | \$16,000 | \$0 |
| Fiscal year ended October 31, 2002..... | \$ 4,000 | \$0 |
| FISCAL YEAR 2004 PERCENTAGES: | | |
| Commissions with affiliate to total commissions..... | | 0% |
| Value of brokerage transactions with affiliate to total transactions..... | | 0% |

During the fiscal year ended October 31, 2004, the Fund paid no brokerage commissions to brokers selected primarily on the basis of research services provided to the Adviser.

ADDITIONAL INFORMATION
RELATING TO AUCTION PREFERRED SHARES OF THE ACQUIRING FUND

The following is a brief description of the terms of the shares of each series of APS. This description does not purport to be complete and is subject to and qualified in its entirety by reference to Fund's Declaration of Trust, including the Certificate of Vote establishing and fixing the rights and preferences of the shares of such series of APS, attached hereto as Appendix B (the "Certificate of Vote" and together, with the Fund's Declaration of Trust, the "APS Provisions"). For purposes of this section, capitalized terms not otherwise defined herein have the meanings ascribed to them in the Certificate of Vote.

General. The Declaration of Trust currently authorizes the issuance of an unlimited number of shares of Common Shares and 100,000,000 Preferred Shares of beneficial interest, par value \$.01 per share (which may be issued from time to time in such series and with such designations, preferences and other rights, qualifications, limitations and restrictions as are determined in a resolution of the Board of Trustees of the Fund). Under the APS Provisions, the Fund is authorized to issue up to 10,600