

SECURITIES AND EXCHANGE COMMISSION

FORM N-2

Initial filing of a registration statement on Form N-2 for closed-end investment companies

Filing Date: **1996-12-30**
SEC Accession No. **0000912057-96-030426**

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FILER

PRIME INCOME TRUST

CIK: **854904** | IRS No.: **133548050** | State of Incorpor.: **MA** | Fiscal Year End: **0930**
Type: **N-2** | Act: **33** | File No.: **333-18953** | Film No.: **96687548**

Business Address
*TWO WORLD TRADE CENTER
C/O DEAN WITTER
INTERCAPITAL INC
NEW YORK NY 10048
2123921520*

SECURITIES ACT FILE NO. 33-37819
 INVESTMENT COMPANY ACT FILE NO. 811-5898

 SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

 FORM N-2
 REGISTRATION STATEMENT
 UNDER THE SECURITIES ACT OF 1933 /X/

PRE-EFFECTIVE AMENDMENT NO. / /

POST-EFFECTIVE AMENDMENT NO. / /

AND/OR
 REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY
 ACT OF 1940 /X/

AMENDMENT NO. 11 /X/

 PRIME INCOME TRUST
 (FORMERLY ALLSTATE PRIME INCOME TRUST)
 (A MASSACHUSETTS BUSINESS TRUST)
 (EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

TWO WORLD TRADE CENTER
 NEW YORK, NEW YORK 10048
 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 392-1600

SHELDON CURTIS, ESQ.
 TWO WORLD TRADE CENTER
 NEW YORK, NEW YORK 10048
 (NAME AND ADDRESS OF AGENT FOR SERVICE)

COPY TO:
 DAVID M. BUTOWSKY, ESQ.
 GORDON ALTMAN BUTOWSKY
 WEITZEN SHALOV & WEIN
 114 WEST 47TH STREET
 NEW YORK, NEW YORK 10036

 APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after
 the effective date of the registration statement

 If any of the securities being registered on this form are to be offered on
 a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
 1933, other than securities offered only in connection with dividend or interest
 reinvestment plans, check the following box. /X/

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

<TABLE>
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TITLE OF SECURITIES BEING REGISTERED	AMOUNT BEING REGISTERED (1)	MAXIMUM OFFERING PRICE PER UNIT (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
<S>	<C>	<C>	<C>	<C>
Shares of Beneficial Interest, \$.01 par value.....	150,000,000 Shares	\$9.94	\$1,491,000,000	\$451,818

</TABLE>

(1) 100,000,000 Shares were registered under previous Registration Statements (File Nos. 33-30657, 33-37819 and 33-61341).

(2) Estimated solely for the purpose of calculating the registration fee.

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 FUTURE 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 THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PURSUANT TO RULE 429 UNDER THE SECURITIES ACT OF 1933, THE PROSPECTUS CONTAINED IN THIS REGISTRATION STATEMENT IS A COMBINED PROSPECTUS AND RELATES TO REGISTRATION STATEMENT NO. 33-61341 PREVIOUSLY FILED BY THE REGISTRANT ON FORM N-2 AND DECLARED EFFECTIVE ON AUGUST 2, 1995.

PRIME INCOME TRUST
FORM N-2
CROSS REFERENCE SHEET

<TABLE> <CAPTION>	
PART I ITEM NUMBER	PROSPECTUS CAPTION
<C>	<S>
1. Cover Page.....	Cover Page
2. Synopsis.....	Prospectus Summary
3. Condensed Financial Information.....	Financial Highlights; Financial Statements
4. Plan of Distribution.....	Cover Page; Prospectus Summary; Initial Underwriting and Continuous Offering
5. Use of Proceeds.....	Use of Proceeds; Investment Objective and Policies
6. General Information and History.....	The Trust and its Adviser; Description of Shares
7. Investment Objectives and Policies.....	Investment Objective and Policies; Investment Practices; Investment Restrictions; Appendix A
8. Tax Status.....	Taxation
9. Brokerage Allocation and Other Practices.....	Portfolio Transactions
10. Pending Legal Proceedings.....	Not Applicable
11. Control Persons and Principal Holders of Securities.....	Description of Shares
12. Directors, Officers and Advisory Board Members.....	Trustees and Officers
13. Remuneration of Directors and Officers.....	Trustees and Officers
14. Custodian, Transfer Agent and Dividend-Paying Agent.....	Custodian, Dividend Disbursing and Transfer Agent
15. Investment Advisory and Other Services.....	The Trust and its Adviser; Investment Advisory Agreement; Administrator and Administration Agreement
16. Defaults and Arrears on Senior Securities.....	Not Applicable
17. Capital Stock.....	Description of Shares
18. Long-Term Debt.....	Not Applicable
19. Other Securities.....	Not Applicable
20. Financial Statements.....	Report of Independent Accountants; Financial Statements

</TABLE>

PROSPECTUS

PRIME INCOME TRUST

PRIME INCOME TRUST (THE "TRUST") IS A NON-DIVERSIFIED, CLOSED-END MANAGEMENT INVESTMENT COMPANY WHICH SEEKS TO PROVIDE A HIGH LEVEL OF CURRENT INCOME CONSISTENT WITH THE PRESERVATION OF CAPITAL. THE TRUST SEEKS TO ACHIEVE ITS INVESTMENT OBJECTIVE THROUGH INVESTMENT PRIMARILY IN INTERESTS IN SENIOR COLLATERALIZED LOANS ("SENIOR LOANS") TO CORPORATIONS, PARTNERSHIPS AND OTHER ENTITIES ("BORROWERS"). AN INVESTMENT IN THE TRUST MAY NOT BE APPROPRIATE FOR ALL INVESTORS, AND THERE IS NO ASSURANCE THAT THE TRUST WILL ACHIEVE ITS INVESTMENT OBJECTIVE.

SENIOR LOANS IN WHICH THE TRUST MAY INVEST GENERALLY WILL PAY INTEREST AT RATES WHICH FLOAT OR ARE RESET AT A MARGIN ABOVE A GENERALLY RECOGNIZED BASE LENDING RATE. THESE BASE LENDING RATES ARE GENERALLY THE PRIME RATE QUOTED BY A MAJOR U.S. BANK, THE LONDON INTER-BANK OFFERED RATE, THE CERTIFICATE OF DEPOSIT RATE OR OTHER BASE LENDING RATES USED BY COMMERCIAL LENDERS. THE INVESTMENT ADVISER BELIEVES THAT OVER TIME THE EFFECTIVE YIELD OF THE TRUST WILL EXCEED MONEY MARKET RATES AND WILL TRACK THE MOVEMENTS OF THE PUBLISHED PRIME RATE OF MAJOR U.S. BANKS.

THE BOARD OF TRUSTEES OF THE TRUST CURRENTLY INTENDS, EACH QUARTER, TO CONSIDER AUTHORIZING THE TRUST TO MAKE TENDER OFFERS FOR ALL OR A PORTION OF ITS OUTSTANDING SHARES OF BENEFICIAL INTEREST (THE "SHARES") AT THE THEN CURRENT NET ASSET VALUE OF THE SHARES. AN EARLY WITHDRAWAL CHARGE PAYABLE TO DEAN WITTER INTERCAPITAL INC. (THE "INVESTMENT ADVISER" OR "INTERCAPITAL") OF UP TO 3.0% OF THE ORIGINAL PURCHASE PRICE OF SHARES WILL BE IMPOSED ON MOST SHARES HELD FOR FOUR YEARS OR LESS WHICH ARE PURCHASED BY THE TRUST PURSUANT TO TENDER OFFERS. SEE "SHARE REPURCHASES AND TENDERS." NEITHER THE TRUST NOR THE INVESTMENT ADVISER INTENDS TO MAKE A SECONDARY MARKET IN THE SHARES AT ANY TIME. ACCORDINGLY, THERE IS NOT EXPECTED TO BE ANY SECONDARY TRADING MARKET IN THE SHARES, AND AN INVESTMENT IN THE SHARES SHOULD BE CONSIDERED ILLIQUID.

THE TRUST CONTINUOUSLY OFFERS SHARES THROUGH DEAN WITTER DISTRIBUTORS INC. (THE "DISTRIBUTOR"), AS PRINCIPAL UNDERWRITER OF THE SHARES, THROUGH CERTAIN DEALERS, INCLUDING DEAN WITTER REYNOLDS INC. ("DWR"), WHO HAVE ENTERED INTO SELECTED DEALER AGREEMENTS WITH THE DISTRIBUTOR, AT A PRICE EQUAL TO THE THEN CURRENT NET ASSET VALUE PER SHARE. THERE IS NO INITIAL SALES CHARGE ON PURCHASES OF THE SHARES. THE INVESTMENT ADVISER USES ITS OWN ASSETS, WHICH MAY INCLUDE PROFITS FROM THE ADVISORY FEE PAYABLE UNDER ITS INVESTMENT ADVISORY AGREEMENT WITH THE TRUST, AS WELL AS BORROWED FUNDS, TO COMPENSATE DEALERS PARTICIPATING IN THE CONTINUOUS OFFERING. SEE "PURCHASE OF SHARES."

DEAN WITTER INTERCAPITAL INC., AN AFFILIATE OF DEAN WITTER DISTRIBUTORS INC., ACTS AS INVESTMENT ADVISER FOR THE TRUST. THE ADDRESS OF THE TRUST IS TWO WORLD TRADE CENTER, NEW YORK, NEW YORK 10048, AND ITS TELEPHONE NUMBER IS (212) 392-1600. INVESTORS ARE ADVISED TO READ THIS PROSPECTUS CAREFULLY AND RETAIN IT FOR FUTURE REFERENCE.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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<S>	PRICE TO PUBLIC (1) <C>	SALES LOAD (1) <C>	PROCEEDS TO THE TRUST (2) <C>
PER SHARE	\$9.94	NONE	\$9.94
TOTAL (3)	\$518,998,065	NONE	\$518,998,065

</TABLE>

(SEE FOOTNOTES ON INSIDE FRONT COVER)

DEAN WITTER DISTRIBUTORS INC.

JANUARY , 1997

(FOOTNOTES TO TABLE ON FRONT COVER)

(1) THE SHARES ARE OFFERED ON A BEST EFFORTS BASIS AT A PRICE EQUAL TO THE NET ASSET VALUE PER SHARE WHICH AS OF THE DATE OF THE PROSPECTUS IS .

(2) BEFORE DEDUCTION OF REGISTRATION FEES PAYABLE BY THE TRUST IN THE AMOUNT OF \$451,818, WHICH WILL BE AMORTIZED DURING THE PERIOD IN WHICH THE SHARES ARE SUBSCRIBED AND CHARGED AS AN EXPENSE AGAINST THE INCOME OF THE TRUST.

(3) ASSUMING ALL SHARES CURRENTLY REGISTERED ARE SOLD PURSUANT TO THIS CONTINUOUS OFFERING AT A PRICE OF \$9.94 PER SHARE. THE TRUST COMMENCED OPERATIONS ON NOVEMBER 30, 1989, FOLLOWING COMPLETION OF A FIRM COMMITMENT UNDERWRITING FOR 10,921,751 SHARES, WITH NET PROCEEDS TO THE TRUST OF \$109,217,510. THE TRUST COMMENCED THE CONTINUOUS OFFERING OF ITS SHARES ON DECEMBER 4, 1989.

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE TRUST OR THE PRINCIPAL UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION.

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SUMMARY OF TRUST EXPENSES

The expenses and fees set forth in the table are for the fiscal year ended September 30, 1996.

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SHAREHOLDER TRANSACTION EXPENSES

<S>	<C>
Sales Load Imposed on Purchases.....	None
Sales Load Imposed on Reinvested Dividends.....	None

Early Withdrawal Charge..... 3.0%

An early withdrawal charge is imposed on tenders at the following declining rates:

YEAR AFTER PURCHASE	EARLY WITHDRAWAL CHARGE
First.....	3.0%
Second.....	2.5%
Third.....	2.0%
Fourth.....	1.0%
Fifth and thereafter.....	None
ANNUAL EXPENSES (AS A PERCENTAGE OF NET ASSETS)	
Investment Advisory Fees.....	0.89%
Interest Payments on Borrowed Funds.....	None
Sum of Other Expenses.....	0.57%
Total Annual Expenses.....	1.46%

</TABLE>

<TABLE>

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EXAMPLE	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a \$1,000 investment, assuming (1) 5% annual return and (2) tender at the end of each time period:.....	\$45	\$66	\$80	\$175
You would pay the following expenses on the same investment, assuming no tender:.....	\$15	\$46	\$80	\$175

</TABLE>

 THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR PERFORMANCE. ACTUAL EXPENSES OF THE TRUST MAY BE GREATER OR LESS THAN THOSE SHOWN.

The purpose of this table is to assist the investor in understanding the various costs and expenses that an investor in the Trust will bear directly or indirectly. For a more complete description of these costs and expenses, see the cover page of this Prospectus and "Investment Advisory Agreement," "Administrator and Administration Agreement" and "Share Repurchases and Tenders--Early Withdrawal Charge" in this Prospectus.

FINANCIAL HIGHLIGHTS

 The following ratios and per share data for a share of beneficial interest outstanding throughout each period have been audited by Price Waterhouse LLP, independent accountants. This data should be read in conjunction with the financial statements, and notes thereto, and the unqualified report of independent accountants which are contained in this Prospectus commencing on page 50. As noted in the financial statements and in the report of Price Waterhouse LLP, the Trust invests primarily in senior collateralized loans which values have been determined by the Trustees in the absence of readily ascertainable market values.

<TABLE>

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	FOR THE YEAR ENDED SEPTEMBER 30,						FOR THE PERIOD
	1996	1995	1994	1993	1992	1991	NOVEMBER 30, 1989* THROUGH SEPTEMBER 30, 1990
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:							
Net asset value, beginning of period.....	\$ 9.99	\$ 10.00	\$ 9.91	\$ 9.99	\$ 10.00	\$ 10.00	\$ 10.00
Net investment income.....	0.74	0.82	0.62	0.55	0.62	0.84	0.74
Net realized and unrealized gain (loss).....	(0.04)	0.01	0.09	(0.08)	(0.01)	--	(0.01)

Total from investment operations...	0.70	0.83	0.71	0.47	0.61	0.84	0.73
Less dividends and distributions from:							
Net investment income.....	(0.75)	(0.81)	(0.62)	(0.55)	(0.62)	(0.84)	(0.73)
Net realized gain.....	--	(0.03)	--	--	--	--	--
Total dividends and distributions.....	(0.75)	(0.84)	(0.62)	(0.55)	(0.62)	(0.84)	(0.73)
Net asset value, end of period.....	\$ 9.94	\$ 9.99	\$ 10.00	\$ 9.91	\$ 9.99	\$ 10.00	\$ 10.00
TOTAL INVESTMENT RETURN+.....	7.25%	8.57%	7.32%	4.85%	6.23%	8.77%	7.57%(1)
Ratios to Average Net Assets:							
Expenses.....	1.46%	1.52%	1.60%	1.45%	1.47%	1.52%	1.48%(2)
Net investment income.....	7.50%	8.11%	6.14%	5.53%	6.14%	8.23%	8.95%(2)
SUPPLEMENTAL DATA:							
Net assets, end of period, in thousands.....	\$939,471	\$521,361	\$305,034	\$311,479	\$413,497	\$479,941	\$328,189
Portfolio turnover rate.....	72%	102%	147%	92%	46%	42%	35%(1)

</TABLE>

* COMMENCEMENT OF OPERATIONS.

+ DOES NOT REFLECT THE DEDUCTION OF SALES CHARGE. CALCULATED BASED ON THE NET ASSET VALUE AS OF THE LAST BUSINESS DAY OF THE PERIOD. DIVIDENDS AND DISTRIBUTIONS ARE ASSUMED TO BE REINVESTED AT THE PRICES OBTAINED UNDER THE TRUST'S DIVIDEND REINVESTMENT PLAN.

(1) NOT ANNUALIZED.

(2) ANNUALIZED.

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PROSPECTUS SUMMARY

THE FOLLOWING INFORMATION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION INCLUDED ELSEWHERE IN THIS PROSPECTUS.

<TABLE>

<S>	<C>
THE TRUST.....	Prime Income Trust (the "Trust") is a non-diversified, closed-end management investment company, organized as a Massachusetts business trust. The Trust commenced operations on November 30, 1989 (under the name "Allstate Prime Income Trust") following completion of a firm commitment initial underwriting for 10,921,751 Shares, with net proceeds to the Trust of \$109,217,510. The Trust commenced the continuous offering of its shares on December 4, 1989. See "The Trust and its Adviser."
PURCHASE OF SHARES.....	The Trust is offering continuously its shares of beneficial interest, par value \$.01 (the "Shares"), through Dean Witter Distributors Inc. (the "Distributor"), as principal underwriter of the Shares, through certain dealers, including Dean Witter Reynolds Inc. ("DWR"), a broker-dealer affiliate of the Trust's Investment Adviser and Administrator, which have entered into selected dealer agreements with the Distributor, at a price per Share equal to the then current net asset value per Share. The minimum investment in the Trust is \$1,000 for initial investments and \$100 for subsequent investments. See "Purchase of Shares."
INVESTMENT OBJECTIVE AND POLICIES.....	The investment objective of the Trust is to provide a high level of current income consistent with the preservation of capital. The Trust seeks to achieve its objective through investment primarily in interests in senior collateralized loans ("Senior Loans") to corporations, partnerships and other entities ("Borrowers"). Senior Loans may take the form of syndicated loans ("Syndicated Loans") or of debt obligations of Borrowers issued directly to investors in the form of debt securities ("Senior Notes"). Senior Loans in which the Trust will invest generally pay interest at rates which float or are reset at a

margin above a generally recognized base lending rate. These base lending rates are generally the prime rate quoted by a major U.S. bank ("Prime Rate"), the London Inter-Bank Offered Rate ("LIBOR"), the Certificate of Deposit ("CD") rate or other base lending rates used by commercial lenders. Under normal market conditions, the Trust will invest at least 80% of its total assets in Senior Loans. The remainder of its assets will be invested in cash or in short-term, high quality money market instruments. There is no restriction or percentage limitation with respect to the Trust's investment in illiquid securities. While the Trust is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio, it is currently anticipated that at least 80% of the Trust's total assets invested in Senior Loans will consist of Senior Loans with stated maturities of between three and ten years. As a result of prepayments and amortization, however, the actual maturities of the Syndicated Loans in the Trust's portfolio are expected to range between three and four years and the Senior Notes are expected to have average maturities of approximately

</TABLE>

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six to seven years. The Senior Loans in the Trust's portfolio will at all times have a dollar-weighted average time until the next interest rate determination of 90 days or less. The Investment Adviser will perform its own credit analyses of Borrowers and will consider, and may rely in part on, analyses performed by lenders other than the Trust. The Trust will invest only in Senior Loans where the Investment Adviser believes that the Borrower can meet debt service requirements in a timely manner and where the market value of the collateral at the time of investment equals or exceeds the amount of the Senior Loan. Among other factors, the Investment Adviser will also consider the operating history, competitive position and management of the Borrower; the business outlook of the Borrower's industry and the terms of the loan agreement with the Borrower. The Investment Adviser will monitor the qualifications of Borrowers on an ongoing basis. Senior Loans presently are not rated by nationally recognized statistical rating organizations. Since the minimum debt rating of a Borrower may not have a meaningful relation to the quality of such Borrower's senior collateralized debt, the Trust does not impose any minimum standard regarding the rating of other debt instruments of the Borrower. Senior Loans are typically structured by a syndicate of lenders ("Lenders"), one or more of which administers the Senior Loan on behalf of the Lenders ("Agent"). Lenders may sell interests in Senior Loans to third parties ("Participations") or may assign all or a portion of their interest in a Senior Loan to third parties ("Assignments"). The Trust may invest in Senior Loans in the following ways: it may purchase Participations, it may purchase Assignments of a portion of a Senior Loan or it may act as one of the group of Lenders originating a Senior Loan or obtain from such a Lender (through a novation) all of the rights of such Lender in a Senior Loan, including the ability to enforce such rights directly against the Borrower. When the Trust is a Lender, or obtains through a novation all of the rights of a Lender, it will, as a party to the loan agreement with the Borrower ("Loan Agreement"), have a direct contractual relationship with the Borrower and may enforce directly compliance by the Borrower with the terms of the Loan Agreement. When the Trust purchases a Participation, the Trust typically enters into a contractual relationship with the Lender or third party selling such Participation ("Selling Participant"), but not with the Borrower. As a result, the Trust assumes the credit risk of the Borrower, the Selling Participant and any other persons interpositioned between the Trust and the Borrower ("Intermediate Participants") and the Trust may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the Participation. The Trust will only acquire Participations if the Selling Participant, and each Intermediate Participant, is a financial institution which meets certain minimum creditworthiness standards. See "Investment Objective and Policies." When the Trust purchases an Assignment, it will acquire all or a portion of the rights of the Lender or

</TABLE>

<TABLE> <S>	<C> other third party whose interest is being assigned, but may not be a party to the Loan Agreement and may be required to rely on such Lender or other third party to demand payment and enforce its rights against the Borrower. Assignments are arranged through private negotiations between potential assignors and potential assignees; consequently, the rights and obligations acquired by the purchaser of an Assignment may differ from and be more limited than those held by the assignor. The Trust may pay a fee or forgo a portion of interest payments when acquiring Participations and Assignments. See "Investment Objective and Policies."
INVESTMENT ADVISER.....	Dean Witter InterCapital Inc. ("InterCapital" or the "Investment Adviser"), whose address is Two World Trade Center, New York, New York 10048, is the Trust's Investment Adviser. The Investment Adviser, which was incorporated in July, 1992, is a wholly-owned subsidiary of Dean Witter, Discover & Co. ("DWDC"), a balanced financial services organization providing a broad range of nationally marketed credit and investment products. The Investment Adviser and its wholly-owned subsidiary, Dean Witter Services Company Inc., serve in various investment management, advisory, management, and administrative capacities to one hundred investment companies, thirty of which are listed on the New York Stock Exchange, with combined assets of approximately \$88 billion as of November 30, 1996. The Investment Adviser also manages and advises portfolios of pension plans, other institutions and individuals which aggregated approximately \$3.1 billion at such date. The Trust's Trustees approved a new investment advisory agreement with InterCapital, on December 23, 1992, as a consequence of the withdrawal of Allstate Investment Management Company ("AIMCO") from its investment company advisory activities and its concomitant resignation as the Trust's Investment Adviser. At a Special Meeting of Shareholders held on February 25, 1993, the shareholders approved a new Investment Advisory Agreement with InterCapital. The name of the Trust was changed by the Trustees to delete the name "Allstate" upon the effectiveness of the new investment advisory agreement with InterCapital. The term "Investment Adviser" refers to AIMCO prior to the Special Meeting of Shareholders, and to InterCapital after the Special Meeting. See "The Trust and its Adviser" and "Investment Advisory Agreement."
ADVISORY FEE.....	The investment advisory fees paid to InterCapital pursuant to the new investment advisory agreement is calculated at an annual rate of 0.90% of average daily net assets on assets of the Trust up to \$500 million and at an annual rate of 0.85% of average daily net assets on assets of the Trust exceeding \$500 million. These fees represent a reduction of the investment advisory fees paid by the Trust to AIMCO which were calculated at the annual rate of 1.0% of average daily net assets on assets of the Trust up to \$500 million and at the annual rate of 0.95% of

</TABLE>

<TABLE> <S>	<C> average daily net assets on assets of the Trust exceeding \$500 million. The advisory fee is higher than that paid by most other investment companies. See "Investment Advisory Agreement."
ADMINISTRATOR.....	Dean Witter Services Company Inc. (the "Administrator" or "DWSC"), a wholly-owned subsidiary of InterCapital, the Investment Adviser of the Trust, is the Administrator of the Trust. The term "Administrator" refers to InterCapital prior to December 31, 1993 and to DWSC after that date. See "Administrator and Administration Agreement" and "Purchase of Shares."
ADMINISTRATION FEE.....	The Trust pays the Administrator a monthly fee at an annual rate of 0.25% of the Trust's average daily net assets. See "Administrator and Administration Agreement."
DIVIDENDS AND DISTRIBUTIONS.....	Income dividends are declared daily and paid monthly. Dividends

and distributions to holders of Shares cannot be assured, and the amount of each monthly payment may vary. Capital gains, if any, will be distributed at least annually. All dividends and capital gains distributions will be reinvested automatically in additional Shares, unless the shareholder elects to receive cash distributions. See "Dividends and Distributions" and "Taxation."

SHARE REPURCHASES AND

TENDERS.....

The Board of Trustees of the Trust currently intends, each quarter, to consider authorizing the Trust to make tender offers for all or a portion of its outstanding Shares at the then current net asset value of the Shares. An early withdrawal charge payable to the Investment Adviser of up to 3.0% of the original purchase price of such Shares will be imposed on most Shares accepted for tender that have been held for four years or less. There can be no assurance that the Trust will in fact tender for any of its Shares. If a tender offer is not made or Shares are not purchased pursuant to a tender offer, Shareholders may not be able to sell their Shares. If the Trust tenders for Shares, there is no guarantee that all or any Shares tendered will be purchased. Subject to its borrowing restrictions, the Trust may incur debt to finance repurchases of its Shares pursuant to tender offers, which borrowings entail additional risks. The ability of the Trust to tender for its Shares may be limited by certain requirements of the Internal Revenue Code of 1986 that must be satisfied in order for the Trust to maintain its desired tax status as a regulated investment company. See "The Trust and its Adviser," "Purchase of Shares" and "Share Repurchases and Tenders."

CUSTODIAN.....

The Bank of New York serves as Custodian of the Trust's assets. See "Custodian, Dividend Disbursing and Transfer Agent."

</TABLE>

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SPECIAL CONSIDERATIONS AND
RISK FACTORS.....

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There is not expected to be any secondary trading market in the Shares and an investment in the Shares should be considered illiquid. Moreover, the Distributor and other dealers who enter into dealer agreements with the Distributor are prohibited under applicable law from making a market in the Shares while the Trust is continuously offering its Shares or engaged in a tender offer for its Shares. To the extent that a secondary market does develop, however, investors should be aware that the shares of closed-end funds frequently trade in the secondary market at a discount from their net asset values. Should there be a secondary market for the Shares, it is expected that the Shares will not trade at a premium because the Trust intends to engage in a continuous offering at net asset value.

Due to the lack of a secondary market for the Shares and the early withdrawal charge, the Trust should be viewed as a long-term investment and not as a vehicle for short-term trading.

Since the Trust invests primarily in floating and variable rate obligations, the Trust's yield is likely to vary in accordance with changes in prevailing short-term interest rates. This policy should also result in a net asset value which fluctuates less than would a portfolio consisting primarily of fixed rate obligations; however, the Trust's net asset value may vary to the extent that changes in prevailing interest rates are not immediately reflected in the interest rates payable on Senior Loans in the Trust's portfolio, particularly if there were a sudden and extreme change in interest rates. Also, to the extent Senior Loans in the Trust's portfolio are valued based on recent pricings for similar Senior Loans, net asset value may fluctuate due to changes in pricing parameters for newly issued Senior Loans (e.g., interest rates are set at a higher or lower margin above the base lending rate than were Senior Loans in the Trust's portfolio).

In addition to fluctuations in net asset value which may be caused by variations in prevailing interest rates and Senior Loan pricing parameters, the Trust's net asset value would be adversely affected in the event of a default on a Senior Loan and could be affected by a substantial deterioration in the creditworthiness of Borrowers or Selling Participants or Intermediate Participants or a decline in value of the

collateral securing the Senior Loan. Also, if any such Borrower or Selling Participant or Intermediate Participant fails to meet in a timely manner its obligations to remit principal and interest payments to the Trust, the Trust is likely to experience a decline in its net asset value.

Although the Trust will generally have access to financial and other information made available to the Lenders in connection with Senior Loans, the amount of public information available with respect to Senior Loans generally will be less extensive than that available for rated, registered and exchange listed securities. As a result, the performance

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of the Trust and its ability to meet its investment objective is more dependent on the analytical abilities of the Investment Adviser than would be the case for an investment company that invests primarily in rated, registered or exchange-listed securities.

The Loan Agreement with the Borrower, which establishes the relative terms and conditions of the Senior Loan and rights of the Borrower and the Lenders, will typically vest the Agent with broad discretion in enforcing and administering the Agreement. Accordingly, the success of the Trust will depend in part on the skill with which the Agent administers the terms of the Loan Agreement, monitors Borrower compliance with covenants, collects principal, interest and fee payments from Borrowers and, where necessary, enforces creditor's remedies against Borrowers. See "Investment Objective and Policies."

Interests in Senior Loans are not listed on any national securities exchange or automated quotation system and no regular market has developed in which interests in Senior Loans are traded. The substantial portion of the Trust's assets invested in relatively illiquid Senior Loan interests may restrict the ability of the Trust to dispose of its investments in Senior Loans in a timely fashion and at a fair price, and could result in capital losses to the Trust and holders of Shares. To the extent that the Trust's investments are illiquid, the Trust may have difficulty disposing of portfolio securities in order to purchase its Shares pursuant to tender offers, if any. The Board of Trustees of the Trust will consider the liquidity of the Trust's portfolio securities in determining whether a tender offer should be made by the Trust and the number of Shares to be tendered.

The Trust may invest in Senior Loans which are made to non-U.S. Borrowers provided that the Senior Loans are dollar-denominated and any such Borrower meets the credit standards established by the Investment Adviser for U.S. Borrowers. Loans to non-U.S. Borrowers may involve risks not typically involved in loans to U.S. Borrowers.

The Trust's Declaration of Trust includes anti-takeover provisions, including the requirement for a 66% shareholder vote to remove Trustees and for certain mergers, issuances of Shares and asset acquisitions that could have the effect of limiting the ability of other persons or entities to acquire control of the Trust and could have the effect of depriving holders of Shares of an opportunity to sell their Shares at a premium above prevailing market prices by discouraging a third party from seeking to obtain control of the Trust. See "Description of Shares--Anti-Takeover Provisions."

The Trust may be deemed to be concentrated in securities of issuers in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift institutions, insurance companies and finance companies. As a result, the Trust is subject to certain risks associated with such institutions, including, among other

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things, changes in governmental regulation, interest rate levels and general economic conditions. See "Investment Objective and Policies" and "Investment Restrictions."

The Trust has registered as a "non-diversified" investment company so that it will be able to invest more than 5% of the value of its total assets in the obligations of any single issuer, including Senior Loans of a single Borrower or Participations purchased from a single Lender. The Trust does not intend to invest, however, more than 10% of the value of its total assets in interests in Senior Loans of a single Borrower. To the extent the Trust invests its assets in obligations of a more limited number of issuers than a diversified investment company, the Trust will be more susceptible than a diversified investment company to any single corporate, economic, political or regulatory occurrence. See "Investment Objective and Policies."

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THE TRUST AND ITS ADVISER

Prime Income Trust (the "Trust") is a non-diversified, closed-end management investment company whose investment objective is to provide a high level of current income consistent with the preservation of capital. The Trust will seek to achieve its objective through investment primarily in senior collateralized loans ("Senior Loans") to corporations, partnerships and other entities ("Borrowers"). No assurance can be given that the Trust will achieve its investment objective. The Trust is designed primarily for long-term investment and not as a trading vehicle.

The Trust is a trust of a type commonly known as a "Massachusetts business trust" and was organized under the laws of Massachusetts on August 17, 1989 under the name "Allstate Prime Income Trust." Effective March 1, 1993, the Trust Agreement was amended to change the name of the Trust to "Prime Income Trust". Such amendment was made upon the approval by the shareholders of a new investment advisory agreement with InterCapital. The Trust commenced operations on November 30, 1989, following completion of a firm commitment initial underwriting for 10,921,751 Shares, with net proceeds to the Trust of \$109,217,510. The Trust commenced the continuous offering of its shares on December 4, 1989. The Trust's principal office is located at Two World Trade Center, New York, New York 10048 and its telephone number is (212) 392-1600. The Trust is offering continuously its shares of beneficial interest, \$.01 par value (the "Shares"). See "Purchase of Shares."

An investment in Shares offers several benefits. The Trust offers investors the opportunity to receive a high level of current income by investing in a professionally managed portfolio comprised primarily of Senior Loans, a type of investment typically not available to individual investors. In managing such a portfolio, the Investment Adviser provides the Trust and its shareholders with professional credit analysis and portfolio diversification. The Trust also relieves the investor of burdensome administrative details involved in managing a portfolio of Senior Loans, even if they were available to individual investors. Such benefits are at least partially offset by the expenses involved in operating an investment company, which consist primarily of management and administrative fees and operational costs. See "Investment Advisory Agreement" and "Administrator and Administration Agreement."

On December 23, 1992 the Trust's Trustees approved a new investment advisory agreement with InterCapital as a consequence of the withdrawal of Allstate Investment Management Company ("AIMCO") from its investment company advisory activities and its concomitant resignation as the Trust's Investment Adviser. InterCapital is a wholly-owned subsidiary of Dean Witter, Discover & Co. ("DWDC"). The Trust's shareholders voted to approve a new investment advisory agreement with InterCapital at a Special Meeting of Shareholders held on February 25, 1993. The shareholders also voted to approve the automatic reinstatement of the new investment advisory agreement (to the extent that such agreement would otherwise terminate as a consequence of the Sears, Roebuck and Co. ("Sears") spin-off of DWDC stock [the "Spin-Off"]), which new investment advisory agreement took effect on June 30, 1993, upon the Spin-Off by Sears of its remaining shares of DWDC. Upon approval by the shareholders of the new investment advisory agreement, InterCapital, which continued to serve at such time as the Trust's Administrator, assumed the duties of Investment Adviser which previously were performed by AIMCO and the name of the Trust was changed by the Trustees to "Prime Income Trust." The term "Investment Adviser" refers to AIMCO prior to the Special Meeting of Shareholders, and to InterCapital after

InterCapital and its wholly-owned subsidiary, Dean Witter Services Company Inc., serve in various investment management, advisory, management and administrative capacities to one hundred investment companies, thirty of which are listed on the New York Stock Exchange, with combined assets of approximately \$88 billion at October 31, 1996. InterCapital also manages and advises portfolios of pension plans, other institutions and individuals which aggregated approximately \$3.1 billion at such date.

The Trust is managed within InterCapital's Taxable Fixed-Income Group, which manages 25 funds and fund portfolios with approximately \$13.2 billion in assets as of October 31, 1996. Mr. Rafael Scolari, a member of the Taxable Fixed-Income Group, is the Trust's primary portfolio manager. Mr. Scolari joined InterCapital in March 1993. Prior thereto, he was the portfolio manager of the Trust's portfolio while at AIMCO (from January, 1990 through February, 1993). During this period, he was also portfolio manager of bank loans for Allstate Life Insurance Company.

InterCapital is also the investment manager or investment adviser of the following management investment companies: Active Assets Money Trust, Active Assets Tax-Free Trust, Active Assets California Tax-Free Trust, Active Assets Government Securities Trust, Dean Witter Liquid Asset Fund Inc., InterCapital Income Securities Inc., Dean Witter Strategist Fund, Dean Witter Tax-Free Daily Income Trust, Dean Witter Developing Growth Securities Trust, Dean Witter Tax-Exempt Securities Trust, Dean Witter Natural Resource Development Securities Inc., Dean Witter Dividend Growth Securities Inc., Dean Witter American Value Fund, Dean Witter U.S. Government Money Market Trust, Dean Witter Variable Investment Series, Dean Witter World Wide Investment Trust, Dean Witter Select Municipal Reinvestment Fund, Dean Witter U.S. Government Securities Trust, Dean Witter California Tax-Free Income Fund, Dean Witter New York Tax-Free Income Fund, Dean Witter Convertible Securities Trust, Dean Witter Federal Securities Trust, Dean Witter Value-Added Market Series, High Income Advantage Trust, High Income Advantage Trust II, Dean Witter Government Income Trust, Dean Witter Utilities Fund, Dean Witter California Tax-Free Daily Income Trust, Dean Witter World Wide Income Trust, Dean Witter Intermediate Income Securities, High Income Advantage Trust III, Dean Witter Capital Growth Securities, Dean Witter European Growth Fund Inc., Dean Witter Precious Metals and Minerals Trust, Dean Witter New York Municipal Money Market Trust, Dean Witter Global Short-Term Income Fund Inc., Dean Witter Multi-State Municipal Series Trust, Dean Witter Premier Income Trust, Dean Witter Short-Term U.S. Treasury Trust, Dean Witter Diversified Income Trust, InterCapital Quality Municipal Investment Trust, InterCapital Insured Municipal Bond Trust, Dean Witter Pacific Growth Fund Inc., Dean Witter Health Sciences Trust, Dean Witter Retirement Series, InterCapital Insured Municipal Trust, InterCapital California Quality Municipal Securities, InterCapital California Insured Municipal Income Trust, InterCapital Quality Municipal Income Trust, InterCapital Quality Municipal Securities, InterCapital New York Quality Municipal Securities, InterCapital Insured Municipal Securities, InterCapital Insured California Municipal Securities, Dean Witter Global Dividend Growth Securities, Dean Witter Limited Term Municipal Trust, Dean Witter Short-Term Bond Fund, Dean Witter Global Utilities Fund, Dean Witter National Municipal Trust, Dean Witter High Income Securities, Dean Witter International SmallCap Fund, Dean Witter Mid-Cap Growth Fund, Dean Witter Select Dimensions Investment Series, Dean Witter Global Asset Allocation Fund, Dean Witter Balanced Growth Fund, Dean Witter Balanced Income Fund, Dean Witter Hawaii Municipal Trust, Dean Witter Capital Appreciation Fund, Dean Witter Intermediate Term U.S. Treasury Trust, Dean Witter Information Fund, Dean Witter Japan Fund, Dean Witter Income Builder Fund, Dean Witter Special Value Fund, InterCapital Insured Municipal Income Trust, Municipal Income Trust, Municipal Income Trust II, Municipal Income Trust III, Municipal Income Opportunities Trust, Municipal Income Opportunities Trust II, Municipal Income Opportunities Trust III, Municipal Premium Income Trust and Prime

Income Trust. The foregoing investment companies, together with the Fund, are collectively referred to as the Dean Witter Funds. In addition, Dean Witter Services Company Inc. ("DWSC"), a wholly-owned subsidiary of InterCapital, serves as manager for the following investment companies for which TCW Funds Management, Inc. is the investment adviser: TCW/DW Core Equity Trust, TCW/DW North American Government Income Trust, TCW/DW Latin American Growth Fund, TCW/DW Income and Growth Fund, TCW/DW Small Cap Growth Fund, TCW/DW Balanced

Fund, TCW/DW Total Return Trust, TCW/ DW Mid-Cap Equity Trust, TCW/DW Global Telecom Trust, TCW/DW Strategic Income Trust, TCW/DW Emerging Markets Opportunites Trust, TCW/DW Term Trust 2000, TCW/DW Term Trust 2002 and TCW/ DW Term Trust 2003 (the "TCW/DW Funds"). InterCapital also serves as: (i) sub-adviser to Templeton Global Opportunities Trust, an open-end investment company; (ii) administrator of The BlackRock Strategic Term Trust Inc., a closed-end investment company; and (iii) sub-administrator of MassMutual Participation Investors and Templeton Global Governments Income Trust, closed-end investment companies.

INVESTMENT OBJECTIVE AND POLICIES

The Trust's investment objective is to provide a high level of current income consistent with the preservation of capital. The Trust will seek to achieve its objective through investment primarily in Senior Loans. Senior Loans in which the Trust will invest generally pay interest at rates which float or are reset at a margin above a generally recognized base lending rate. These base lending rates are the Prime Rate, LIBOR, the CD rate or other base lending rates used by commercial lenders. The Prime Rate quoted by a major U.S. bank is the interest rate at which such bank is willing to lend U.S. dollars to creditworthy borrowers. LIBOR is an average of the interest rates quoted by several designated banks as the rates at which such banks would offer to pay interest to major financial institutional depositors in the London interbank market on U.S. dollar-denominated deposits for a specified period of time. The CD rate is the average rate paid on large certificates of deposit traded in the secondary market. The Investment Adviser believes that over time the Trust's effective yield will exceed money market rates and will track the movements in the published Prime Rate of major U.S. banks, although it may not equal the Prime Rate. An investment in the Trust may not be appropriate for all investors and is not intended to be a complete investment program. No assurance can be given that the Trust will achieve its investment objective.

Under normal market conditions, the Trust will invest at least 80% of its total assets in Senior Loans. The Trust currently intends to limit its investments in Senior Notes to no more than 20% of its total assets. The remainder of the Trust's assets may be invested in cash or in high quality debt securities with remaining maturities of one year or less, although it is anticipated that the debt securities in which the Trust invests will have remaining maturities of 60 days or less. Such securities may include commercial paper rated at least in the top two rating categories of either Standard & Poor's Corporation or Moody's Investors Service, Inc., or unrated commercial paper considered by the Investment Adviser to be of similar quality, certificates of deposit and bankers' acceptances and securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Such securities may pay interest at rates which are periodically redetermined or may pay interest at fixed rates. High quality debt securities and cash may comprise up to 100% of the Trust's total assets during temporary defensive periods when, in the opinion of the Investment Adviser, suitable Senior Loans are not available for investment by the Trust or prevailing market or economic conditions warrant.

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The Trust is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio. It is currently anticipated that at least 80% of the Trust's total assets invested in Senior Loans will consist of Senior Loans with stated maturities of between three and ten years, inclusive, and with rates of interest which are redetermined either daily, monthly or quarterly. As a result of prepayments and amortization, however, it is expected that the actual maturities of Syndicated Loans will be approximately three to four years and of Senior Notes approximately six to seven years. The Senior Loans in the Trust's portfolio will at all times have a dollar-weighted average time until the next interest rate redetermination of 90 days or less.

The value of fixed income obligations generally varies in response to changes in interest rates. When interest rates decline, the value of a fixed income obligation can be expected to rise; conversely, the value of the obligation can be expected to decrease when interest rates rise. Accordingly, the net asset value of an investment company which invests a substantial portion of its total assets in fixed income securities can be expected to fluctuate significantly with changes in interest rates. The Investment Adviser expects the Trust's net asset value to be relatively stable during normal market conditions, because the Trust's portfolio will consist primarily of Senior Loans on which the interest rate is periodically adjusted in response to interest rate changes on short-term investments. However, because the interest rate on a Senior Loan may be reset only periodically, the Trust's net asset value may fluctuate from time to time in the event of an imperfect correlation between the interest rates on Senior Loans in the Trust's portfolio and prevailing short-term interest rates. This would be particularly likely to occur in the event of a sudden and

extreme movement in interest rates. Also, to the extent that Senior Loans in the Trust's portfolio are valued based on recent pricings for similar Senior Loans, net asset value may fluctuate due to changes in pricing parameters for newly issued Senior Loans (e.g., interest rates are set at a higher or lower margin above the base lending rate than were Senior Loans in the Trust's portfolio). A decline in the Trust's net asset value would also result from a default on a Senior Loan in which the Trust has invested and could result from a substantial deterioration in the creditworthiness of a Borrower or in the value of collateral securing a Senior Loan. Also, if any Borrower or any Selling Participant or Intermediate Participant fails to meet in a timely manner its obligations to remit principal and interest payments to the Trust, the Trust is likely to experience a decline in its net asset value.

The Senior Loans in which the Trust will invest will consist primarily of direct obligations of a Borrower undertaken to finance the growth of the Borrower's business or to finance a capital restructuring. Such loans may include "leveraged buy-out" loans which are made to a Borrower for the purpose of acquiring ownership control of another company, whether as a purchase of equity or of assets or for a leveraged reorganization of the Borrower with no change in ownership. The Trust may invest in Senior Loans which are made to non-U.S. Borrowers, provided that the loans are dollar-denominated and any such Borrower meets the credit standards established by the Investment Adviser for U.S. Borrowers. Loans by non-U.S. Borrowers involve risks not typically involved in domestic investment, including future foreign political and economic developments and the possible imposition of exchange controls or other foreign or U.S. governmental laws or restrictions applicable to such loans. In addition, although loans to non-U.S. Borrowers will be dollar-denominated debt obligations, such loans involve foreign currency exchange risks to the extent that a decline in a non-U.S. Borrower's own currency relative to the dollar may impair such Borrower's ability to meet debt service on a Senior Loan.

Senior Loans hold the most senior position in a Borrower's capital structure, although some Senior Loans may hold an equal ranking with other senior securities of the Borrower (i.e., have equal claims to

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the Borrower's assets). In order to borrow money pursuant to Senior Loans, a Borrower will frequently pledge as collateral its assets, including, but not limited to, trademarks, accounts receivable, inventory, buildings, real estate, franchises and common and preferred stock in its subsidiaries. In addition, in the case of some Senior Loans, there may be additional collateral pledged in the form of guarantees by and/or securities of affiliates of the Borrowers. A Loan Agreement may also require the Borrower to pledge additional collateral in the event that the value of the collateral falls. In certain instances, a Senior Loan may be secured only by stock in the Borrower or its subsidiaries. Each Senior Loan in which the Trust will invest will be secured by collateral which the Investment Adviser believes to have a market value, at the time of acquisition of the Senior Loan, which equals or exceeds the principal amount of the Senior Loan. The value of such collateral generally will be determined by an independent appraisal and/or other information regarding the collateral furnished by the Agent. Such information will generally include appraisals in the case of assets such as real estate, buildings and equipment, audits in the case of inventory and analyses (based upon, among other things, investment bankers' opinions, fairness opinions and relevant transactions in the marketplace) in the case of other kinds of collateral. Loan Agreements may also include various restrictive covenants designed to limit the activities of the Borrower in an effort to protect the right of the Lenders to receive timely payments of interest on and repayment of principal of the Senior Loans. Restrictive covenants contained in a Loan Agreement may include mandatory prepayment provisions arising from excess cash flow and typically include restrictions on dividend payments, specific mandatory minimum financial ratios, limits on total debt and other financial tests. Breach of such covenants, if not waived by the Lenders, is generally an event of default under the applicable Loan Agreement and may give the Lenders the right to accelerate principal and interest payments.

The Investment Adviser will perform its own credit analysis of the Borrower and will consider, and may rely in part on, the analyses performed by Lenders other than the Trust. The Trust will invest only in those Senior Loans with respect to which the Borrower, in the opinion of the Investment Adviser, demonstrates the ability to meet debt service in a timely manner (taking into consideration the Borrower's capital structure, liquidity and historical and projected cash flow) and where the Investment Adviser believes that the market value of the collateral at the time of investment equals or exceeds the amount of the Senior Loan. The Investment Adviser will also consider the following characteristics: the operating history, competitive position and management of the Borrower; the business outlook of the Borrower's industry; the terms of the Loan Agreement (e.g., the nature of the covenants, interest rate and fees and prepayment conditions); whether the Trust will purchase an Assignment, Participation or act as a lender originating a Senior Loan; and the

creditworthiness of and quality of service provided by the Agent and any Selling Participant or Intermediate Participants. Senior Loans presently are not rated by nationally recognized statistical rating organizations. Because of the collateralized nature and other credit enhancement features of Senior Loans, such as third-party guarantees, as well as the fact that a Borrower's other debt obligations are often subordinated to its Senior Loans, the Trust and the Investment Adviser believe that ratings of other securities issued by a Borrower do not necessarily reflect adequately the relative quality of a Borrower's Senior Loans. Therefore, although the Investment Adviser may consider such ratings in determining whether to invest in a particular Senior Loan, the Investment Adviser is not required to consider such ratings and such ratings will not be the determinative factor in its analysis.

Senior Loans typically are arranged through private negotiations between a Borrower and several financial institutions ("Lenders") represented in each case by one or more of such Lenders acting as

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agent ("Agent") of the several Lenders. On behalf of the several Lenders, the Agent, which is frequently the commercial bank that originates the Senior Loan and the person that invites other parties to join the lending syndicate, typically will be primarily responsible for negotiating the loan agreement or agreements ("Loan Agreement") that establish the relative terms, conditions and rights of the Borrower and the several Lenders. In larger transactions it is common to have several Agents; however, generally only one such Agent has primary responsibility for documentation and administration of the Senior Loan. Agents are typically paid a fee or fees by the Borrower for their services.

The Trust may invest in Senior Loans in the following ways: (i) it may purchase Participations, (ii) it may purchase Assignments of a portion of a Senior Loan, (iii) it may act as one of the group of Lenders originating a Senior Loan or (iv) it may assume through a novation all of the rights of a Lender in a Senior Loan, including the right to enforce its rights as a Lender directly against the Borrower.

When the Trust is a Lender, or assumes all of the rights of a Lender through an assignment or a novation, it will, as a party to the Loan Agreement, have a direct contractual relationship with the Borrower and may enforce compliance by the Borrower with the terms of the Loan Agreement. Lenders also have voting and consent rights under the applicable Loan Agreement. Action subject to Lender vote or consent generally requires the vote or consent of the holders of some specified percentage of the outstanding principal amount of the Senior Loan, which percentage varies depending on the relevant Loan Agreement. Certain decisions, such as reducing the amount or increasing the time for payment of interest on or repayment of principal of a Senior Loan, or releasing collateral therefor, frequently require the unanimous vote or consent of all Lenders affected.

A Participation may be acquired from an Agent, a Lender or any other holder of a Participation ("Selling Participant"). Investment by the Trust in a Participation typically will result in the Trust having a contractual relationship only with the Selling Participant, not with the Borrower or any other entities interpositioned between the Trust and the Borrower ("Intermediate Participants"). The Trust will have the right to receive payments of principal, interest and any fees to which it is entitled only from the Selling Participant and only upon receipt by such Selling Participant of such payments from the Borrower. In connection with purchasing Participations, the Trust generally will have no right to enforce compliance by the Borrower with the terms of the Loan Agreement, nor any rights with respect to funds acquired by other Lenders through set-off against the Borrower and the Trust may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the Participation. As a result, the Trust will assume the credit risk of the Borrower, the Selling Participant and any Intermediate Participants. In the event of the insolvency of the Selling Participant or any Intermediate Participant, the Trust may be treated as a general creditor of such entity and may be adversely affected by any set-off between such entity and the Borrower. The Trust will acquire Participations only if the Selling Participant and any Intermediate Participant is a commercial bank or other financial institution with an investment grade long-term debt rating from either Standard and Poor's Corporation ("S&P") (rated BBB or higher) or Moody's Investors Service, Inc. ("Moody's") (rated Baa or higher), or with outstanding commercial paper rated at least in the top two rating categories of either of such rating agencies (at least A-2 by S&P or at least Prime-2 by Moody's) or, if such long-term debt and commercial paper are unrated, with long-term debt or commercial paper believed by the Investment Adviser to be of comparable quality. Long-term debt rated BBB by S&P is regarded by S&P as having adequate capacity to pay interest and repay principal and debt rated Baa by Moody's is regarded by Moody's as a medium grade obligation, i.e., it is neither highly protected nor poorly secured, although debt rated Baa by Moody's is considered to have

speculative characteristics. Commercial paper rated A-2 by S&P indicates that the degree of safety regarding timely payment is considered by S&P to be strong, and issues of commercial paper rated Prime-2 by Moody's are considered by Moody's to have a strong capacity for repayment of senior short-term debt obligations. The Trust will purchase an Assignment or act as one of a group of Lenders only where the Agent with respect to the Senior Loan is a bank, a member of a national securities exchange or other entity designated in the Investment Company Act of 1940, as amended (the "1940 Act"), as qualified to serve as a custodian for a registered investment company such as the Trust (a "Designated Custodian"). In addition, the Trust will purchase a Participation initially only when the Lender selling such Participation, and any other person interpositioned between such Lender and the Trust, are Designated Custodians. If the Trust determines in the future to purchase interests in Senior Loans in instances in which such Agent, Lender or interpositioned person is not a Designated Custodian, the Trust will seek appropriate relief under the 1940 Act and if such relief is granted the Trust will thereafter purchase Senior Loans in a manner consistent with such relief.

The Trust may also purchase Assignments from Lenders and other third parties. The purchaser of an Assignment typically succeeds to all the rights of the Lender or other third party whose interest is being assigned, but it may not be a party to the Loan Agreement and may be required to rely on such Lender or other third party to demand payment and enforce its rights against the Borrower. Assignments are arranged through private negotiations between potential assignors and potential assignees; consequently, the rights and obligations acquired by the purchaser of an Assignment may differ from and be more limited than those held by the assignor.

In determining whether to purchase Participations or Assignments or act as one of a group of Lenders, the Investment Adviser will consider the availability of each of these forms of investments in Senior Loans, the terms of the Loan Agreement, and in the case of Participations, the creditworthiness of the Selling Participant and any Intermediate Participants.

In connection with the purchase of interests in Senior Loans, the Trust may also acquire warrants and other equity securities of the Borrower or its affiliates. The acquisition of such equity securities will only be incidental to the Trust's purchase of interests in Senior Loans.

The Trust will limit its investments to those which could be acquired directly by national banks for their own portfolios, as provided in 12 U.S. Code, section 24, paragraph 7 and the implementing regulations and interpretations of the Comptroller of the Currency. The conditions and restrictions governing the purchase of Shares by national banks are set forth in the U.S. Comptroller of the Currency's Banking Circular No. 220, dated November 21, 1986. Subject to such conditions and restrictions, national banks may acquire Shares for their own investment portfolio.

The Trust is authorized to invest in Senior Notes. It is anticipated that Senior Notes purchased by the Trust will generally bear a higher rate of interest than Syndicated Loans. Such securities may, however, involve greater risks than those associated with Syndicated Loans. The covenants and restrictions to which the Borrower would be subject in the case of Senior Notes may not be as rigorous in all respects as those to which the Borrower would be subject in the case of a Syndicated Loan. Also, the scope of financial information respecting the Borrower available to investors in Senior Notes may be more limited than that available to Syndicated Loan Lenders. In addition, a Syndicated Loan typically requires steady amortization of principal throughout the life of the loan, whereas Senior Notes typically are structured to allow Borrowers to repay principal later in the life of the loan.

The investment objective of the Trust and its policy to invest, under normal market conditions, at least 80% of its total assets in Senior Loans, are fundamental policies of the Trust and may not be changed without the approval of a majority of the outstanding voting securities of the Trust, as defined in the 1940 Act. Such a majority is defined as the lesser of (i) 67% or more of the Trust's Shares present at a meeting of shareholders, if the holders of more than 50% of the outstanding Shares of the Trust are present or represented by proxy, or (ii) more than 50% of the outstanding Shares of the Trust. Except as otherwise specified, all other investment policies of the Trust are not fundamental and may be changed by the Board of Trustees without shareholder approval.

SPECIAL RISK FACTORS

The Trust may be required to pay and may receive various fees and

commissions in connection with purchasing, selling and holding interests in Senior Loans. When the Trust buys an interest in a Senior Loan, it may receive a facility fee, which is a fee paid to Lenders upon origination of a Senior Loan and/or a commitment fee which is a fee paid to Lenders on an ongoing basis based upon the undrawn portion committed by the Lenders of the underlying Senior Loan. In certain circumstances, the Trust may receive a prepayment penalty on the prepayment of a Senior Loan by a Borrower. When the Trust sells an interest in a Senior Loan it may be required to pay fees or commissions to the purchaser of the interest. The extent to which the Trust will be entitled to receive or be required to pay such fees will generally be a matter of negotiation between the Trust and the party selling to or purchasing from the Trust. The Investment Adviser currently anticipates that the Trust will continue to receive and/or pay fees and commissions in a majority of the transactions involving Senior Loans.

Pursuant to the relevant Loan Agreement, a Borrower may be required in certain circumstances, and may have the option at any time, to prepay the principal amount of a Senior Loan, often without incurring a prepayment penalty. The degree to which Borrowers prepay Senior Loans may be affected by such factors as general business conditions, the financial condition of the Borrower and competitive conditions among lenders. Accordingly, prepayment cannot be predicted with accuracy. Because the interest rates on Senior Loans are periodically redetermined at relatively short intervals, the Trust and the Investment Adviser believe that the prepayment of, and subsequent reinvestment by the Trust in, Senior Loans will not have a materially adverse impact on the yield on the Trust's portfolio and may have a beneficial impact on income due to receipt of prepayment penalties, if any, and any facility fees earned in connection with reinvestment. However, yield could be adversely affected to the extent that the Trust is unable to reinvest promptly prepayments in Senior Loans, or, in a period of declining interest rates, to the extent that Borrowers prepay Senior Loans whose interest rates have not yet been reset to reflect such declines.

Lenders commonly have certain obligations pursuant to the Loan Agreement, which may include the obligation to make additional loans or release collateral in certain circumstances. The Trust will establish a segregated account with its custodian bank in which it will maintain cash or high quality debt securities equal in value to its commitments to make such additional loans. In no event will such commitments exceed 20% of the Trust's total assets.

On behalf of the several Lenders, the Agent typically will be required to administer and manage the Senior Loan and to service or monitor the collateral. The Trust will rely on the Agent (where the Trust is a Lender or owns an Assignment of a Lender's interest) or the Selling Participant (where the Trust owns a Participation) to collect principal of and interest on a Senior Loan. Furthermore, the Trust usually will rely

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on the Agent (where the Trust is a Lender or owns an Assignment of a Lender's interest) and/or the Selling Participants (where the Trust owns a Participation) to monitor compliance by the Borrower with restrictive covenants in the Loan Agreement and notify the Trust of any adverse change in the Borrower's financial condition or any declaration of insolvency. The Agent monitors the value of the collateral on an ongoing basis and, if the value of the collateral declines, may take certain action, including accelerating principal payments on the Senior Loan, giving the Borrower an opportunity (or requiring the Borrower if the Loan Agreement so provides) to provide additional collateral or seeking other protection for the benefit of the participants in the Senior Loan, depending on the terms of the Loan Agreement. Furthermore, unless the Trust's interest in a Senior Loan affords it the right to direct recourse against the Borrower, the Trust will rely on the Agent to use appropriate creditor remedies against the Borrower. Typically, the Agent will have broad discretion in enforcing the terms of a Loan Agreement.

Loan Agreements typically provide for the termination of the Agent's agency status in the event that it fails to act as required under the relevant Loan Agreement, becomes insolvent, or has a receiver, conservator or similar official appointed for it by the appropriate bank regulatory authority or becomes a debtor in a bankruptcy proceeding. Should such an Agent or a Selling Participant, Intermediate Participant or assignor with respect to an Assignment become insolvent or have a receiver, conservator or similar official appointed for it by the appropriate bank regulatory authority or become a debtor in a bankruptcy proceeding, the Trust believes that its interest in the Senior Loan and any loan payment held by such person for the benefit of the Trust should not be included in such person's estate. If, however, any such amount were included in such person's estate, the Trust would incur certain costs and delays in realizing payment or could suffer a loss of principal and/or interest. Even if such amount is not included in such person's estate, the possibility exists that the servicing of the Senior Loans may be temporarily disrupted and that there could be delays in the receipt of principal and/or interest by the Trust which would adversely affect income and net asset value.

Senior Loans, like other corporate debt obligations, are subject to the risk of nonpayment of scheduled interest or principal. Such nonpayment would result in a reduction of income to the Trust, a reduction in the value of the Senior Loan experiencing nonpayment and a decrease in the net asset value of the Trust. Although the Trust will invest only in Senior Loans that the Investment Adviser believes are secured by collateral, the value of which equals or exceeds the principal amount of the Senior Loan, the value of the collateral pledged by the Borrower under a Senior Loan, including any additional collateral which the Loan Agreement may require the Borrower to pledge, may decline below the amount of the Senior Loan after the acquisition of the interest in the Senior Loan. If this were to occur, the Trust would be exposed to the risk that the value of the collateral will not at all times equal or exceed the amount of the Borrower's obligations under the Senior Loan. Furthermore, there is no assurance that the liquidation of the collateral would satisfy the Borrower's obligation in the event of nonpayment of scheduled interest or principal, or that the collateral could be readily liquidated. As a result, the Trust may not receive payments to which it is entitled and thereby is likely to experience a decline in the value of its investment and in its net asset value.

Senior Loans made in connection with leveraged buy-outs and other highly leveraged transactions are subject to greater credit risks than loans made to less leveraged Borrowers. These credit risks include the possibility of default or bankruptcy of the Borrower, and the assertion that the pledging of collateral to secure the loan constituted a fraudulent conveyance or preferential transfer which can be

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nullified or subordinated to the rights of other creditors of the Borrower under applicable law. The value of such Senior Loans also may be subject to a greater degree of volatility in response to interest rate fluctuations and may be less liquid than other Senior Loans.

Senior Loans in which the Trust will invest presently are not rated by a nationally recognized statistical rating agency, will not be registered with the Securities and Exchange Commission ("SEC") or any state securities commission and will not be listed on any national securities exchange. Although the Trust will generally have access to financial and other information made available to the Lenders in connection with Senior Loans, the amount of public information available with respect to Senior Loans will generally be less extensive than that available for rated, registered and/or exchange listed securities. As a result, the performance of the Trust and its ability to meet its investment objective is more dependent on the analytical ability of the Investment Adviser than would be the case for an investment company that invests primarily in rated, registered and/or exchange listed securities.

Senior Loans are at present not readily marketable and are often subject to restrictions on resale. For example, bank approval is often required for resale of interests in Senior Loans. Although interests in Senior Loans may be transferable among financial institutions, such interests do not at present have the liquidity of conventional debt securities traded in the secondary market. The substantial portion of the Trust's assets invested in interests in Senior Loans may restrict the ability of the Trust to dispose of its investments in Senior Loans in a timely fashion and at a fair price, and could result in capital losses to the Trust and holders of Shares. Such risks are particularly acute in situations where the Trust's operations require cash, such as when the Trust tenders for its Shares, and may result in the Trust's borrowing to meet short-term cash requirements. The Board of Trustees of the Trust will consider the liquidity of the Trust's portfolio investments in determining whether a tender offer should be made by the Trust and the number of Shares offered to be purchased pursuant thereto.

The Trust has registered as a "non-diversified" investment company so that, subject to its investment restrictions, it will be able to invest more than 5% of the value of its total assets in the obligations of any single issuer, including Senior Loans of a single Borrower or Participations purchased from a single Lender or Selling Participant. However, the Trust does not intend to invest more than 10% of the value of its total assets in interests in Senior Loans of a single Borrower. To the extent the Trust invests its assets in obligations of a more limited number of issuers than a diversified investment company, the Trust will be more susceptible than a diversified investment company to any single corporate, economic, political or regulatory occurrence.

In addition, the Trust may invest up to 100% of its assets in Participations. Because the Trust will regard the Selling Participants and Intermediate Participants as issuers, the Trust may be deemed to be concentrated in securities of issuers in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift

institutions, insurance companies and finance companies. As a result, the Trust is subject to certain risks associated with such institutions. Banking and thrift institutions are subject to extensive governmental regulations which may limit both the amounts and types of loans and other financial commitments which such institutions may make and the interest rates and fees which such institutions may charge. The profitability of these institutions is largely dependent on the availability and cost of capital funds, and has shown significant recent fluctuation as a result of volatile interest rate levels. In addition, general economic conditions are important to the operations of these institutions, with exposure to credit losses resulting from possible financial difficulties

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of borrowers potentially having an adverse effect. Insurance companies also are affected by economic and financial conditions and are subject to extensive government regulation, including rate regulation. The property and casualty industry is cyclical, being subject to dramatic swings in profitability which can be affected by natural catastrophes and other disasters. Individual companies may be exposed to material risks, including reserve inadequacy, latent health exposure, and inability to collect from their reinsurance carriers. The financial services area is currently undergoing relatively rapid change as existing distinctions between financial service segments become less clear. In this regard, recent business combinations have included insurance, finance and securities brokerage under single ownership. Moreover, the federal laws generally separating commercial and investment banking are currently being studied by Congress. Also, the Trust could be adversely affected if Selling Participants and Intermediate Participants were to become overexposed to leveraged buy-outs or other loans.

INVESTMENT PRACTICES

The following investment practices apply to the portfolio investments of the Trust and may be changed by the Trustees of the Trust without shareholder approval, following written notice to shareholders.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

The Trust may purchase and sell interests in Senior Loans and other securities in which the Trust may invest or dispose of on a when-issued or delayed delivery basis; i.e., delivery and payment can take place more than 30 days after the date of the transaction. The interests or securities so purchased or sold are subject to market fluctuation during this period and no interest accrues to the purchaser prior to the date of settlement. At the time the Trust makes the commitment to enter into a when-issued or delayed delivery transaction, it will record the transaction and thereafter reflect the value, each day, of such interest or security in determining the net asset value of the Trust. At the time of delivery, the value of the interest or security may be more or less than the purchase price. Since the Trust is dependent on the party issuing the when-issued or delayed delivery security to complete the transaction, failure by the other party to deliver the interest or security as arranged would result in the Trust losing an investment opportunity. The Trust will also establish a segregated account with its custodian bank in which it will maintain cash or high quality debt securities equal in value to commitments for such when-issued or delayed delivery interests or other securities; subject to this requirement, the Trust may enter into transactions on such basis without limit. The Investment Adviser and the Trustees do not believe that the Trust's net asset value or income will be adversely affected by its purchase or sale of interests or other securities on such basis.

REPURCHASE AGREEMENTS

When cash may be available for only a few days, it may be invested by the Trust in repurchase agreements until such time as it may otherwise be invested or used for payments of obligations of the Trust. These agreements, which may be viewed as a type of secured lending by the Trust, typically involve the acquisition by the Trust of debt securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The agreement provides that the Trust will sell back to the institution, and that the institution will repurchase, the underlying security ("collateral"), which is held by the Trust's custodian, at a specified price and at a fixed time in the future, usually not more than seven days from the date of purchase. The Trust will receive interest from the institution until the time when the

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repurchase is to occur. Although such date is deemed by the Trust to be the maturity date of a repurchase agreement, the maturities of securities subject to repurchase agreements are not subject to any limits and may exceed one year. While repurchase agreements involve certain risks not associated with direct

investments in debt securities, the Trust will follow procedures adopted by the Trustees designed to minimize such risks. These procedures include effecting repurchase transactions only with large, well-capitalized and well-established financial institutions, whose financial condition will be continually monitored by the Investment Adviser. In addition, the value of the collateral underlying the repurchase agreement will be maintained at a level at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, the Trust will seek to liquidate such collateral. However, the exercising of the Trust's right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Trust could suffer a loss. In addition, to the extent that the Trust's security interest in the collateral may not be properly perfected, the Trust could suffer a loss up to the entire amount of the collateral. It is the policy of the Trust not to invest in repurchase agreements that do not mature within seven days if any such investments amount to more than 10% of its total assets.

REVERSE REPURCHASE AGREEMENTS

The Trust may enter into reverse repurchase agreements with respect to debt obligations which could otherwise be sold by the Trust. A reverse repurchase agreement is an instrument under which the Trust may sell an underlying debt instrument and simultaneously obtain the commitment of the purchaser (a commercial bank or a broker or dealer) to sell the security back to the Trust at an agreed upon price on an agreed upon date. The value of the underlying securities will be at least equal at all times to the total amount of the resale obligation, including the interest factor. Reverse repurchase agreements could involve certain risks in the event of default or insolvency of the other party, including possible delays or restrictions upon the Trust's ability to dispose of the underlying securities. An additional risk is that the market value of securities sold by the Trust under a reverse repurchase agreement could decline below the price at which the Trust is obligated to repurchase them. Reverse repurchase agreements will be considered borrowings by the Trust and as such would be subject to the restrictions on borrowing described below under "Investment Restrictions." The Trust will not hold more than 5% of the value of its total assets in reverse repurchase agreements.

LENDING OF PORTFOLIO SECURITIES

Consistent with applicable regulatory requirements, the Trust may lend its portfolio securities to brokers, dealers and financial institutions, provided that such loans are callable at any time by the Trust (subject to notice provisions described below), and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are equal to at least 102% of the market value, determined daily, of the loaned securities. The advantage of such loans is that the Trust continues to receive the income on collateral, which will be invested in short-term obligations. The Trust will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale and will not lend more than 25% of the value of its total assets.

A loan may be terminated by the borrower on one business day's notice, or by the Trust on four business days' notice. If the borrower fails to deliver the loaned securities within four days after receipt of notice, the Trust could use the collateral to replace the securities while holding the borrower liable for any

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excess of replacement cost over collateral. As with any extensions of credit, there are risks of delay in recovery and in some cases even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will be made only to firms deemed by the Investment Adviser to be creditworthy and when the income which can be earned from such loans justifies the attendant risks. Upon termination of the loan, the borrower is required to return the securities to the Trust. Any gain or loss in the market price during the loan period would inure to the Trust. The creditworthiness of firms to which the Trust lends its portfolio securities will be monitored on an ongoing basis by the Investment Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Trustees of the Trust.

When voting on consent rights which accompany loaned securities pass to the borrower, the Trust will follow the policy of calling the loaned securities, to be delivered within one day after notice, to permit the exercise of such rights if the matters involved would have a material effect on the Trust's investment in such loaned securities. The Trust will pay reasonable finder's, administrative and custodial fees in connection with a loan of its securities.

BORROWING

The Trust may borrow money from a bank for temporary or emergency purposes or to effect a tender offer for its Shares provided that immediately after such borrowing the amount borrowed does not exceed 33 1/3% of the value of its total assets (including the amount borrowed) less its liabilities (not including any borrowings but including the fair market value at the time of computation of any other senior securities then outstanding). If, due to market fluctuations or other reasons, the value of the Trust's assets falls below the foregoing required coverage requirement, the Trust, within three business days, will reduce its bank debt to the extent necessary to comply with such requirement. To achieve such reduction, it is possible that the Trust may be required to sell portfolio securities at a time when it may be disadvantageous to do so.

Borrowings other than for temporary or emergency purposes would involve additional risk to the Trust, since the interest expense may be greater than the income from or appreciation of the interests carried by the borrowing. The Trust may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit. Either of these requirements will increase the cost of borrowing over the stated interest rate. Investment activity will continue while the borrowing is outstanding. The purchase of additional interests while any borrowing is outstanding involves the speculative factor known as "leverage," which will increase the Trust's exposure to capital risk.

HEDGING AND RISK MANAGEMENT TRANSACTIONS

The Trust is authorized to engage in various interest rate hedging transactions and risk management transactions, including interest rate swaps and the purchase and sale of interest rate caps and floors. These techniques are described in Appendix A. The Trust does not, however, presently intend to engage in such hedging and risk management transactions, and, if the Trust is offering its Shares, will not do so unless and until the Trust's prospectus is revised to reflect this change.

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INVESTMENT RESTRICTIONS

The investment restrictions listed below have been adopted by the Trust as fundamental policies, which may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Trust. All other investment policies or practices, other than the Trust's investment policy with respect to Senior Loans, are considered by the Trust not to be fundamental and accordingly may be changed without shareholder approval. All percentage limitations apply immediately after a purchase or initial investment, and any subsequent change in any applicable percentage resulting from market fluctuations or other changes in the amount of total or net assets does not require elimination of any security from the portfolio.

The Trust may not:

1. Invest more than 25% of the Trust's total assets in the securities of any one issuer or, with respect to 50% of the Trust's total assets, purchase any securities (other than obligations issued or guaranteed by the United States Government or by its agencies or instrumentalities), if as a result more than 5% of the Trust's total assets would then be invested in securities of a single issuer or if as a result the Trust would hold more than 10% of the outstanding voting securities of any single issuer. For purposes of this restriction and restriction number two, the Trust will consider a Borrower to be the issuer of a Participation and, with respect to Participations under which the Trust does not have privity with the Borrower or would not have a direct cause of action against the Borrower in the event of its failure to pay scheduled principal or interest, the Trust will also separately meet the requirements contained in this investment restriction and consider each person interpositioned between the Borrower and the Trust to be an issuer of the Participation.

2. Invest 25% or more of the value of its total assets in securities of issuers in any one industry (the electric, gas, water and telephone utility industries will be treated as separate industries for purposes of this restriction); provided that this limitation shall not apply with respect to obligations issued or guaranteed by the U.S. Government or by its agencies or instrumentalities; and provided further that the Trust will (once at least 80% of the Trust's assets are invested in Senior Loans) invest more than 25% and may invest up to 100% of its total assets in securities of issuers in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift institutions, insurance companies and finance companies. (See restriction number one for the definition of issuer for purposes

of this restriction.)

3. Invest in common stock, except that the Trust may acquire warrants or other equity securities incidental to the purchase of an interest in a Senior Loan.

4. Invest in securities of any issuer if, to the knowledge of the Trust, any officer or trustee of the Trust or any officer or director of the Investment Adviser or DWR owns more than 1/2 of 1% of the outstanding securities of such issuer, and such officers, trustees and directors who own more than 1/2 of 1% own in the aggregate more than 5% of the outstanding securities of such issuer.

5. Purchase or sell real estate or interests therein, commodities or commodity contracts except pursuant to the exercise by the Trust of its rights under Loan Agreements, except to the extent the

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interest in Senior Loans the Trust may invest in are considered to be interests in real estate, commodities or commodities contracts and except to the extent that hedging instruments the Trust may invest in are considered to be commodities or commodities contracts.

6. Purchase oil, gas or other mineral leases, rights or royalty contracts, or exploration or development programs, except pursuant to the exercise by the Trust of its rights under Loan Agreements. In addition, the Trust may purchase securities of issuers which deal in, represent interests in or are secured by interests in such leases, rights or contracts.

7. Write, purchase or sell puts, calls or combinations thereof, except for options on futures contracts or options on debt securities.

8. Purchase securities of other investment companies, except in connection with a merger, consolidation, reorganization or acquisition of assets or, by purchase in the open market of securities of closed-end investment companies where no underwriter's or dealer's commission or profit, other than customary broker's commissions, is involved and only if immediately thereafter not more than: (a) 5% of the Trust's total assets would be invested in any one such company and (b) 10% of the Trust's total assets would be invested in such securities. The Trust will rely on representations of Borrowers in Loan Agreements in determining whether such Borrowers are investment companies.

9. Borrow money, except that the Trust may borrow from a bank for temporary or emergency purposes or for the repurchase of Shares, provided that immediately after such borrowing the amount borrowed does not exceed 33 1/3% of the value of its total assets (including the amount borrowed) less its liabilities (not including any borrowings but including the fair market value at the time of computation of any other senior securities which are outstanding at the time).

10. Pledge, mortgage or hypothecate its assets or assign or otherwise encumber them, except to secure borrowings effected within the limitations set forth in Restriction 9 (and then only to the extent of 33 1/3% of the value of the Trust's total assets) and except pursuant to reverse repurchase agreements as provided in this Prospectus. However, for the purpose of this restriction, collateral arrangements with respect to the writing of options and collateral arrangements with respect to initial margin for futures are not deemed to be pledges of assets.

11. Issue senior securities, as defined in the 1940 Act, except insofar as the Trust may be deemed to have issued a senior security by reason of: (a) entering into any repurchase agreement; (b) purchasing any securities on a when-issued or delayed delivery basis; (c) entering into the hedging transactions described in this prospectus, including Appendix A; (d) borrowing money in accordance with restrictions described above; or (e) lending portfolio securities.

12. Make loans of money or securities, except: (a) by acquiring interests in Senior Loans and making other permitted investments in accordance with its investment objective; (b) by entering into repurchase agreements (provided that no more than 10% of the Trust's total assets will be invested in repurchase agreements that do not mature within seven days) or reverse repurchase agreements; and (c) by lending its portfolio securities (provided that the Trust may not lend its portfolio securities in excess of 25% of its total assets).

13. Make short sales of securities.

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14. Purchase securities on margin. Neither the deposit of initial or variation margin in connection with hedging transactions nor short-term credits as may be necessary for the clearance of such transactions is considered the

purchase of a security on margin.

15. Engage in the underwriting of securities, except to the extent the Trust may be deemed to be an underwriter in connection with the sale of or granting of interests in Senior Loans or other securities acquired by the Trust.

16. Make investments for the purpose of exercising control or management of any other issuer, except to the extent that exercise by the Trust of its rights under Loan Agreements would be deemed to constitute such control or participation.

The Trust generally will not engage in the trading of securities for the purpose of realizing short-term profits, but it will adjust its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish the Trust's investment objective. For example, the Trust may sell portfolio securities in anticipation of a movement in interest rates. Frequency of portfolio turnover will not be a limiting factor if the Trust considers it advantageous to purchase or sell securities. The Trust anticipates that the annual portfolio turnover rate of the Trust will be less than 100%. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, which expenses must be borne by the Trust and its shareholders. High portfolio turnover also may result in the realization of substantial net short-term capital gains. In order to continue to qualify as a regulated investment company for federal income tax purposes, less than 30% of the annual gross income of the Trust must be derived from the sale of securities held by the Trust for less than three months. See "Taxation."

TRUSTEES AND OFFICERS

The Trustees and Executive Officers of the Trust and their principal occupations for at least the last five years and their affiliations, if any, with InterCapital and with the 82 Dean Witter Funds and the 14 TCW/DW Funds are shown below.

<TABLE>
<CAPTION>

NAME, AGE, POSITION WITH THE TRUST AND ADDRESS	PRINCIPAL OCCUPATIONS DURING LAST FIVE YEARS
Michael Bozic (55) Trustee c/o Levitz Furniture Corporation 6111 Broken Sound Parkway, N.W. Boca Raton, Florida	Chairman and Chief Executive Officer of Levitz Furniture Corporation (since November, 1995); Director or Trustee of the Dean Witter Funds; formerly President and Chief Executive Officer of Hills Department Stores (May, 1991-July, 1995); formerly variously Chairman, Chief Executive Officer, President and Chief Operating Officer (1987-1991) of the Sears Merchandise Group of Sears, Roebuck and Co.; Director of Eaglemark Financial Services, Inc.; the United Negro College Fund and Weirton Steel Corporation.
Charles A. Fiumefreddo* (63) Chairman of the Board, President and Chief Executive Officer Two World Trade Center New York, New York	Chairman, Chief Executive Officer and Director of InterCapital, Distributors and DWSC; Director and Executive Vice President of DWR; Chairman, Director or Trustee, President and Chief Executive Officer of the Dean Witter Funds; Chairman, Chief Executive Officer and Trustee of the TCW/DW Funds; Chairman and Director of Dean Witter Trust Company ("DWTC"); Director and/or officer of various DWDC subsidiaries; formerly Executive Vice President and Director of DWDC (until February 1993).
Edwin J. Garn (64) Trustee c/o Huntsman Chemical Corporation 500 Huntsman Way Salt Lake City, Utah	Director or Trustee of the Dean Witter Funds; formerly United States Senator (R-Utah) (1974-1992) and Chairman, Senate Banking Committee (1980-1986); formerly Mayor of Salt Lake City, Utah (1971-1974); formerly Astronaut, Space Shuttle Discovery (April 12-19, 1985); Vice Chairman, Huntsman Chemical Corporation (since January, 1993); Director of Franklin Quest (time management systems) and John Alden Financial Corp.; Member of the board of various civic and charitable organizations.

</TABLE>

<TABLE> <CAPTION> NAME, AGE, POSITION WITH THE TRUST AND ADDRESS	PRINCIPAL OCCUPATIONS DURING LAST FIVE YEARS
<S> John R. Haire (71) Trustee Two World Trade Center New York, New York	<C> Chairman of the Audit Committee and Chairman of the Committee of the Independent Directors or Trustees and Director or Trustee of the Dean Witter Funds; Chairman of the Audit Committee and Chairman of the Committee of the Independent Trustees and Trustee of the TCW/DW Funds; formerly President, Council for Aid to Education (1978-1989) and Chairman and Chief Executive Officer of Anchor Corporation, an investment adviser (1964-1978); Director of Washington National Corporation (insurance).
Dr. Manuel H. Johnson (47) Trustee c/o Johnson Smick International, Inc. 1133 Connecticut Avenue, N.W. Washington, D.C.	Senior Partner, Johnson Smick International, Inc., a consulting firm; Koch Professor of International Economics and Director of the Center for Global Market Studies at George Mason University; Co-Chairman and a founder of the Group of Seven Council (G7C), an international economic commission; Director or Trustee of the Dean Witter Funds; Trustee of the TCW/DW Funds; Director of NASDAQ (since June, 1995); Director of Greenwich Capital Markets Inc. (broker-dealer); formerly Vice Chairman of the Board of Governors of the Federal Reserve System (1986-1990) and Assistant Secretary of the U.S. Treasury (1982-1986).
Michael E. Nugent (60) Trustee c/o Triumph Capital, L.P. 237 Park Avenue New York, New York	General Partner, Triumph Capital, L.P., a private investment partnership (since 1988); Director or Trustee of the Dean Witter Funds; Trustee of the TCW/DW Funds; formerly Vice President, Bankers Trust Company and BT Capital Corporation (1984-1988); director of various business organizations.
Philip J. Purcell* (53) Trustee Two World Trade Center New York, New York	Chairman of the Board of Directors and Chief Executive Officer of DWDC, DWR and Novus Credit Services Inc.; Director of InterCapital, DWSC and Distributors; Director or Trustee of the Dean Witter Funds; Director and/or officer of various DWDC subsidiaries.

<TABLE> <CAPTION> NAME, AGE, POSITION WITH THE TRUST AND ADDRESS	PRINCIPAL OCCUPATIONS DURING LAST FIVE YEARS
<S> John L. Schroeder (66) Trustee c/o Gordon Altman Butowsky Weitzen Shalov & Wein Counsel to the Independent Trustees 114 West 47th St. New York, New York	<C> Retired; Director or Trustee of the Dean Witter Funds; Trustee of the TCW/DW Funds; Director of Citizens Utilities Company; formerly, Executive Vice President and Chief Investment Officer of the Home Insurance Company (August, 1991-September, 1995); and Chairman and Chief Investment Officer of Axe-Houghton Management and the Axe-Houghton Funds (April, 1983-June, 1991).
Sheldon Curtis (64) Vice President, Secretary and General Counsel Two World Trade Center New York, New York	Senior Vice President, Secretary and General Counsel of InterCapital and DWSC; Senior Vice President, Assistant Secretary and Assistant General Counsel of Distributors; Senior Vice President and Secretary of DWTC; Assistant Secretary of DWR and Vice President, Secretary and General Counsel of the Dean Witter Funds and the TCW/DW Funds.
Rafael Scolari (39) Vice President Two World Trade Center New York, New York	Vice President of InterCapital (since April, 1994); formerly, a Portfolio Manager of AIMCO (January, 1990-February, 1993).
Thomas F. Caloia (50) Treasurer Two World Trade Center New York, New York	First Vice President and Assistant Treasurer of InterCapital and DWSC; Treasurer of the Dean Witter Funds and the TCW/DW Funds.

* Denotes Trustees who are "interested persons" of the Trust, as defined in the 1940 Act.

In addition, Robert M. Scanlan, President and Chief Operating Officer of InterCapital and DWSC, Executive Vice President of Distributors and DWTC and Director of DWTC, Robert S. Giambrone, Senior Vice President of InterCapital, DWSC, Distributors and DWTC and Director of DWTC, Joseph J. McAlinden, Executive Vice President and Chief Investment Officer of InterCapital and Director of DWTC, are Vice Presidents of the Trust, and Marilyn K. Cranney and Barry Fink, First Vice Presidents and Assistant General Counsels of InterCapital and DWSC, Lou Anne D. McInnis and Ruth Rossi, Vice Presidents and Assistant General Counsels of InterCapital and DWSC, and Carsten Otto and Frank Bruttomesso, Staff Attorneys with InterCapital, are Assistant Secretaries of the Trust.

COMPENSATION OF INDEPENDENT TRUSTEES

The Trust pays each Independent Trustee an annual fee of \$1,000 plus a per meeting fee of \$50 for meetings of the Board of Trustees or committees of the Board of Trustees attended by the Trustee (the Trust pays the Chairman of the Audit Committee an annual fee of \$750 and pays the Chairman of the Committee of the Independent Trustees an additional annual fee of \$1,200). The Trust also reimburses such Trustees for travel and other out-of-pocket expenses incurred by them in connection with attending such meetings. Trustees and officers of the Fund who are or have been employed by the Investment Manager or an affiliated company receive no compensation or expense reimbursement from the Trust.

The following table illustrates the compensation paid to the Trust's Independent Trustees by the Trust for the fiscal year ended September 30, 1996.

TRUST COMPENSATION

<TABLE>
<CAPTION>

NAME OF INDEPENDENT TRUSTEE	AGGREGATE COMPENSATION FROM THE TRUST
<S>	<C>
Michael Bozic.....	\$1,750
Edwin J. Garn.....	1,850
John R. Haire.....	3,850
Dr. Manuel H. Johnson.....	1,800
Michael E. Nugent.....	1,750
John L. Schroeder.....	1,800

The following table illustrates the compensation paid to the Trust's Independent Trustees for the calendar year ended December 31, 1995 for services to the 79 Dean Witter Funds and, in the case of Messrs. Haire, Johnson, Nugent and Schroeder, the 11 TCW/DW Funds that were in operation at December 31, 1995. With respect to Messrs. Haire, Johnson, Nugent and Schroeder, the TCW/DW Funds are included solely because of a limited exchange privilege between those Funds and five Dean Witter Money Market Funds. Mr. Schroeder was elected as a Trustee of the TCW/DW Funds on April 20, 1995.

COMPENSATION FROM DEAN WITTER FUNDS AND TCW/DW FUNDS

<TABLE>
<CAPTION>

TOTAL

NAME OF INDEPENDENT TRUSTEE	FOR SERVICE AS DIRECTOR OR TRUSTEE AND COMMITTEE MEMBER OF 79 DEAN WITTER FUNDS	FOR SERVICE AS TRUSTEE AND COMMITTEE MEMBER OF 11 TCW/DW FUNDS	FOR SERVICE AS CHAIRMAN OF COMMITTEES OF INDEPENDENT DIRECTORS/ TRUSTEES AND AUDIT COMMITTEES	COMPENSATION PAID FOR SERVICES TO 79 DEAN WITTER FUNDS AND 11 TCW/DW FUNDS
	<C>	<C>	<C>	<C>
Michael Bozic.....	\$126,050	--	--	\$126,050
Edwin J. Garn.....	136,450	--	--	136,450
John R. Haire.....	98,450	\$82,038	\$217,350 (1)	397,838
Dr. Manuel H. Johnson.....	136,450	82,038	--	218,488
Michael E. Nugent.....	124,200	75,038	--	199,238
John L. Schroeder.....	136,450	46,964	--	183,414

</TABLE>

(1) For the 79 Dean Witter Funds in operation at December 31, 1995. As noted above, on July 1, 1996, Mr. Haire became Chairman of the Committee of the Independent Trustees and the Audit Committee of the TCW/DW Funds in addition to continuing to serve in such positions for the Dean Witter Funds.

As of the date of this Prospectus, 57 of the Dean Witter Funds, including the Trust, have adopted a retirement program under which an Independent Trustee who retires after serving for at least five years (or such lesser period as may be determined by the Board) as an Independent Director or Trustee of any Dean Witter Fund that has adopted the retirement program (each such Fund referred to as an "Adopting Fund" and each such Trustee referred to as an "Eligible Trustee") is entitled to retirement payments upon reaching the eligible retirement age (normally, after attaining age 72). Annual payments are based upon length of service. Currently, upon retirement, each Eligible Trustee is entitled to receive from the Adopting Fund, commencing as of his or her retirement date and continuing for the remainder of his or her life, an annual retirement benefit (the "Regular Benefit") equal to 25.0% of his or her Eligible Compensation plus 0.4166666% of such Eligible Compensation for each full month of service as an Independent Director or Trustee of any Adopting Fund in excess of five years up to a maximum of 50.0% after ten years of service. The foregoing percentages may be changed by the Board. (2) "Eligible Compensation" is one-fifth of the total compensation earned by such Eligible Trustee for service to the Adopting Fund in the five year period prior to the date of the Eligible Trustee's retirement. Benefits under the retirement program are not secured or funded by the Adopting Funds.

The following table illustrates the retirement benefits accrued to the Trust's Independent Trustees by the Trust for the fiscal year ended September 30, 1996 and by the 57 Dean Witter Funds (including the Trust) as of December 31, 1995, and the estimated retirement benefits for the Trust's Independent Trustees from the Trust as of September 30, 1996 and from the 57 Dean Witter Funds as of December 31, 1995.

RETIREMENT BENEFITS FROM THE FUND AND ALL DEAN WITTER FUNDS

<TABLE>
<CAPTION>

NAME OF INDEPENDENT TRUSTEE	FOR ALL ADOPTING FUNDS		RETIREMENT BENEFITS ACCRUED AS EXPENSES		ESTIMATED ANNUAL BENEFITS UPON RETIREMENT (3)	
	ESTIMATED CREDITED YEARS OF SERVICE AT RETIREMENT (MAXIMUM 10)	ESTIMATED PERCENTAGE OF COMPENSATION	BY THE TRUST	BY ALL ADOPTING FUNDS	FROM THE TRUST	FROM ALL ADOPTING FUNDS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael Bozic.....	10	50.0%	\$ 399	\$ 26,359	\$ 950	\$ 51,550
Edwin J. Garn.....	10	50.0	601	41,901	950	51,550
John R. Haire.....	10	50.0	702	261,763	2,339	130,404
Dr. Manuel H. Johnson.....	10	50.0	244	16,748	950	51,550

Michael E. Nugent.....	10	50.0	422	30,370	950	51,550
John L. Schroeder.....	8	41.7	776	51,812	792	42,958

</TABLE>

-
- (2) An Eligible Trustee may elect alternate payments of his or her retirement benefits based upon the combined life expectancy of such Eligible Trustee and his or her spouse on the date of such Eligible Trustee's retirement. The amount estimated to be payable under this method, through the remainder of the later of the lives of such Eligible Trustee and spouse, will be the actuarial equivalent of the Regular Benefit. In addition, the Eligible Trustee may elect that the surviving spouse's periodic payment of benefits will be equal to either 50% or 100% of the previous periodic amount, an election that, respectively, increases or decreases the previous periodic amount so that the resulting payments will be the actuarial equivalent of the Regular Benefit.
- (3) Based on current levels of compensation. Amount of annual benefits also varies depending on the Trustee's elections described in Footnote (2) above.

As of the date of this Prospectus, the aggregate number of shares of beneficial interest of the Trust owned by the Trust's officers and Trustees as a group was less than 1 percent of the Trust's shares of beneficial interest outstanding.

THE BOARD OF TRUSTEES, THE INDEPENDENT TRUSTEES, AND THE COMMITTEES

The Board of Trustees consists of eight (8) trustees. These same individuals also serve as directors or trustees for all of the Dean Witter Funds, and are referred to in this section as Trustees. As of the date of this Prospectus, there are a total of 82 Dean Witter Funds, comprised of 122 portfolios. As of October 31, 1996, the Dean Witter Funds had total net assets of approximately \$79.5 billion and more than five million shareholders.

Six Trustees (75% of the total number) have no affiliation or business connection with InterCapital or any of its affiliated persons and do not own any stock or other securities issued by InterCapital's parent company, DWDC. These are the "disinterested" or "independent" Trustees. The other two Trustees (the "management Trustees") are affiliated with InterCapital. Four of the six independent Trustees are also Independent Trustees of the TCW/DW Funds.

Law and regulation establish both general guidelines and specific duties for the Independent Trustees. The Dean Witter Funds seek as Independent Trustees individuals of distinction and experience in business and finance, government service or academia; these are people whose advice and counsel are in demand by others and for whom there is often competition. To accept a position on the Funds' Boards, such individuals may reject other attractive assignments because the Funds make substantial demands on their time. Indeed, by serving on the Funds' Boards, certain Trustees who would otherwise be qualified and in demand to serve on bank boards would be prohibited by law from doing so.

All of the Independent Trustees serve as members of the Audit Committee and the Committee of the Independent Trustees. Three of them also serve as members of the Derivatives Committee. During the calendar year ended December 31, 1995, the three Committees held a combined total of fifteen meetings. The Committees hold some meetings at InterCapital's offices and some outside InterCapital. Management Trustees or officers do not attend these meetings unless they are invited for purposes of furnishing information or making a report.

The Committee of the Independent Trustees is charged with recommending to the full Board approval of management, advisory and administration contracts,

Rule 12b-1 plans and distribution and underwriting agreements; continually reviewing Fund performance; checking on the pricing of portfolio securities, brokerage commissions, transfer agent costs and performance, and trading among Funds in the same complex; and approving fidelity bond and related insurance coverage and allocations, as well as other matters that arise from time to time. The Independent Trustees are required to select and nominate individuals to fill any Independent Trustee vacancy on the Board of any Fund that has a Rule 12b-1 plan of distribution. Most of the Dean Witter Funds have such a plan.

The Audit Committee is charged with recommending to the full Board the engagement or discharge of the Fund's independent accountants; directing investigations into matters within the scope of the independent accountants' duties, including the power to retain outside specialists; reviewing with the independent accountants the audit plan and results of the auditing engagement; approving professional services provided by the independent accountants and other accounting firms prior to the performance

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of such services; reviewing the independence of the independent accountants; considering the range of audit and non-audit fees; reviewing the adequacy of the Fund's system of internal controls; and preparing and submitting Committee meeting minutes to the full Board.

Finally, the Board of each Fund has formed a Derivatives Committee to establish parameters for and oversee the activities of the Fund with respect to derivative investments, if any, made by the Fund.

DUTIES OF CHAIRMAN OF COMMITTEE OF THE INDEPENDENT TRUSTEES AND AUDIT COMMITTEE

The Chairman of the Committee of the Independent Trustees and the Audit Committee maintains an office at the Funds' headquarters in New York. He is responsible for keeping abreast of regulatory and industry developments and the Funds' operations and management. He screens and/or prepares written materials and identifies critical issues for the Independent Trustees to consider, develops agendas for Committee meetings, determines the type and amount of information that the Committees will need to form a judgment on various issues, and arranges to have that information furnished to Committee members. He also arranges for the services of independent experts and consults with them in advance of meetings to help refine reports and to focus on critical issues. Members of the Committees believe that the person who serves as Chairman of both Committees and guides their efforts is pivotal to the effective functioning of the Committees.

The Chairman of the Committees also maintains continuous contact with the Funds' management, with independent counsel to the Independent Trustees and with the Funds' independent auditors. He arranges for a series of special meetings involving the annual review of investment advisory, management and other operating contracts of the Funds and, on behalf of the Committees, conducts negotiations with the Investment Manager and other service providers. In effect, the Chairman of the Committees serves as a combination of chief executive and support staff of the Independent Trustees.

The Chairman of the Committee of the Independent Trustees and the Audit Committee is not employed by any other organization and devotes his time primarily to the services he performs as Committee Chairman and Independent Trustee of the Dean Witter Funds and as an Independent Trustee and, since July 1, 1996, as Chairman of the Committee of the Independent Trustees and the Audit Committee of the TCW/DW Funds. The current Committee Chairman has had more than 35 years experience as a senior executive in the investment company industry.

ADVANTAGES OF HAVING SAME INDIVIDUALS AS INDEPENDENT TRUSTEES FOR ALL DEAN WITTER FUNDS

The Independent Trustees and the Funds' management believe that having the same Independent Trustees for each of the Dean Witter Funds avoids the duplication of effort that would arise from having different groups of individuals serving as Independent Trustees for each of the Funds or even of sub-groups of Funds. They believe that having the same individuals serve as Independent Trustees of all the Funds tends to increase their knowledge and expertise regarding matters which affect the Fund complex generally and enhances their ability to negotiate on behalf of each Fund with the Fund's service providers. This arrangement also precludes the possibility of separate groups of Independent Trustees arriving at conflicting decisions regarding operations and management of the Funds and avoids the cost and confusion that would likely ensue. Finally, having the same Independent Trustees serve on all Fund Boards enhances the ability of each Fund to obtain, at modest cost to each separate Fund, the services of Independent Trustees, and a Chairman of their Committees, of the caliber, experience and business acumen of the individuals who serve as Independent Trustees of the Dean Witter Funds.

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INVESTMENT ADVISORY AGREEMENT

The Trust has retained the Investment Adviser to manage the Trust's assets, including the placing of orders for the purchase and sale of portfolio securities, pursuant to an Investment Advisory Agreement with InterCapital (the "Advisory Agreement"). See "The Trust and Its Adviser" for a detailed description of the Advisory Agreement.

The Investment Adviser obtains and evaluates such information and advice relating to the economy, securities markets, and specific securities as it considers necessary or useful to manage continuously the assets of the Trust in a manner consistent with its investment objective and policies. The Trust's Board of Trustees reviews the various services provided by the Investment Adviser to ensure that the Trust's general investment policies and programs are being properly carried out. Under the terms of the Advisory Agreement, the Investment Adviser pays the salaries of all personnel, including officers of the Trust, who are employees of the Investment Adviser.

Expenses not expressly assumed by the Investment Adviser under the Advisory Agreement will be paid by the Trust. The expenses borne by the Trust include, but are not limited to: charges and expenses of any registrar, custodian, stock transfer and dividend disbursing agent; brokerage commissions; taxes; engraving and printing of share certificates; registration costs of the Trust's Shares in this continuous offering under federal and state securities laws; all expenses of shareholders' and Trustees' meetings and of preparing, printing and mailing proxy statements and reports to shareholders; fees and travel expenses of Trustees or members of any advisory board or committee who are not employees or retired employees of the Investment Adviser or any corporate affiliate thereof; all expenses incident to any dividend or distribution program; charges and expenses of any outside service used for pricing of the Trust's investments; fees and expenses of legal counsel, including counsel to the Trustees who are not interested persons of the Trust or of the Investment Adviser (not including compensation or expenses of attorneys who are employees of the Investment Adviser) and independent accountants; membership dues of industry associations; interest on Trust borrowings; fees and expenses incident to Trust borrowings; postage; insurance premiums on property or personnel (including officers and trustees) of the Trust which inure to its benefit; extraordinary expenses (including, but not limited to, legal claims and liabilities and litigation costs and any indemnification relating thereto); and all other costs of the Trust's operation.

As full compensation for the services furnished to the Trust, the Trust pays InterCapital pursuant to the Advisory Agreement, monthly compensation calculated daily at an annual rate of 0.90% of average daily net assets on assets of the Trust up to \$500 million and at an annual rate of 0.85% of average daily net assets on assets of the Trust exceeding \$500 million. The Trust paid AIMCO, the former investment adviser under the previous advisory agreement, monthly compensation calculated daily by applying the annual rate of 1.0% to the Trust's average daily net assets up to \$500 million and 0.95% on average daily net assets over \$500 million. The sum of this fee and the administration fee is higher than that paid by most other investment companies. See "Administrator and Administration Agreement." For the fiscal years ended September 30, 1994, 1995 and 1996, the Trust accrued to InterCapital total compensation of \$2,586,181, 3,526,906 and \$6,524,700, respectively. For the fiscal year ended September 30, 1993, the Trust accrued to AIMCO (for the period October 1, 1992 through February 28, 1993) total compensation under the prior Advisory Agreement of \$1,683,031 and to InterCapital (for the period March 1, 1993 through September 30, 1993) total compensation under the new Advisory Agreement of \$1,874,994 for

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Investment Adviser is not liable to the Trust or any of its shareholders for any act or omission by the Investment Adviser or for any losses sustained by the Trust or its shareholders. The Advisory Agreement in no way restricts the Investment Adviser from acting as investment manager or adviser to others.

The Advisory Agreement with AIMCO was initially approved by the Trustees on October 10, 1989, by AIMCO as the then sole shareholder on November 20, 1989 and by the Trust's shareholders at a Meeting of Shareholders on June 19, 1991. The Advisory Agreement with AIMCO was terminated effective March 1, 1993.

The Advisory Agreement may be terminated at any time, without penalty, on 30 days notice by the Trustees of the Trust, by the holders of a majority, as defined in the 1940 Act, of the outstanding Shares of the Trust, or by the Investment Adviser. The Advisory Agreement will automatically terminate in the event of its assignment (as defined in the 1940 Act).

Under its terms, the Advisory Agreement with InterCapital had an initial term ending April 30, 1994, and provides that it will continue from year to year thereafter, provided continuance of the Advisory Agreement is approved at least annually by the vote of the holders of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Trust, or by the Trustees of the Trust; provided that in either event such continuance is approved annually by the vote of a majority of the Trustees of the Trust who are not parties to the Advisory Agreement or "interested persons" (as defined in the 1940 Act) of any such party (the "Independent Trustees"), which vote must be cast in person at a meeting called for the purpose of voting on such approval. At their meeting held on April 17, 1996, the Trust's Board of Trustees, including all the Independent Trustees, approved continuation of the Investment Advisory Agreement until April 30, 1997.

ADMINISTRATOR AND ADMINISTRATION AGREEMENT

On December 31, 1993, InterCapital effected an internal reorganization pursuant to which certain administrative activities previously performed by InterCapital would instead be performed by Dean Witter Services Company Inc. (the "Administrator" or "DWSC"), a wholly-owned subsidiary of InterCapital. Accordingly, the Administration Agreement between InterCapital and the Trust was terminated and a new Administration Agreement between the Administrator and the Trust was entered into. The foregoing internal reorganization did not result in any change of the management of the Trust's Administrator. The nature and scope of the administrative services being provided to the Trust or any of the fees being paid by the Trust under the new Administration Agreement are identical to those of the previous Agreement. The term "Administrator" refers to InterCapital prior to this reorganization and to DWSC after December 31, 1993. Dean Witter Distributors Inc., the Distributor of the Trust's shares, is an affiliate of InterCapital and DWSC and a wholly-owned subsidiary of DWDC.

In an earlier internal reorganization which took place in January, 1993, DWR's investment company-related operations, pursuant to which the administration activities that had been performed by DWR's InterCapital Division were assumed by the then new company, Dean Witter InterCapital Inc., and the

share distribution activities that had been performed by DWR were assumed by a separate new company, Dean Witter Distributors Inc. InterCapital refers to the InterCapital Division of DWR prior to the internal reorganization and to Dean Witter InterCapital Inc. after the reorganization. This internal reorganization did not result in a change of management of the Administrator or Distributor.

Under the terms of the Administration Agreement, the Administrator maintains certain of the Trust's books and records and furnishes, at its own expense, such office space, facilities, equipment, clerical help, and bookkeeping and certain legal services as the Trust may reasonably require in the conduct of its business, including the preparation of proxy statements and reports required to be filed with federal and state securities commissions (except insofar as the participation or assistance of independent accountants and attorneys is, in the opinion of the Administrator, necessary or desirable). In addition, the Administrator pays the salaries of all personnel, including officers of the

Trust who are employees of the Administrator. The Administrator also bears the cost of telephone service, heat, light, power and other utilities provided to the Trust.

As full compensation for the services and facilities furnished to the Trust and expenses of the Trust assumed by the Administrator, the Trust pays the Administrator monthly compensation calculated daily by applying the annual rate of 0.25% to the Trust's average daily net assets. The sum of this fee and the investment advisory fee is higher than that paid by most other investment companies. See "Investment Advisory Agreement." During the fiscal years ended September 30, 1995 and 1996, total accrued compensation amounted to \$979,775 and \$1,845,500, respectively. During the fiscal year ended September 30, 1994, total accrued compensation amounted to \$718,384, of which \$523,831 was paid to DWSC and \$194,553 was paid to InterCapital.

The Administration Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations thereunder, the Administrator is not liable to the Trust or any of its shareholders for any act or omission by the Administrator or for any losses sustained by the Trust or its shareholders. The Administration Agreement in no way restricts the Administrator from acting as administrator or investment manager or adviser to others.

The Administration Agreement was initially approved by the Trustees on October 10, 1989, by the Investment Adviser as the sole shareholder on November 20, 1989 and by the Trust's shareholders at a Meeting of Shareholders on June 19, 1991. At their meeting held on October 30, 1992, the Trustees of the Trust including all the Trustees of the Trust who are not parties to the Administration Agreement or "interested persons" (as defined in the Act) of any such party (the "Independent Trustees"), approved the assumption by InterCapital of DWR's rights and duties under the Administration Agreement, which assumption took place upon the reorganization described above. The Administration Agreement may be terminated at any time, without penalty, on thirty days notice by the Trustees of the Trust, by the holders of a majority, as defined in the 1940 Act, of the outstanding Shares of the Trust, or by the Administrator. The Administration Agreement will automatically terminate in the event of its assignment (as defined in the 1940 Act).

Under its terms, the new Administration Agreement with DWSC, which took effect on January 1, 1994, had an initial term ending April 30, 1994, and provides that it will continue from year to year thereafter, provided continuance of the Administration Agreement is approved at least annually by the vote of the holders of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Trust, or by the Trustees of the Trust; provided that in either event such continuance is approved annually

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by the vote of a majority of the Independent Trustees, which vote must be cast in person at a meeting called for the purpose of voting on such approval. On April 17, 1995, DWSC was reincorporated in the State of Delaware, necessitating the entry into a new Administration Agreement with the Trust. At their meeting held on April 17, 1996, the Trustees, including all of the Independent Trustees, approved the continuation of the Administration Agreement until April 30, 1997.

PORTFOLIO TRANSACTIONS

Subject to the general supervision of the Board of Trustees, the Investment Adviser is responsible for decisions to buy and sell interests in Senior Loans and other securities and effect hedging transactions for the Trust, the selection of brokers and dealers to effect the transactions, and the negotiation of brokerage commissions, if any. With respect to interests in Senior Loans, the Trust generally will engage in privately negotiated transactions for their purchase or sale in which the Investment Adviser will negotiate on behalf of the Trust. The Trust may be required to pay fees, or forgo a portion of interest and any fees payable to the Trust, to the Selling Participant or the entity selling an Assignment to the Trust. The Investment Adviser will determine the Lenders and Selling Participants from whom the Trust will purchase Assignments and Participations by considering their professional ability, level of service, relationship with the Borrower, financial condition, credit standards and quality of management. The secondary market for interests in Senior Loans is relatively illiquid. Although the Trust intends generally to hold interests in Senior Loans until maturity or prepayment of the Senior Loan, such illiquidity may restrict the ability of the Investment Adviser to locate in a timely manner persons willing to purchase the Trust's interests in Senior Loans at a fair price should the Trust desire to sell such interests. See "Investment Objective

With respect to portfolio securities other than Senior Loans, the Trust expects that the primary market for the securities in which it intends to invest will generally be the over-the-counter market. Such securities are generally traded in the over-the-counter market on a "net" basis with dealers acting as principal for their own accounts without charging a stated commission, although the price of the security usually includes a profit to the dealer. The Trust also expects that securities will be purchased at times in underwritten offerings, where the price includes a fixed amount of compensation, generally referred to as the underwriter's concession or discount. On occasion, the Trust may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid. During the fiscal years ended September 30, 1994, 1995 and 1996, the Trust did not pay any brokerage commissions.

The policy of the Trust regarding purchases and sales of Senior Loans and securities and futures contracts for its portfolio is that primary consideration will be given to obtaining the most favorable prices and efficient execution of transactions. In seeking to implement the Trust's policies, the Investment Adviser will effect transactions with those banks, brokers and dealers which the Investment Adviser believes provide the most favorable prices and who are capable of providing efficient executions. If the Investment Adviser believes such price and execution are obtainable from more than one bank, broker or dealer, it may give consideration to placing portfolio transactions with those banks, brokers and dealers who also furnish research and other services to the Trust or the Investment Adviser. Such services may include, but are not limited to, any one or more of the following: information as to the availability of securities for purchase or sale; statistical or factual information or opinions pertaining to investment; wire services; and appraisals or evaluations of portfolio securities.

The information and services received by the Investment Adviser from banks, brokers and dealers may be of benefit to the Investment Adviser and its affiliates in the management of other accounts and may not in all cases benefit the Trust directly. While the receipt of such information and services is useful in varying degrees and would generally reduce the amount of research or services otherwise performed by the Investment Adviser and thus reduce its expenses, it is of indeterminable value and the advisory fee paid to the Investment Adviser is not reduced by any amount that may be attributable to the value of such services.

Consistent with the policy described above, brokerage transactions in securities and futures contracts listed on exchanges or admitted to unlisted trading privileges may be effected through DWR. In order for DWR to effect portfolio transactions of the Trust, the commissions, fees or other remuneration received by DWR must be reasonable and fair compared to the commissions, fees or other remuneration paid to other brokers in connection with comparable transactions involving similar securities being purchased or sold on an exchange during a comparable period of time. This standard would allow DWR to receive no more than the remuneration which would be expected to be received by an unaffiliated broker in a commensurate arm's-length transaction. Furthermore, the Trustees of the Trust, including a majority of the Independent Trustees, have adopted procedures which are reasonably designed to provide that any commissions, fees or other remuneration paid to DWR are consistent with the foregoing standard.

DETERMINATION OF NET ASSET VALUE

The net asset value per share of the Trust's Shares is determined by calculating the total value of the Trust's assets, deducting its total liabilities, and dividing the result by the number of Shares outstanding. The net asset value will be computed as of 4:00 p.m. New York time on each business day on which the New York Stock Exchange is open for trading (or, on days when the New York Stock Exchange closes prior to 4:00 p.m., at such earlier time). The Trust reserves the right to calculate the net asset value more frequently if deemed desirable.

Interests in Senior Loans held by the Trust are currently valued at their fair value in accordance with procedures established in good faith by the Board of Trustees of the Trust. Under the procedures adopted by the Board of Trustees, interests in Senior Loans will be priced in accordance with a matrix which takes into account the relationship between the then current interest rate and

interest rates payable on each Senior Loan, as well as the total number of days in each interest period and the period remaining until next interest rate determination or maturity of the Senior Loan. Adjustments in the matrix-determined price of a Senior Loan are made in the event of a default on a Senior Loan or a significant change in the creditworthiness of the Borrower and may also be required in the event of changes in pricing parameters for newly issued Senior Loans (e.g., interest rates are set at a higher or lower margin above the base lending rate than were Senior Loans in the Trust's portfolio). Loans purchased at a discount from par for reasons other than credit impairment are valued at cost and the discount is amortized to maturity. In assessing the creditworthiness of a Borrower, the primary focus is on the ability and intent of the Borrower to continue to meet its principal and interest payment obligations specified under the applicable Loan Agreement. Such factors as the Borrower's current and projected cash flow relative to its debt service requirements and liquidity are considered in this regard. S&P and Moody's ratings of any outstanding commercial paper of a Borrower may also be considered. The procedures are monitored by the Board of Trustees on an ongoing basis to insure that the values arrived at continue to

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represent fair value. Should the Board of Trustees determine that the market for Senior Loans has developed to the point where market quotations provided by banks, dealers or pricing services respecting interests in Senior Loans could reliably serve as a basis for valuing the Trust's portfolio securities, such quotations would be used as a basis for valuing interests in Senior Loans held by the Trust. Other portfolio securities traded in the over-the-counter market will be valued based upon closing bid prices; provided, however, that short-term securities with remaining maturities of less than 60 days will be valued at amortized cost. Other assets are valued at fair value in accordance with procedures established in good faith by the Board of Trustees of the Trust.

DIVIDENDS AND DISTRIBUTIONS

It is the Trust's present policy, which may be changed by the Board of Trustees, to declare daily and pay monthly dividends to shareholders from net investment income of the Trust. Distributions to holders of Shares cannot be assured, and the amount of each monthly distribution is expected to vary. The Trust intends to distribute all of the Trust's net investment income on an annual basis. Net investment income of the Trust consists of all interest income and fee and other ordinary income earned by the Trust on its portfolio assets, less all expenses of the Trust. The Trust will distribute its capital gains (after offset for any available loss carryovers), if any, at least once per year, but it may make such distributions on a more frequent basis to comply with the distribution requirements of the Tax Reform Act of 1986, as amended, but in all events in a manner consistent with the 1940 Act.

All dividends and capital gains distributions are reinvested automatically in full and fractional Shares at the net asset value per Share determined on the payable date of such dividend or distribution. A shareholder may, at any time, by written notification to the Transfer Agent, elect to have subsequent dividends or capital gains distributions, or both, paid in cash rather than reinvested, in which event payment will be mailed on or about the payment date.

TAXATION

Because the Trust intends to distribute all of its net investment income and capital gains to shareholders and intends to otherwise comply with all the provisions of Subchapter M of the Internal Revenue Code of 1986 (the "Code"), it is not expected that the Trust will be required to pay any federal income tax on such income and capital gains. If, however, any such capital gains are retained, the Trust will pay federal income tax thereon. In such a case, the Trust may make an election pursuant to which shareholders would have to include such retained gains in their income but would be able to claim their share of the tax paid by the Trust as a credit against their individual federal income tax.

Shareholders will normally have to pay federal income taxes, and any state income taxes, on the dividends and distributions they receive from the Trust. Such dividends and distributions derived from net investment income or short-term capital gains are taxable to the shareholders as ordinary income regardless of whether the shareholder receives such distributions in additional Shares or in cash. It is not expected that any portion of such dividends and distributions will be eligible for the corporate dividends received deduction.

Long-term or short-term capital gains may be generated by the sale of portfolio securities and by certain transactions in options and futures

contracts engaged in by the Trust. Distributions of long-term capital gains, if any, are taxable to shareholders as long-term capital gains regardless of how long a

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shareholder has held the Trust's shares and regardless of whether the distribution is received in additional Shares or in cash. Capital gains distributions are not eligible for the dividends-received deduction.

Any distribution in excess of the Trust's earnings and profits will first reduce a shareholder's adjusted basis in his Shares to zero and, after such basis is reduced to zero, will constitute gain to the shareholder from the sale of Shares.

A holder of Shares who either sells his Shares or, pursuant to a tender offer, tenders all Shares owned by such shareholder and any Shares considered owned by such shareholder under attribution rules contained in the Code will realize a taxable gain or loss depending upon such shareholder's basis in the Shares. Such gain or loss will generally be treated as capital gain or loss and will be long-term capital gain or loss if the Shares are held for more than one year. However, any loss on a sale or exchange of Shares held for six months or less will be treated as long-term capital loss to the extent of any long-term capital gain distribution with respect to such Shares.

If a tendering holder of Shares tenders less than all Shares owned by or attributed to such shareholder, and if the distribution to such shareholder does not otherwise qualify as a payment in exchange for stock, the proceeds received will be treated as a taxable dividend, return of capital or capital gain depending on the Trust's earnings and profits and the shareholder's basis in the tendered Shares. Also, if some tendering holders of Shares receive taxable dividends, there is a risk that non-tendering holders of Shares may be considered to have received a deemed distribution which may be a taxable dividend in whole or in part.

The Code requires each regulated investment company to pay a nondeductible 4% excise tax to the extent the company does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. The Trust anticipates that it will make sufficient timely distributions to avoid imposition of the excise tax. If the Trust pays a dividend in January which was declared in the previous calendar quarter to shareholders of record on a date in such calendar quarter, then such dividend or distribution will be treated for tax purposes as being paid in December and will be taxable to shareholders as if received in December.

Any dividend or capital gains distribution received by a shareholder from an investment company will have the effect of reducing the net asset value of the shareholder's stock in that company by the exact amount of the dividend or capital gains distribution. Furthermore, capital gains distributions and dividends are subject to federal income taxes. If the net asset value of the shares should be reduced below a shareholder's cost as a result of the distribution of realized long-term capital gains, such distribution would be in part a return of the shareholder's investment to the extent of such reduction below the shareholder's cost, but nonetheless would be taxable to the shareholder. Therefore, an investor should consider the tax implications of purchasing Shares immediately prior to a distribution record date.

The tax treatment of listed put and call options written or purchased by the Trust on debt securities and of futures contracts entered into by the Trust will generally be governed by Section 1256 of the Code, pursuant to which each such position held by the Trust will be marked-to-market (i.e., treated as if it were sold for fair market value) on the last business day of each taxable year of the Trust, and all gain or loss associated with transactions in such positions will be treated as 60% long-term capital gain or loss and 40% short-term capital gain or loss. Positions of the Trust which consist of at least one debt security and

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at least one option or futures contract which substantially diminishes the Trust's risk of loss with respect to such debt security could be treated as "mixed straddles" which are subject to the straddle rules of Section 1092 of the Code, the operation of which may cause deferral of losses, adjustments in the holding periods of debt securities and conversion of short-term capital losses into long-term capital losses. Certain tax elections exist for mixed straddles which reduce or eliminate the operation of the straddle rules. Furthermore, as a regulated investment company, the Trust is subject to the requirement that less than 30% of its gross income be derived from the sale or other disposition of securities held for less than three months. This requirement may limit the Trust's ability to engage in options and futures transactions. The Trust will

monitor its transactions in options and futures contracts and may make certain tax elections in order to mitigate the effect of these rules and prevent disqualification of the Trust as a regulated investment company under Subchapter M of the Code. Such tax elections may result in an increase in distributions of ordinary income (relative to long-term capital gain) to shareholders.

The federal income tax treatment of interest rate swaps is not entirely clear. The Trust may be required to treat payments received under such arrangements as ordinary income and to amortize such payments under certain circumstances. The Trust will limit its activity in this regard in order to maintain its qualification as a regulated investment company.

The Fund may at times make payments from sources other than income or net capital gains. Payments from such sources will in effect, represent a return of a portion of each shareholder's investment. All, or a portion, of such payments will not be taxable to shareholders.

After the end of each calendar year, shareholders will receive full information on their dividends and capital gains distributions for tax purposes. Shareholders who receive distributions of Shares which are automatically reinvested will generally be viewed as receiving a distribution equal to the fair market value of such Shares.

To avoid being subject to a 31% federal backup withholding tax on taxable dividends, capital gains distributions and the proceeds of redemptions and repurchases, shareholders' taxpayer identification numbers must be furnished and certified as to their accuracy.

Ordinary income dividends and distributions paid by the Trust to shareholders who are non-resident aliens will be subject to a 30% United States withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Non-resident shareholders are urged to consult their own tax advisers concerning the applicability of the United States withholding tax.

The above discussion is only a brief summary of some of the significant tax consequences of investing in the Trust. Shareholders should consult their tax advisers regarding specific questions as to state or local taxes and as to the applicability of the foregoing to their current federal tax situation.

DESCRIPTION OF SHARES

GENERAL

The Trust's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest, of \$.01 par value ("Shares"). Share certificates will be issued to

the holder of record of Shares upon request. Currently, Shares will be required to be held of record by the investor. The investor's broker may not be reflected as the record holder; however, arrangements for Shares to be held in "street name" may be implemented in the future.

Shareholders are entitled to one vote for each Share held and to vote on matters submitted to meetings of shareholders. No material amendment may be made to the Trust's Declaration of Trust without the affirmative vote of at least a majority of its Shares represented in person or by proxy at a meeting at which a quorum is present or by written consent without a meeting. Under certain circumstances the Trustees may be removed by action of the Trustees. The shareholders also have the right under certain circumstances to remove the Trustees. Shares have no preemptive or conversion rights and when issued are fully paid and non-assessable.

The Trust's Declaration of Trust permits the Trustees to divide or combine the Shares into a greater or lesser number of Shares without thereby changing the proportionate beneficial interests in the Trust. Each Share represents an equal proportionate interest in the Trust with each other Share.

The Trust may be terminated (i) by the affirmative vote of the holders of 66% of its outstanding Shares or (ii) by an instrument signed by a majority of the Trustees and consented to by the holders of two-thirds of the Trust's outstanding Shares. Upon termination of the Trust, the Trustees will wind up the affairs of the Trust, the Trust's business will be liquidated and the Trust's net assets will be distributed to the Trust's shareholders on a pro rata basis. If not so terminated, the Trust will continue indefinitely.

The Trust is an entity of the type commonly known as a "Massachusetts business trust." Under Massachusetts law, shareholders of such a trust may, under certain circumstances, be held personally liable as partners for its obligations. However, the Declaration of Trust contains an express disclaimer of shareholder liability for acts or obligations of the Trust, requires that Trust documents include such disclaimer, and provides for indemnification and reimbursement of expenses out of the Trust's property for any shareholder held personally liable for the obligations of the Trust. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Trust itself would be unable to meet its obligations. Given the nature of the Trust's assets and operations, the possibility of the Trust being unable to meet its obligations is remote. Given the above limitations on shareholders' personal liability and the Trust's ability to meet its indemnification obligations, in the opinion of Massachusetts counsel to the Trust, the risk to Trust shareholders of personal liability is remote.

The Declaration of Trust further provides that obligations of the Trust are not binding upon the Trustees individually but only upon the property of the Trust. Accordingly, the Trustees will not be liable for errors of judgment or mistakes of fact or law, but nothing in the Declaration of Trust protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

ANTI-TAKEOVER PROVISIONS

The Trust presently has certain anti-takeover provisions in its Declaration of Trust which could have the effect of limiting the ability of other entities or persons to acquire control of the Trust, to cause it to engage in certain transactions or to modify its structure. A Trustee may be removed from office by a written instrument signed by at least two-thirds of the remaining trustees or by a vote of the holders of at least 66% of the Shares. In addition, the affirmative vote or consent of the holders of 66% of the Shares of the Trust (a greater vote than that required by the 1940 Act and greater than the required vote applicable

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to business corporations under state law) is required to authorize the conversion of the Trust from a closed-end to an open-end investment company, or generally to authorize any of the following transactions:

(i) merger or consolidation of the Trust with or into any other corporation, association, trust or other organization;

(ii) issuance of any securities of the Trust to any person or entity for cash;

(iii) sale, lease or exchange of all or any substantial part of the assets of the Trust, to any entity or person (except assets having an aggregate fair market value of less than \$1,000,000, aggregating similar transactions over a twelve-month period); or

(iv) sale, lease or exchange to the Trust, in exchange for securities of the Trust, of any assets of any entity or person (except assets having an aggregate fair market value of less than \$1,000,000, aggregating similar transactions over a twelve-month period)

if such corporation, person or entity is directly, or indirectly through affiliates, the beneficial owner of 5% or more of the outstanding shares of the Trust. However, such 66% vote or consent will not be required with respect to the foregoing transactions where the Board of Trustees under certain conditions approves the transaction, in which case, with respect to (i) and (iii) above, a majority shareholder vote or consent will be required, and, with respect to (ii) and (iv) above, a shareholder vote or consent would be required. Furthermore, any amendment to the provisions in the Declaration of Trust requiring a 66% shareholder vote or consent for the foregoing transactions similarly requires a 66% shareholder vote or consent.

The foregoing provisions will make more difficult a change in the Trust's management, or consummation of the foregoing transactions without the Trustee's approval, and would, in the event a secondary market were to develop in the Shares, have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Trust in a tender offer or similar transaction. However, the Board of Trustees has considered these anti-takeover provisions and believes that they are in the shareholders' best interests and benefit shareholders by providing the advantage of potentially requiring persons seeking control of the Trust to negotiate with its management regarding the

price to be paid and facilitating the continuity of the Trust's management. Reference should be made to the Declaration of Trust on file with the SEC for the full text of these provisions. See "Further Information."

SHARE REPURCHASES AND TENDERS

The Board of Trustees of the Trust currently intends, each quarter, to consider authorizing the Trust to make tender offers for all or a portion of its then outstanding Shares at the then current net asset value of the Shares. Although such tender offers, if undertaken and completed, will provide some liquidity for holders of the Shares, there can be no assurance that such tender offers will in fact be undertaken, completed or, if completed, that they will provide sufficient liquidity for all holders of Shares who may desire to sell such Shares. As such, investment in the Shares should be considered illiquid.

Although the Board of Trustees believes that tender offers for the Shares generally would increase the liquidity of the Shares, the acquisition of Shares by the Trust will decrease the total assets of the Trust, and therefore, have the effect of increasing the Trust's expense ratio. Because of the nature of the Trust's

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investment objective and policies and the Trust's portfolio, the Investment Adviser anticipates potential difficulty in disposing of portfolio securities in order to consummate tender offers for the Shares. As a result, the Trust may be required to borrow money in order to finance repurchases and tenders. The Trust's Declaration of Trust authorizes the Trust to borrow money for such purposes.

Even if a tender offer has been made, the Trustees' announced policy, which may be changed by the Trustees, is that the Trust cannot accept tenders if (1) such transactions, if consummated, would (a) impair the Trust's status as a regulated investment company under the Code (which would make the Trust a taxable entity, causing the Trust's taxable income to be taxed at the Trust level) or (b) result in a failure to comply with applicable asset coverage requirements or (2) there is, in the judgment of the Trustees, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Trust, (b) suspension of or limitation on prices for trading securities generally on the New York Stock Exchange, (c) declaration of a banking moratorium by federal or state authorities or any suspension of payment by banks in the United States or New York State, (d) limitation affecting the Trust or the issuers of its portfolio securities imposed by federal or state authorities on the extension of credit by lending institutions, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States or (f) other event or condition which would have a material adverse effect on the Trust or the holders of its Shares if Shares were repurchased. The Trustees may modify these conditions in light of experience.

Any tender offer made by the Trust for its Shares will be at a price equal to the net asset value of the Shares determined at the close of business on the day the offer ends. During the pendency of any tender offer by the Trust, the Trust will establish procedures which will be specified in the tender offer documents to enable holders of Shares to ascertain readily such net asset value. Each offer will be made and holders of Shares notified in accordance with the requirements of the 1934 Act and the 1940 Act, either by publication or mailing or both. Each offering document will contain such information as is prescribed by such laws and the rules and regulations promulgated thereunder. If any tender offer, after consideration and approval by the Trustees, is undertaken by the Trust, the terms of such tender offer will set forth the maximum number of Shares (if less than all) that the Trust is willing to purchase pursuant to the tender offer. The Trust will purchase, subject to such maximum number of Shares tendered in accordance with the terms of the offer, all Shares tendered unless it determines to accept none of them. In the event that a number of Shares in excess of such maximum number of outstanding Shares are tendered in accordance with the Trust's tender offer, the Trust intends to purchase, on a pro rata basis, an amount of tendered Shares equal to such maximum number of the outstanding Shares or, alternatively, to extend the offering period and increase the number of Shares that the Trust is offering to purchase. The Trust will pay all costs and expenses associated with the making of any tender offer.

During the fiscal year October 1, 1995 through September 30, 1996, the Trust completed four tender offers. The first tender offer commenced on November 13, 1995 and resulted in the tender of 1,129,316 Shares. The second tender offer commenced on February 21, 1996 and resulted in the tender of 1,331,375 Shares. The third tender offer commenced on May 15, 1996 and resulted in the tender of 1,486,625 Shares. The fourth tender offer commenced on August 14, 1996 and resulted in the tender of 1,723,469 shares.

If the Trust must liquidate portfolio holdings in order to purchase Shares tendered, the Trust may realize gains and losses. Such gains may be realized on securities held for less than three months. Because of the limitation of 30% on the portion of the Trust's annual gross income that may be derived

from the sale or disposition of securities held less than three months (in order to retain the Trust's tax status as a regulated investment company under the Code), such gains would reduce the ability of the Trust to sell other portfolio holdings held for less than three months that the Trust may wish to sell in the ordinary course of its portfolio management, which may adversely affect the Trust's yield.

EARLY WITHDRAWAL CHARGE

Any early withdrawal charge to defray distribution expenses will be charged in connection with Shares held for four years or less which are accepted by the Trust for repurchase pursuant to tender offers, except as noted below. The early withdrawal charge will be imposed on a number of Shares accepted for tender the value of which exceeds the aggregate value at the time the tender is accepted of (a) all Shares in the account purchased more than four years prior to such acceptance, (b) all Shares in the account acquired through reinvestment of dividends and distributions, and (c) the increase, if any, of value of all other Shares in the account (namely those purchased within the four years preceding the acceptance) over the purchase price of such Shares. Accordingly, the early withdrawal charge is not imposed on Shares acquired through reinvestment of dividends and distributions or on any increases in the net asset value of Shares above the initial purchase price. The early withdrawal charge will be paid to the Investment Adviser. In determining whether an early withdrawal charge is payable, it is assumed that the acceptance of a repurchase offer would be made from the earliest purchase of Shares. Any early withdrawal charge which is required to be imposed will be made in accordance with the following schedule.

<TABLE>
<CAPTION>

YEAR OF REPURCHASE AFTER PURCHASE	EARLY WITHDRAWAL CHARGE
<S>	<C>
First.....	3.0%
Second.....	2.5%
Third.....	2.0%
Fourth.....	1.0%
Fifth and following.....	0.0%

</TABLE>

The following example will illustrate the operation of the early withdrawal charge. Assume that an investor purchases \$1,000 of the Trust's Shares for cash and that 21 months later the value of the account has grown through the reinvestment of dividends and capital appreciation to \$1,200. The investor then may submit for repurchase pursuant to a tender offer up to \$200 of Shares without incurring an early withdrawal charge. If the investor should submit for repurchase pursuant to a tender offer \$500 of Shares, an early withdrawal charge would be imposed on \$300 of the Shares submitted. The charge would be imposed at the rate of 2.5% because it is in the second year after the purchase was made, and the charge would be \$7.50. For the fiscal years ended September 30, 1994, 1995 and 1996, InterCapital informed the Trust that it received approximately \$541,000, \$219,000 and \$728,000, respectively, in withdrawal fees.

PURCHASE OF SHARES

The Trust continuously offers Shares through Dean Witter Distributors Inc., which is acting as the distributor of the Shares, through certain broker-dealers, including Dean Witter Reynolds Inc. ("DWR"), which have entered into selected dealer agreements with the Distributor ("Selected Broker-Dealers").

The Trust or the Distributor may suspend the continuous offering of the Shares to the general public at any time in response to conditions in the securities markets or otherwise and may thereafter resume such offering from time to time.

Dean Witter Distributors Inc. serves as distributor of the Trust's shares

pursuant to a Distribution Agreement initially approved by the Trustees on October 30, 1992. The Distribution Agreement had an initial term ending April 30, 1994, and provides under its terms that it will continue from year to year thereafter if approved by the Board. At their meeting held on April 17, 1996, the Trustees, including all of the Independent Trustees, approved the continuation of the Distribution Agreement until April 30, 1997.

None of the Trust, the Distributor or the Investment Adviser intends to make a secondary market in the Shares. Accordingly, there is not expected to be any secondary trading market in the Shares, and an investment in the Shares should be considered illiquid.

The minimum investment in the Trust is \$1,000. Subsequent purchases of \$100 or more may be made by sending a check, payable to Prime Income Trust, directly to Dean Witter Trust Company, an affiliate of the Distributor (the "Transfer Agent") at P.O. Box 1040, Jersey City, New Jersey 07303 or by contacting an account executive of DWR or of a Selected Broker-Dealer. Certificates for Shares purchased will not be issued unless a request is made by the shareholder in writing to the Transfer Agent.

Shares of the Trust are sold through Dean Witter Distributors Inc. or a Selected Broker-Dealer on a normal three business day settlement basis; that is, payment generally is due on or before the third business day (settlement date) after the order is placed with the Distributor. Shares of the Trust purchased through the Distributor or a Selected Broker-Dealer are entitled to dividends beginning on the next business day following settlement date. Since the Distributor or a Selected Broker-Dealer forwards investors' funds on settlement date, they may benefit from the temporary use of the funds where payment is made prior thereto.

The Shares are offered by the Trust at the then current net asset value per share next computed after the Distributor receives an order to purchase from an investor's dealer or directly from the investor. See "Determination of Net Asset Value." The Investment Adviser compensates the Distributor at a rate of 2.75% of the purchase price of Shares purchased from the Trust. The Distributor may reallow to dealers 2.5% of the purchase price of Shares of the Trust purchased by such dealers. If such Shares remain outstanding after one year from the date of their initial purchase, the Investment Adviser currently intends to compensate the Distributor at an annual rate equal to 0.10% of the net asset value of the Shares sold and remaining outstanding. Such 0.10% fee will begin accruing after one year from the date of the initial purchase of the Shares. The compensation to the Distributor described above is paid by the Investment Adviser from its own assets, which may include profits from the advisory fee payable under the Advisory Agreement, as well as borrowed funds. An early withdrawal charge payable to the Investment Adviser of up to 3.0% of the original purchase price of the Shares will be imposed on most Shares held for four years or less that are accepted for repurchase pursuant to a tender offer by the Trust. See "Share Repurchases and Tenders." The compensation paid to the Distributor, including compensation paid in connection with the purchase of Shares from the Trust, the annual payments referred to above and the early withdrawal charge, if any, described above, will not in the aggregate exceed the applicable limit (currently 7.25%) as determined from time to time by the National Association of Securities Dealers, Inc.

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YIELD INFORMATION

The Trust may, from time to time, publish its yield. The yield on Trust Shares normally will fluctuate. Therefore, the yield for any given past period is not an indication or representation by the Trust of future yields or rates of return on its Shares. The Trust's yield is affected by changes in prevailing interest rates, average portfolio maturity and operating expenses. Current yield information may not provide a basis for comparison with bank deposits or other investments which pay a fixed yield over a stated period of time.

The yield of the Trust is computed by dividing the Trust's net investment income over a 30-day period by an average value (using the average number of Shares entitled to receive dividends and the net asset value per Share at the end of the period), all in accordance with the standardized yield formula prescribed by the SEC for open-end investment companies. Such amount is compounded for six months and then annualized for a twelve-month period to derive the Trust's yield. For the 30-day period ended September 30, 1996, the Trust's yield, calculated pursuant to this formula, was 7.04%.

On occasion, the Trust may compare its yield to (i) the Prime Rate, quoted daily in THE WALL STREET JOURNAL as the base rate on corporate loans at large

U.S. money center commercial banks, (ii) one or more averages compiled by DONOGHUE'S MONEY FUND REPORT, a widely recognized independent publication that monitors the performance of money market mutual funds, (iii) the average yield reported by the BANK RATE MONITOR NATIONAL INDEX for money market deposit accounts offered by the 100 leading banks and thrift institutions in the ten largest standard metropolitan statistical areas, (iv) yield data published by Lipper Analytical Services, Inc., or (v) the yield on an investment in 90-day Treasury bills on a rolling basis, assuming quarterly compounding. In addition, the Trust may compare the Prime Rate, the DONOGHUE'S averages and the other yield data described above to each other. As with yield quotations, yield comparisons should not be considered representative of the Trust's yield or relative performance for any future period.

CUSTODIAN, DIVIDEND DISBURSING AND TRANSFER AGENT

The Bank of New York, 90 Washington Street, New York, New York 10286, is the Trust's custodian and has custody of all securities and cash of the Trust. The custodian, among other things, attends to the collection of principal and income and payment for collection of proceeds of securities bought and sold by the Trust. Any of the Trust's cash balances with the Custodian in excess of \$100,000 are unprotected by federal deposit insurance. Such balances may, at times, be substantial.

Dean Witter Trust Company, Harborside Financial Center, Plaza Two, Jersey City, New Jersey 07311, an affiliate of Dean Witter InterCapital Inc., the Trust's Investment Adviser, Dean Witter Services Company Inc., the Trust's Administrator and Dean Witter Distributors Inc., the Trust's Distributor, is the dividend disbursing and transfer agent of the Trust. Dean Witter Trust Company charges the Trust an annual per shareholder account fee.

REPORTS TO SHAREHOLDERS

The Trust will send to shareholders semi-annual reports showing the Trust's portfolio and other information. An annual report, containing financial statements audited by independent accountants, together with their report thereon, will be sent to shareholders each year.

LEGAL COUNSEL

Sheldon Curtis, Esq., who is an officer and the General Counsel of the Investment Adviser, is an officer and the General Counsel of the Trust.

EXPERTS

The September 30, 1996 financial statements of the Trust, included herein, have been so included in reliance upon the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

CODE OF ETHICS

Directors, officers and employees of InterCapital, Dean Witter Services Company Inc. and the Distributor are subject to a strict Code of Ethics adopted by those companies. The Code of Ethics is intended to ensure that the interests of shareholders and other clients are placed ahead of any personal interest, that no undue personal benefit is obtained from a person's employment activities and that actual and potential conflicts of interest are avoided. To achieve these goals and comply with regulatory requirements, the Code of Ethics requires, among other things, that personal securities transactions by employees of the companies be subject to an advance clearance process to monitor that no Dean Witter Fund is engaged at the same time in a purchase or sale of the same security. The Code of Ethics bans the purchase of securities in an initial public offering, and also prohibits engaging in futures and options transactions and profiting on short-term trading (that is, a purchase within sixty days of a sale or a sales within sixty days of a purchase) of a security. In addition, investment personnel may not purchase or sell a security for their personal account within thirty days before or after any transaction in any Dean Witter Fund managed by them. Any violations of the Code of Ethics are subject to sanctions, including reprimand, demotion or suspension or termination of

employment. The Code of Ethics comports with regulatory requirements and the recommendations in the 1994 report by the Investment Company Institute Advisory Group on Personal Investing.

SHAREHOLDER INQUIRIES

All inquiries regarding the Trust should be directed to the Trust at the telephone number or address set forth on the front cover of this Prospectus.

This Prospectus does not contain all of the information set forth in the Registration Statement that the Trust has filed with the SEC. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by the Rules and Regulations of the SEC.

PRIME INCOME TRUST
 REPORT OF INDEPENDENT ACCOUNTANTS
 TO THE SHAREHOLDERS AND TRUSTEES
 OF PRIME INCOME TRUST

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Prime Income Trust (the "Trust") at September 30, 1996, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the six years in the period then ended and for the period November 30, 1989 (commencement of operations) through September 30, 1990, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Trust's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 1996 by correspondence with the custodian and, with respect to senior collateralized loans, the selling participants and agent banks, provide a reasonable basis for the opinion expressed above.

As explained in Note 1, the financial statements include senior collateralized loans valued at \$874,153,297 (93 percent of net assets), which values have been estimated by the Trustees in the absence of readily ascertainable market values. We have reviewed the procedures used by the Trustees in arriving at its estimates of values of such senior collateralized loans and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, those estimated values may differ significantly from the values that would have been used had a ready market for the senior collateralized loans existed, and the differences could be material.

PRICE WATERHOUSE LLP
 1177 AVENUE OF THE AMERICAS
 NEW YORK, NEW YORK 10036
 NOVEMBER 11, 1996

PRIME INCOME TRUST
 PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996

<TABLE>
 <CAPTION>

PRINCIPAL AMOUNT IN THOUSANDS		INTEREST RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	SENIOR COLLATERALIZED TERM LOANS (a) (93.0%) ADVERTISING (3.3%)			
\$ 7,250	Eller Media Co.....	8.69%	12/21/03	\$ 7,249,637
5,844	Outdoor Systems, Inc.....	9.03	12/31/02	5,844,101
5,844	Outdoor Systems, Inc.....	9.03	12/31/03	5,844,101

12,000	Treasure Chest Advertising Co., Inc.....	7.94	12/31/02	12,000,000

				30,937,839

	AEROSPACE (1.3%)			
561	Gulf Stream Aerospace Corp.....	7.63	03/31/97	560,565
2,900	Gulf Stream Aerospace Corp.....	8.69	03/31/98	2,899,043
5,608	Howmet Corp.....	8.50	11/20/02	5,608,102
3,105	Howmet Corp.....	8.75	05/20/03	3,104,820

				12,172,530

	AIR FREIGHT (1.1%)			
5,000	Continental Micronesia, Inc. (Participation: Bankers Trust Co.) (b).....	7.25	07/31/01	4,998,550
5,000	Continental Micronesia, Inc.....	7.25	07/31/01	4,998,550

				9,997,100

	APPAREL (1.9%)			
866	Anvil Knitwear, Inc.....	7.94	02/03/01	866,718
8,936	Anvil Knitwear, Inc.....	8.94 to 10.25	02/02/02	8,934,967
4,525	Hosiery Corporation of America, Inc....	8.75 to 9.06	07/31/01	4,525,043
277	London Fog Industries, Inc.*.....	0.00	05/31/02	263,580
2,823	London Fog Industries, Inc.....	9.25 +	05/31/02	2,681,831
581	London Fog Industries, Inc. (c).....	12.50	05/31/02	551,691

				17,823,830

	AUTO PARTS (1.8%)			
9,444	Hayes Wheels International, Inc.....	8.47 to 8.60	07/31/03	9,444,603
7,555	Hayes Wheels International, Inc.....	8.97 to 9.10	07/31/04	7,555,580

				17,000,183

	BEVERAGES - SOFT DRINKS (1.1%)			
3,960	Select Beverages, Inc.....	8.75 to 9.06	06/30/01	3,959,557
5,940	Select Beverages, Inc.....	9.00 to 9.19	06/30/02	5,939,403

				9,898,960

	BREWERS (1.6%)			
15,000	The Stroh Brewery Co.....	8.56	06/30/01	15,000,000

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>

PRINCIPAL AMOUNT IN THOUSANDS		INTEREST RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	BROADCAST MEDIA (4.1%)			
\$ 3,500	Benedek Broadcasting Corp.....	8.50%	05/01/01	\$ 3,500,070
3,500	Benedek Broadcasting Corp.....	9.00	11/01/02	3,500,070
4,971	Chancellor Broadcasting Co.....	8.25	09/01/03	4,971,528
10,000	Citicasters, Inc.....	8.19	09/18/04	9,999,900
9,587	River City Broadcasting, L.P.....	8.63	12/31/99	9,587,239
6,522	Silver King Communications, Inc.....	8.44	07/31/02	6,521,457

				38,080,264

	BUILDING MATERIALS (1.3%)			
12,479	National Gypsum Co.....	7.84 to 8.00	09/30/03	12,478,470

	BUSINESS SERVICES (1.7%)			
8,000	Experian Information Solutions, Inc....	8.63	09/18/03	7,999,600
8,000	Experian Information Solutions, Inc....	9.13	09/18/04	7,999,520

				15,999,120

	CABLE TELEVISION EQUIPMENT (1.1%)			
10,000	Marcus Cable Operating Co. L.P.....	8.22 to 8.44	04/30/04	10,000,347

CABLE/CELLULAR (5.9%)				
10,000	Charter Communications Entertainment I, L.P.....	8.25	12/31/04	10,000,100
25,000	Nextel Communications, Inc.....	10.25	06/30/03	25,000,000
20,000	Western Wireless Corp.....	8.31	03/31/05	19,999,800
				54,999,900
COAL (0.7%)				
7,000	Alliance Coal Corp.....	8.88	12/31/02	6,999,650
CONSUMER PRODUCTS (1.7%)				
6,411	Chattem, Inc.....	8.23 to 10.50	10/29/03	6,412,501
10,000	Revlon Consumer Products Corp.....	8.00 to 8.19	03/31/99	9,998,854
				16,411,355
CONTAINERS (1.8%)				
16,794	Silgan Corporations.....	8.53 to 8.75	03/15/02	16,791,581
CONVENIENCE STORES (1.0%)				
9,456	Cumberland Farms, Inc. (Participation: Merrill Lynch & Co., Inc.) (b).....	8.75	12/31/98	9,455,898
DRUG STORES (1.2%)				
7,500	Duane Reade, Inc.....	9.50	12/31/99	7,498,950
3,549	M & H Drugs, Inc.....	9.63	12/31/96	3,548,835
				11,047,785

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>

PRINCIPAL AMOUNT IN THOUSANDS		INTEREST RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
ELECTRONICS (1.1%)				
\$ 6,000	Details, Inc.....	8.50%	01/31/02	\$ 5,997,300
3,975	Vernitron Corp.....	9.38 to 10.50	04/25/02	3,975,119
				9,972,419
ENTERTAINMENT & LEISURE TIME (4.4%)				
10,726	AMF Group, Inc.....	8.44	03/31/03	10,724,163
4,228	AMF Group, Inc.....	8.69	03/31/04	4,227,372
14,438	Orion Pictures Corp.....	8.06 to 8.13	06/30/01	14,437,261
11,707	Six Flags Theme Parks, Inc.....	8.44	06/23/03	11,706,800
				41,095,596
EQUIPMENT (1.1%)				
9,880	Primeco, Inc.....	8.56 to 8.63	12/31/00	9,878,558
FOOD PROCESSING (3.2%)				
10,973	American Italian Pasta Co.....	9.31 to 9.50	02/27/04	10,967,607
8,839	Keebler Holding Corp.....	8.38 to 9.19	07/31/03	8,834,682
9,876	Keebler Holding Corp.....	8.63 to 9.19	07/31/04	9,873,811
				29,676,100
FOOD SERVICES (3.7%)				
6,743	Rykoff-Sexton, Inc.....	8.63	10/31/02	6,743,041
3,236	Rykoff-Sexton, Inc.....	8.88	04/30/03	3,236,357
5,880	SC International Services, Inc. & Caterair International Corp.....	8.50 to 8.63	09/15/01	5,879,651
7,333	SC International Services, Inc. & Caterair International Corp.....	8.50 to 8.63	09/15/02	7,332,675
1,613	SC International Services, Inc. & Caterair International Corp.....	8.75 to 8.88	09/15/03	1,612,535
6,652	Volume Services, Inc.....	8.75	12/31/02	6,651,602
3,326	Volume Services, Inc.....	9.25	12/31/03	3,325,734

				34,781,595
	FOODS & BEVERAGES (1.7%)			
3,125	Restaurants Unlimited, Inc.....	9.00	06/03/00	3,125,000
7,912	Van de Kamp's, Inc.....	8.88 to 10.25	04/30/03	7,916,231
4,951	Van de Kamp's, Inc.....	9.13 to 10.50	09/30/03	4,953,819
				15,995,050
	FUNERAL SERVICES (1.1%)			
5,000	Prime Succession, Inc.....	8.49 to 8.68	08/01/03	4,998,455
5,000	Prime Succession, Inc. (Participation: Goldman Sachs & Co.) (b).....	8.49 to 8.68	08/01/03	4,999,800
				9,998,255
	GAS-TRUCK STOP (0.4%)			
3,682	Petro PSC Properties, L.P.....	8.80	05/24/01	3,680,668

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>

PRINCIPAL AMOUNT IN THOUSANDS		INTEREST RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	HEALTHCARE (2.1%)			
\$ 7,260	Community Health Systems, Inc.....	8.63%	12/31/03	\$ 7,260,564
7,260	Community Health Systems, Inc.....	9.13	12/31/04	7,260,492
5,479	Community Health Systems, Inc.....	9.38	12/31/05	5,479,562
				20,000,618
	HOUSEHOLD FURNISHINGS & APPLIANCES (2.0%)			
9,875	Graco Children's Products, Inc.....	10.25	06/30/03	9,875,000
10,000	Lifestyle Furnishings International, Ltd.....	8.50	08/05/04	10,000,100
				19,875,100
	INDUSTRIALS (0.8%)			
7,714	UCAR International, Inc.....	7.63	12/31/02	7,714,826
	MANUFACTURING (5.0%)			
3,103	C.S. Brooks Canada, Inc.....	8.69	06/30/02	3,103,603
6,897	C.S. Brooks Canada, Inc.....	8.94	06/30/04	6,896,828
9,925	Desa International, Inc.....	7.94 to 8.13	08/31/01	9,925,106
9,980	Desa International, Inc.....	8.44 to 9.50	02/28/03	9,980,274
5,282	InterMetro Industries Corp.....	8.50 to 8.56	06/30/03	5,282,417
4,108	InterMetro Industries Corp.....	9.00 to 9.06	06/30/04	4,108,467
8,000	Panavision, Inc.....	8.69 to 8.94	03/31/04	8,001,104
				47,297,799
	MANUFACTURING - DIVERSIFIED (0.6%)			
5,200	Health O'Meter, Inc.....	8.25	08/15/01	5,199,376
	MEDIA GROUP (1.5%)			
13,961	ADVO, Inc.....	8.57	03/31/04	13,960,692
	MEDICAL PRODUCTS & SUPPLIES (2.6%)			
4,909	Dade International, Inc.....	8.75	12/31/02	4,908,845
4,909	Dade International, Inc.....	9.13	12/31/03	4,907,962
5,182	Dade International, Inc.....	9.38	12/31/04	5,180,523
2,727	Medical Specialties Group, Inc.....	7.42	06/30/01	2,727,273
7,273	Medical Specialties Group, Inc.....	8.17	06/30/04	7,272,655
				24,997,258
	METALS & MINING (1.0%)			
9,000	U.S. Silica Corp.....	8.88	12/31/03	9,000,270

	MISCELLANEOUS (4.5%)			
29,760	Borg-Warner Security Corp.....	8.75	12/31/98	29,758,849
12,865	Pinnacle Brands, Inc.....	8.79	05/29/02	12,861,357

				42,620,206

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT IN
THOUSANDS

INTEREST
RATE

MATURITY
DATE

VALUE

<C>	<S>	<C>	<C>	<C>
	OFFICE EQUIPMENT (0.7%)			
\$ 6,892	Knoll, Inc.....	8.48 to 8.50%	08/31/03	\$ 6,891,616

	OIL (0.8%)			
7,500	Calciner Industries, Inc.....	8.82	09/30/04	7,498,200

	PAPER PRODUCTS (0.4%)			
2,994	Mail-Well Corp.....	8.44	07/31/03	2,994,324
1,078	Supermex, Inc.....	8.44	07/31/03	1,077,823

				4,072,147

	PUBLISHING - BUSINESS (1.6%)			
15,000	Advanstar Communications, Inc.....	8.63	12/31/03	15,000,450

	RAILROAD EQUIPMENT (1.0%)			
9,750	Johnstown America Industries, Inc.....	8.50 to 9.00	03/31/03	9,752,277

	RECORD & TAPE (0.3%)			
4,876	Camelot Music, Inc.....	9.75	02/28/01	3,022,500

	RETAIL - DEPARTMENT STORES (3.7%)			
14,689	Caldor Corp. (Revolver).....	6.19 to 8.25	12/31/98	14,686,755
14,863	Kmart Corp.....	8.00	06/06/99	14,862,945
5,420	Kmart Corp. (Revolver).....	7.94 to 9.75	06/06/99	5,420,044

				34,969,744

	RETAIL - SPECIALTY (2.5%)			
13,400	AnnTaylor, Inc.....	8.13	07/29/98	13,400,804
10,000	Kirkland's, Inc.....	9.31 to 11.00	06/30/02	10,000,598

				23,401,402

	SPECIALTY PACKAGING (1.1%)			
5,940	Calmar, Inc.....	8.63 to 10.25	09/15/03	5,939,705
4,455	Calmar, Inc.....	8.88 to 10.50	03/15/04	4,454,778

				10,394,483

	SPORTING GOODS (2.1%)			
4,278	E & S Holdings Corp.....	10.00	09/30/04	4,277,778
4,278	E & S Holdings Corp.....	10.50	09/30/05	4,277,778
2,444	E & S Holdings Corp.....	11.00	03/30/06	2,444,444
1,503	Worldwide Sports & Recreation, Inc.....	8.50 to 8.56	04/26/00	1,502,392
7,318	Worldwide Sports & Recreation, Inc.....	9.06	04/26/01	7,316,717

				19,819,109

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>

PRINCIPAL

AMOUNT IN THOUSANDS		INTEREST RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>	<C>
	SUPERMARKETS (3.6%)			
\$ 7,716	Food 4 Less Supermarkets, Inc.....	8.50%	06/15/01	\$ 7,716,232
2,594	Food 4 Less Supermarkets, Inc.....	9.75	02/15/04	2,594,634
3,227	Food 4 Less Supermarkets, Inc. (Revolver).....	8.19 to 8.31	06/15/01	3,227,916
4,677	Smith's Food & Drug Centers, Inc.....	8.69	11/30/03	4,677,255
4,677	Smith's Food & Drug Centers, Inc.....	9.19	11/30/04	4,677,255
4,677	Smith's Food & Drug Centers, Inc.....	9.44	08/31/05	4,677,255
3,778	Star Markets Company, Inc.....	8.50	12/31/01	3,777,216
2,830	Star Markets Company, Inc.....	9.00	12/31/02	2,829,924
				34,177,687
	TEXTILES (1.1%)			
5,000	Blackstone Capital Company II, L.L.C....	9.00	01/13/97	5,000,100
5,000	Wasserstein/C&A Holdings, L.L.C.....	9.13	01/13/97	4,999,900
				10,000,000
	TOYS (1.5%)			
7,241	Ritvik Toys, Inc.....	8.94	02/08/03	7,240,943
7,241	Ritvik Toys, Inc.....	9.44	02/08/04	7,240,943
				14,481,886
	WHOLESALE DISTRIBUTOR (1.6%)			
14,912	American Marketing Industries, Inc.....	8.94 to 9.13	11/29/02	14,912,142
	WIRE & CABLE (1.6%)			
9,939	International Wire Group, Inc.....	8.54	09/30/02	9,938,798
4,981	International Wire Group, Inc.....	8.97 to 9.41	09/30/03	4,981,658
				14,920,456
	TOTAL SENIOR COLLATERALIZED TERM LOANS (IDENTIFIED COST \$873,583,456).....			
				874,153,297

</TABLE>

<TABLE>

<CAPTION>
NUMBER OF SHARES

		VALUE
<C>	<S>	<C>
	PREFERRED STOCK (0.1%)	
	APPAREL	
1,722K	London Fog Industries, Inc. 17.50% due 2/28/05 (Series A-1) (Restricted) (c) (IDENTIFIED COST \$2,175,563).....	1,222,422
	COMMON STOCKS (0.0%)	
	APPAREL (0.0%)	
1,291	London Fog Industries, Inc. (Restricted).....	--
	FOOD SERVICES (0.0%)	
4,209	Flagstar Companies (Restricted).....	8,681
	TOTAL COMMON STOCKS (IDENTIFIED COST \$60,507).....	
		8,681

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST
PORTFOLIO OF INVESTMENTS SEPTEMBER 30, 1996, CONTINUED

<TABLE>

<CAPTION>
PRINCIPAL AMOUNT IN THOUSANDS

	COUPON RATE	MATURITY DATE	VALUE
<C>	<S>	<C>	<C>
	SHORT-TERM INVESTMENTS (6.1%)		

	COMMERCIAL PAPER (d) (4.4%)			
	INSURANCE			
\$ 41,000	AIG Funding, Inc.**			
	(Amortized Cost \$40,988,042).....	5.25%	10/03/96	\$ 40,988,042

	REPURCHASE AGREEMENT (1.7%)			
15,879	The Bank of New York (dated 09/30/96;			
	proceeds \$15,881,039; collateralized by			
	\$15,862,607 U.S. Treasury Note 5.625%			
	due 10/31/97 valued at \$16,196,411)			
	(Identified Cost \$15,878,834).....	5.00	10/01/96	15,878,834

	TOTAL SHORT-TERM INVESTMENTS			
	(IDENTIFIED COST \$56,866,876).....			56,866,876

TOTAL INVESTMENTS				
(IDENTIFIED COST \$932,686,402) (E).....	99.2	932,251,276		
CASH AND OTHER ASSETS IN EXCESS OF				
LIABILITIES.....	0.8	7,219,269		
	-----	-----		
NET ASSETS.....	100.0%	\$939,470,545		
	-----	-----		
	-----	-----		

<FN>

K In thousands.

* Non-income producing security.

** All or a portion of these securities are segregated in connection with unfunded loan commitments.

+ 3 percent paid in cash, 6.25 percent payment-in-kind; converts to prime plus 1 percent cash payment on May 31, 1997.

(a) Floating rate securities. Interest rates shown are those in effect at September 30, 1996.

(b) Participation: participation interests were acquired through the financial institutions indicated parenthetically.

(c) Payment-in-kind security.

(d) Security was purchased on a discount basis. The interest rate shown has been adjusted to reflect a money market equivalent yield.

(e) The aggregate cost for federal income tax purposes approximates identified cost. The aggregate gross unrealized appreciation was \$2,769,458 and the aggregate gross unrealized depreciation was \$3,204,584, resulting in net unrealized depreciation of \$435,126.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
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PRIME INCOME TRUST
FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES
SEPTEMBER 30, 1996

<TABLE>			
<S>			<C>
ASSETS:			
Investments, at value			
(identified cost \$932,686,402).....		\$932,251,276	
Cash.....		3,709,177	
Receivable for:			
Interest.....		6,710,184	
Shares of beneficial interest sold.....		3,913,682	
Prepaid expenses and other assets.....		446,455	

TOTAL ASSETS.....		947,030,774	

LIABILITIES:			
Payable for:			
Dividends to shareholders.....		832,133	
Investment advisory fee.....		689,001	
Administration fee.....		196,420	
Deferred loan fees.....		5,635,444	
Accrued expenses and other payables.....		207,231	

Commitments and contingencies (Note 7).....	--
TOTAL LIABILITIES.....	7,560,229
NET ASSETS:	
Paid-in-capital.....	944,540,145
Net unrealized depreciation.....	(435,126)
Accumulated undistributed net investment income.....	238,827
Accumulated net realized loss.....	(4,873,301)
NET ASSETS.....	\$939,470,545
NET ASSET VALUE PER SHARE, 94,535,310 SHARES OUTSTANDING (UNLIMITED SHARES AUTHORIZED OF \$.01 PAR VALUE).....	\$9.94

</TABLE>

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1996

<TABLE>	
<S>	<C>
NET INVESTMENT INCOME:	
INCOME	
Interest.....	\$62,118,753
Net facility, amendment and other fees.....	3,749,154
Other income.....	223,914
TOTAL INCOME.....	66,091,821
EXPENSES	
Investment advisory fee.....	6,524,700
Administration fee.....	1,845,500
Professional fees.....	609,473
Transfer agent fees and expenses.....	447,960
Registration fees.....	423,120
Shareholder reports and notices.....	291,308
Custodian fees.....	90,605
Trustees' fees and expenses.....	22,462
Other.....	499,224
TOTAL EXPENSES.....	10,754,352
NET INVESTMENT INCOME.....	55,337,469
NET REALIZED AND UNREALIZED LOSS:	
Net realized loss.....	(1,507,802)
Net change in unrealized appreciation/ depreciation.....	(2,222,920)
NET LOSS.....	(3,730,722)
NET INCREASE.....	\$51,606,747

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS
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PRIME INCOME TRUST
FINANCIAL STATEMENTS, CONTINUED

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

FOR THE YEAR ENDED FOR THE YEAR ENDED
SEPTEMBER 30, 1996 SEPTEMBER 30, 1995

<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS:		
Net investment income.....	\$ 55,337,469	\$ 31,803,245
Net realized loss.....	(1,507,802)	(2,551,571)
Net change in unrealized appreciation/depreciation.....	(2,222,920)	2,716,998
	-----	-----
NET INCREASE.....	51,606,747	31,968,672
	-----	-----
DIVIDENDS AND DISTRIBUTIONS FROM:		
Net investment income.....	(55,512,316)	(31,409,897)
Net realized gain.....	--	(957,304)
	-----	-----
TOTAL.....	(55,512,316)	(32,367,201)
	-----	-----
Net increase from transactions in shares of beneficial interest.....	422,015,153	216,725,076
	-----	-----
TOTAL INCREASE.....	418,109,584	216,326,547
	-----	-----
NET ASSETS:		
Beginning of period.....	521,360,961	305,034,414
	-----	-----
END OF PERIOD (INCLUDING UNDISTRIBUTED NET INVESTMENT INCOME OF \$238,827 AND \$413,674, RESPECTIVELY).....	\$939,470,545	\$521,360,961
	-----	-----

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST
FINANCIAL STATEMENTS, CONTINUED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1996

<S>	<C>
INCREASE (DECREASE) IN CASH:	
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Net investment income.....	\$ 55,337,469
Adjustments to reconcile net investment income to net cash from operating activities:	
Increase in receivables and other assets related to operations.....	(2,269,978)
Increase in payables related to operations.....	342,841
Net loan fees received.....	5,812,854
Amortization of loan fees.....	(3,749,154)
Accretion of discounts.....	(1,045,950)

NET CASH PROVIDED BY OPERATING ACTIVITIES.....	54,428,082

CASH FLOWS USED FOR INVESTING ACTIVITIES:	
Purchases of investments.....	(853,386,468)
Principal repayments/sales of investments.....	466,386,119
Net sales/maturities of short-term investments.....	(35,840,134)

NET CASH USED FOR INVESTING ACTIVITIES.....	(422,840,483)

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:	
Shares of beneficial interest sold.....	452,558,801
Shares tendered.....	(56,517,971)
Dividends from net investment income (net of reinvested dividends of \$26,959,275).....	(27,941,451)

NET CASH PROVIDED BY FINANCING ACTIVITIES.....	368,099,379

NET DECREASE IN CASH.....	(313,022)
CASH AT BEGINNING OF YEAR.....	4,022,199

CASH BALANCE AT END OF YEAR.....	\$ 3,709,177

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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PRIME INCOME TRUST PRIME INCOME TRUST
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1996

1. ORGANIZATION AND ACCOUNTING POLICIES

Prime Income Trust (the "Trust") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Trust's investment objective is to provide a high level of current income consistent with the preservation of capital. The Trust was organized as a Massachusetts business trust on August 17, 1989 and commenced operations on November 30, 1989.

The Trust offers and sells its shares to the public on a continuous basis. The Trustees intend, each quarter, to consider authorizing the Trust to make tender offers for all or a portion of its outstanding shares of beneficial interest at the then current net asset value of such shares.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

A. VALUATION OF INVESTMENTS -- (1) The Trustees believe that, at present, there are not sufficient market quotations provided by banks, dealers or pricing services respecting interests in senior collateralized loans ("Senior Loans") to corporations, partnerships and other entities ("Borrower") to enable the Trust to properly value Senior Loans based on available market quotations. Accordingly, until the market for Senior Loans develops, interests in Senior Loans held by the Trust are valued at their fair value in accordance with procedures established in good faith by the Trustees. Under the procedures adopted by the Trustees, interests in Senior Loans are priced using a matrix which takes into account the relationship between current interest rates and interest rates payable on each Senior Loan, as well as the total number of days in each interest period and the period remaining until the next interest rate determination or maturity of the Senior Loan. Adjustments in the matrix-determined price of a Senior Loan will be made in the event of a default on a Senior Loan or a significant change in the creditworthiness of the Borrower. The fair values determined in accordance with these procedures may differ significantly from the market values that would have been used had a ready market for the Senior Loans existed; (2) portfolio securities for which over-the-counter market quotations are readily available are valued at the latest bid price; (3) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the

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PRIME INCOME TRUST
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1996, CONTINUED

time of purchase are valued at amortized cost; and (4) all other securities and other assets are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Trustees.

B. ACCOUNTING FOR INVESTMENTS -- Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Interest income is accrued daily except where collection is not expected. When the Trust buys an interest in a Senior Loan, it may receive a facility fee, which is a fee paid to lenders upon origination of a Senior Loan and/or a commitment fee which is paid to lenders on an ongoing basis based upon the undrawn portion committed by the lenders of the underlying Senior Loan. The Trust amortizes the facility fee and accrues the commitment fee over the expected term of the loan. When the Trust sells an interest in a Senior Loan, it may be required to pay fees or commissions to the purchaser of the interest. Fees received in connection with loan amendments are amortized over the expected

term of the loan.

C. SENIOR LOANS -- The Trust invests primarily in Senior Loans to Borrowers. Senior Loans are typically structured by a syndicate of lenders ("Lenders"), one or more of which administers the Senior Loan on behalf of the Lenders ("Agent"). Lenders may sell interests in Senior Loans to third parties ("Participations") or may assign all or a portion of their interest in a Senior Loan to third parties ("Assignments"). Senior Loans are exempt from registration under the Securities Act of 1933. Presently, Senior Loans are not readily marketable and are often subject to restrictions on resale.

D. FEDERAL INCOME TAX STATUS -- It is the Trust's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Accordingly, no federal income tax provision is required.

E. DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS -- The Trust records dividends and distributions to its shareholders on the record date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment

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PRIME INCOME TRUST
NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 1996, CONTINUED

income or distributions in excess of net realized capital gains. To the extent they exceed net investment income and net realized capital gains for tax purposes, they are reported as distributions of paid-in-capital.

2. INVESTMENT ADVISORY AGREEMENT

Pursuant to an Investment Advisory Agreement with Dean Witter InterCapital Inc. (the "Investment Adviser"), the Trust pays the Investment Adviser an advisory fee, accrued daily and payable monthly, by applying the following annual rates to the net assets of the Trust determined as of the close of each business day: 0.90% to the portion of the daily net assets not exceeding \$500 million and 0.85% to the portion of the daily net assets exceeding \$500 million.

Under the terms of the Agreement, in addition to managing the Trust's investments, the Investment Adviser pays the salaries of all personnel, including officers of the Trust, who are employees of the Investment Adviser.

3. ADMINISTRATION AGREEMENT

Pursuant to an Administration Agreement with Dean Witter Services Company Inc. (the "Administrator"), the Trust pays an administration fee, calculated daily and payable monthly, by applying the annual rate of 0.25% to the Trust's daily net assets.

Under the terms of the Administration Agreement, the Administrator maintains certain of the Trust's books and records and furnishes, at its own expense, office space, facilities, equipment, clerical, bookkeeping and certain legal services and pays the salaries of all personnel, including officers of the Trust who are employees of the Administrator. The Administrator also bears the cost of telephone services, heat, light, power and other utilities provided to the Trust.

4. SECURITY TRANSACTIONS AND TRANSACTIONS WITH AFFILIATES

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the year ended September 30, 1996 aggregated \$852,805,805 and \$465,950,751, respectively.

Shares of the Trust are distributed by Dean Witter Distributors Inc. (the "Distributor"), an affiliate of the Investment Adviser and Administrator. Pursuant to a Distribution Agreement between the Trust, the Investment Adviser and the Distributor, the Investment Adviser compensates the Distributor at an annual rate of 2.75% of the purchase price of shares purchased from the Trust. The Investment Adviser will compensate the Distributor at an annual rate of 0.10% of the value of shares sold for

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any shares that remain outstanding after one year from the date of their initial purchase. Any early withdrawal charge to defray distribution expenses will be charged to the shareholder in connection with shares held for four years or less which are accepted by the Trust for repurchase pursuant to tender offers. For the year ended September 30, 1996, the Investment Adviser has informed the Trust that it received approximately \$728,000 in early withdrawal charges.

Dean Witter Trust Company, an affiliate of the Investment Adviser and Administrator, is the Trust's transfer agent. At September 30, 1996, the Trust had transfer agent fees and expenses payable of approximately \$45,000.

The Trust has an unfunded noncontributory defined benefit pension plan covering all independent Trustees of the Trust who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on years of service and compensation during the last five years of service. Aggregate pension costs for the year ended September 30, 1996 included in Trustees' fees and expenses in the Statement of Operations amounted to \$3,907. At September 30, 1996, the Trust had an accrued pension liability of \$45,562 which is included in accrued expenses in the Statement of Assets and Liabilities.

5. SHARES OF BENEFICIAL INTEREST

Transactions in shares of beneficial interest were as follows:

<TABLE>
 <CAPTION>

	SHARES	AMOUNT
<S>	<C>	<C>
Balance, September 30, 1994.....	30,489,594	\$ 305,799,916
Shares sold.....	24,363,027	243,262,814
Shares issued to shareholders for reinvestment of dividends and distributions.....	1,605,098	16,029,070
Shares tendered (four quarterly tender offers).....	(4,259,745)	(42,566,808)
Balance, September 30, 1995.....	52,197,974	522,524,992
Shares sold.....	45,304,780	451,573,849
Shares issued to shareholders for reinvestment of dividends.....	2,706,326	26,959,275
Shares tendered (four quarterly tender offers).....	(5,673,770)	(56,517,971)
Balance, September 30, 1996.....	94,535,310	\$ 944,540,145

</TABLE>

On October 25, 1996, the Trustees approved a tender offer to purchase up to 4 million shares of beneficial interest to commence on November 20, 1996.

6. FEDERAL INCOME TAX STATUS

At September 30, 1996, the Trust had a net capital loss carryover of approximately \$4,140,000 of which \$1,384,000 will be available through September 30, 2003 and \$2,756,000 will be available through September 30, 2004 to offset future capital gains to the extent provided by regulations.

Capital losses incurred after October 31 ("post-October" losses) within the taxable year are deemed to arise on the first business day of the Trust's next taxable year. The Trust incurred and will elect to defer net capital losses of approximately \$557,000 during fiscal 1996.

As of September 30, 1996, the Trust had temporary book/tax differences primarily attributable to post-October losses and market discount on revolver loans.

7. COMMITMENTS AND CONTINGENCIES

As of September 30, 1996, the Trust had unfunded loan commitments pursuant to the following loan agreements:

<TABLE>
 <CAPTION>

BORROWER	UNFUNDED COMMITMENT
----------	------------------------

<S>	<C>
Caldor Corp.....	\$ 6,320,287
Kmart Corp.....	19,580,000
Food 4 Less Supermarkets, Inc.....	12,911,563

	\$ 38,811,850

</TABLE>

8. FINANCIAL INSTRUMENTS WITH CONCENTRATION OF CREDIT RISK

When the Trust purchases a Participation, the Trust typically enters into a contractual relationship with the Lender or third party selling such Participation ("Selling Participant"), but not with the Borrower. As a result, the Trust assumes the credit risk of the Borrower, the Selling Participant and any other persons interpositioned between the Trust and the Borrower ("Intermediate Participants") and the Trust may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the Participation. Because the Trust will only acquire Participations if the Selling Participant and each Intermediate Participant is a financial institution, the Trust may be considered to have a concentration of credit risk in the banking and brokerage industry. At September 30, 1996, such Participations had a fair value of \$19,454,248.

The Trust will only invest in Senior Loans where the Investment Adviser believes that the Borrower can meet debt service requirements in a timely manner and where the market value of the collateral at the time of investment equals or exceeds the amount of the Senior Loan. In addition, the Trust will only acquire Participations if the Selling Participant, and each Intermediate Participant, is a financial institution which meets certain minimum creditworthiness standards.

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PRIME INCOME TRUST FINANCIAL HIGHLIGHTS

Selected ratios and per share data for a share of beneficial interest outstanding throughout each period:

<S>	FOR THE YEAR ENDED SEPTEMBER 30						FOR THE PERIOD
	1996	1995	1994	1993	1992	1991	NOVEMBER 30, 1989* THROUGH SEPTEMBER 30, 1990
<CAPTION>							
PER SHARE OPERATING PERFORMANCE:							
Net asset value, beginning of period.....	\$ 9.99	\$ 10.00	\$ 9.91	\$ 9.99	\$ 10.00	\$ 10.00	\$ 10.00
Net investment income.....	0.74	0.82	0.62	0.55	0.62	0.84	0.74
Net realized and unrealized gain (loss).....	(0.04)	0.01	0.09	(0.08)	(0.01)	--	(0.01)
Total from investment operations...	0.70	0.83	0.71	0.47	0.61	0.84	0.73
Less dividends and distributions from:							
Net investment income.....	(0.75)	(0.81)	(0.62)	(0.55)	(0.62)	(0.84)	(0.73)
Net realized gain.....	--	(0.03)	--	--	--	--	--
Total dividends and distributions.....	(0.75)	(0.84)	(0.62)	(0.55)	(0.62)	(0.84)	(0.73)
Net asset value, end of period.....	\$ 9.94	\$ 9.99	\$ 10.00	\$ 9.91	\$ 9.99	\$ 10.00	\$ 10.00
TOTAL INVESTMENT RETURN+.....	7.25%	8.57%	7.32%	4.85%	6.23%	8.77%	7.57%(1)

RATIOS TO AVERAGE NET ASSETS:

Expenses.....	1.46%	1.52%	1.60%	1.45%	1.47%	1.52%	1.48%(2)
Net investment income.....	7.50%	8.11%	6.14%	5.53%	6.14%	8.23%	8.95%(2)
SUPPLEMENTAL DATA:							
Net assets, end of period, in thousands.....	\$939,471	\$521,361	\$305,034	\$311,479	\$413,497	\$479,941	\$328,189
Portfolio turnover rate.....	72%	102%	147%	92%	46%	42%	35%(1)

<FN>

-
- * Commencement of operations.
 - + Does not reflect the deduction of sales charge. Calculated based on the net asset value as of the last business day of the period. Dividends and distributions are assumed to be reinvested at the prices obtained under the Trust's dividend reinvestment plan.

(1) Not annualized.

(2) Annualized.

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS

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APPENDIX A

HEDGING TRANSACTIONS

INTEREST RATE AND OTHER HEDGING TRANSACTIONS. The Trust may in the future enter into various interest rate hedging and risk management transactions; however, it does not presently intend to engage in such transactions and will do so only after providing 30 days' written notice to shareholders. If in the future the Trust were to engage in such transactions, it expects to do so primarily to seek to preserve a return on a particular investment or portion of its portfolio, and may also enter into such transactions to seek to protect against decreases in the anticipated rate of return on floating or variable rate financial instruments the Trust owns or anticipates purchasing at a later date, or for other risk management strategies such as managing the effective dollar-weighted average duration of the Trust's portfolio. In addition, with respect to fixed-income securities in the Trust's portfolio or to the extent an active secondary market develops in interests in Senior Loans in which the Trust may invest, the Trust may also engage in hedging transactions to seek to protect the value of its portfolio against declines in net asset value resulting from changes in interest rates or other market changes. The Trust will not engage in any of the transactions for speculative purposes and will use them only as a means to hedge or manage the risks associated with assets held in, or anticipated to be purchased for, the Trust's portfolio or obligations incurred by the Trust. The successful utilization of hedging and risk management transactions requires skills different from those needed in the selection of the Trust's portfolio securities. The Investment Adviser currently actively utilizes various hedging techniques in connection with its management of other fixed income portfolios and the Trust believes that the Investment Adviser possesses the skills necessary for the successful utilization of hedging and risk management transactions. The Trust will incur brokerage and other costs in connection with its hedging transactions.

The types of hedging transactions in which the Trust is most likely to engage are interest rate swaps and the purchase or sale of interest rate caps or floors. The Trust will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by the Trust with another party of their respective obligations to pay or receive interest, e.g., an exchange of an obligation to make floating rate payments for an obligation to make fixed rate payments. The purchase of an interest rate cap entitles the Purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest at the difference of the index and the predetermined rate on a notional principal amount (the reference amount with respect to which payment obligations are determined, although no actual exchange of principal occurs) from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest at the difference of the index and the predetermined rate on a notional principal amount from the party selling such interest rate floor.

In circumstances in which the Investment Adviser anticipates that interest rates will decline, the Trust might, for example, enter into an interest rate swap as the floating rate payor. In the case where the Trust purchases such an interest rate swap, if the floating rate payments fell below the level of the

fixed rate payment set in the swap agreement, the Trust's counterparty would pay the Trust amounts equal to interest computed at the difference between the fixed and floating rates over the notional principal amount. Such payments would offset or partially offset the decrease in the payments the Trust would receive in respect of floating rate assets being hedged. In the case of purchasing an interest rate floor, if interest rates declined below the floor rate, the Trust would receive payments from its counterparty which would wholly or partially offset the decrease in the payments it would receive in respect of the financial instruments being hedged.

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The successful use of swaps, caps and floors to preserve the rate of return on a portfolio of financial instruments depends on the Investment Adviser's ability to predict correctly the direction and degree of movements in interest rates. Although the Trust believes that use of the hedging and risk management techniques described above will benefit the Trust, if the Investment Adviser's judgment about the direction or extent of the movement in interest rates is incorrect, the Trust's overall performance would be worse than if it had not entered into any such transactions. For example, if the Trust had purchased an interest rate swap or an interest rate floor to hedge against its expectation that interest rates would decline but instead interest rates rose, the Trust would lose part or all of the benefit of the increased payments it would receive as a result of the rising interest rates because it would have to pay amounts to its counterparty under the swap agreement or would have paid the purchase price of the interest rate floor.

Any interest rate swaps entered into by the Trust would usually be done on a net basis, i.e., where the two parties make net payments with the Trust receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as any such hedging transactions entered into by the Trust will be for good-faith risk management purposes, the Investment Adviser and the Trust believe such obligations do not constitute senior securities and, accordingly, will not treat them as being subject to its investment restrictions on borrowing. The net amount of the excess, if any, of the Trust's obligations over its entitlements with respect to each interest rate swap will be accrued and an amount of cash or liquid high quality securities having an aggregate net asset value at least equal to the accrued excess will be maintained in a segregated account by the Trust's custodian.

The Trust will not enter into interest rate swaps, caps or floors if on a net basis the aggregate notional principal amount with respect to such agreement exceeds the net assets of the Trust. Thus, the Trust may enter into interest rate swaps, caps or floors with respect to its entire portfolio.

There is no limit on the amount of interest rate swap transactions that may be entered into by the Trust. These transactions do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Trust is contractually obligated to make. If the other party to an interest rate swap defaults, the Trust's risk of loss consists of the net amount of interest payments that the Trust contractually is entitled to receive. The creditworthiness of firms with which the Trust enters into interest rate swaps, caps or floors will be monitored on an ongoing basis by the Investment Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Board of Trustees of the Trust. If a default occurs by the other party to such transaction, the Trust will have contractual remedies pursuant to the agreements related to the transaction but such remedies may be subject to bankruptcy and insolvency laws which could affect the Trust's rights as a creditor. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps and floors are more recent innovations and they are less liquid than swaps.

The Trust is also authorized to enter into hedging transactions involving financial futures and options, but presently believes it is unlikely that it would enter into such transactions. The Trust may also invest in any new financial products which may be developed to the extent determined by the Board of Trustees to be consistent with its investment objective and otherwise in the best interests of the Trust and its shareholders. The Trust will engage in such transactions only to the extent permitted under applicable law and after providing 30 days' written notice to shareholders.

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Prime Income Trust
Two World Trade Center
New York, New York 10048

TRUSTEES

Michael Bozic
Charles A. Fiumefreddo
Edwin J. Garn
John H. Haire
Manuel H. Johnson
Michael E. Nugent
Philip J. Purcell
John L. Schroeder

OFFICERS

Charles A. Fiumefreddo
Chairman and Chief Executive Officer
Sheldon Curtis
Vice President, Secretary and
General Counsel

Rafael Scolari
Vice President

Thomas F. Caloia
Treasurer

CUSTODIAN

The Bank of New York
90 Washington Street
New York, New York 10286

TRANSFER AGENT AND DIVIDEND
DISBURSING AGENT

Dean Witter Trust Company
Harborside Financial Center
Plaza Two
Jersey City, New Jersey 07311

INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP
1177 Avenue of Americas
New York, New York 10036

INVESTMENT ADVISER

Dean Witter InterCapital Inc.
Two World Trade Center
New York, New York 10048

ADMINISTRATOR

Dean Witter Services Company Inc.
Two World Trade Center
New York, New York 10048

DISTRIBUTOR

Dean Witter Distributors Inc.
Two World Trade Center
New York, New York 10048

PRIME
INCOME
TRUST

Prospectus

January , 1997

PRIME INCOME TRUST

PART C OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(a) FINANCIAL STATEMENTS

(1) Financial statements and schedules, included in Prospectus (Part A):

	Page in Prospectus -----
Financial highlights for the period November 30, 1989 through September 30, 1990 and for the years ended September 30, 1991, 1992, 1993, 1994, 1995 and 1996 ..	4

(2) Financial statements included in the Statement of Additional Information (Part B):

	Page in SAI ---
Portfolio of Investments at September 30, 1996	51
Statement of assets and liabilities at September 30, 1996	58
Statement of operations for the year ended September 30, 1996	58
Statement of changes in net assets for the years ended September 30, 1995 and September 30, 1996	59
Notes to Financial Statements.....	61
Financial highlights for the period November 30, 1989 through September 30, 1990 and for the years ended September 30, 1991, 1992, 1993, 1994, 1995 and 1996	66

(3) Financial statements included in Part C:

None

(b) EXHIBITS:

- 2. -- Amended and Restated By-Laws of Registrant dated as of October 25, 1996
- 8. -- Form of Amendment to the Custody Agreement between the Registrant and The Bank of New York
- 12. -- Opinion of Sheldon Curtis, Exq.
- 14. -- Consent of Independent Accountants
- 15.(a) -- Schedule for Computation of Performance Quotations
- (b) -- Financial Data Schedule

Item 25. MARKETING ARRANGEMENTS.

Not Applicable

Item 26. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Securities and Exchange Commission Registration Fee	\$451,818.00
Blue Sky Fees and Expenses (including fees of counsel)	\$ 5,000.00
Transfer Agent Fee	\$0

Accounting fees and expenses	\$0
Legal fees and expenses	\$ 5,000.00
Printing and engraving	\$ 55,000.00
Miscellaneous	\$ 2,000.00
Total	518,818.00

Item 27. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

None

Item 28. NUMBER OF HOLDERS OF SECURITIES.

(1) Title of Class -----	(2) Number of Record Holders at November 30, 1996 -----
Shares of Beneficial Interest	46,608

Item 27. INDEMNIFICATION.

Pursuant to Section 5.3 of the Registrant's Declaration of Trust and under Section 4.8 of the Registrant's By-Laws, the indemnification of the Registrant's trustees, officers, employees and agents is permitted if it is determined that they acted under the belief that their actions were in or not opposed to the best interest of the Registrant, and, with respect to any criminal proceeding, they had reasonable cause to believe their conduct was not unlawful. In addition, indemnification is permitted only if it is determined that the actions in question did not render them liable by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of reckless disregard of their obligations and duties to the Registrant. Trustees, officers, employees and agents will be indemnified for the

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expense of litigation if it is determined that they are entitled to indemnification against any liability established in such litigation. The Registrant may also advance money for these expenses provided that they give their undertakings to repay the Registrant unless their conduct is later determined to permit indemnification.

Pursuant to Section 5.2 of the Registrant's Declaration of Trust and paragraph 8 of the Registrant's Investment Management Agreement, neither the Investment Manager nor any trustee, officer, employee or agent of the Registrant shall be liable for any action or failure to act, except in the case of bad faith, willful misfeasance, gross negligence or reckless disregard of duties to the Registrant.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to trustees, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a trustee, officer, or controlling person of the Registrant in connection with the successful defense of any action, suit or proceeding) is asserted against the Registrant by such trustee, officer or controlling person in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act, and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that it will apply the indemnification provision of its by-laws in a manner consistent with Release 11330 of the Securities and Exchange Commission under the Investment Company Act of 1940, so long as the interpretation of Sections 17(h) and 17(i) of such Act remains in effect.

Registrant, in conjunction with the Investment Manager, Registrant's Trustees, and other registered investment management companies managed by the Investment Manager, maintains insurance on behalf of any person who is or was a Trustee, officer, employee, or agent of Registrant, or who is or was serving at the request of Registrant as a trustee, director, officer, employee or agent of

another trust or corporation, against any liability asserted against him and incurred by him or arising out of his position. However, in no event will Registrant maintain insurance to indemnify any such person for any act for which Registrant itself is not permitted to indemnify him.

Item 29. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

See "The Fund and Its Management" in the Prospectus regarding the business of the investment adviser. The following information is given

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regarding officers of Dean Witter InterCapital Inc. InterCapital is a wholly-owned subsidiary of Dean Witter, Discover & Co. The principal address of the Dean Witter Funds is Two World Trade Center, New York, New York 10048.

The term "Dean Witter Funds" used below refers to the following registered investment companies:

CLOSED-END INVESTMENT COMPANIES

- (1) InterCapital Income Securities Inc.
- (2) High Income Advantage Trust
- (3) High Income Advantage Trust II
- (4) High Income Advantage Trust III
- (5) Municipal Income Trust
- (6) Municipal Income Trust II
- (7) Municipal Income Trust III
- (8) Dean Witter Government Income Trust
- (9) Municipal Premium Income Trust
- (10) Municipal Income Opportunities Trust
- (11) Municipal Income Opportunities Trust II
- (12) Municipal Income Opportunities Trust III
- (13) Prime Income Trust
- (14) InterCapital Insured Municipal Bond Trust
- (15) InterCapital Quality Municipal Income Trust
- (16) InterCapital Quality Municipal Investment Trust
- (17) InterCapital Insured Municipal Income Trust
- (18) InterCapital California Insured Municipal Income Trust
- (19) InterCapital Insured Municipal Trust
- (20) InterCapital Quality Municipal Securities
- (21) InterCapital New York Quality Municipal Securities
- (22) InterCapital California Quality Municipal Securities
- (23) InterCapital Insured California Municipal Securities
- (24) InterCapital Insured Municipal Securities

OPEN-END INVESTMENT COMPANIES:

- (1) Dean Witter Short-Term Bond Fund
- (2) Dean Witter Tax-Exempt Securities Trust
- (3) Dean Witter Tax-Free Daily Income Trust
- (4) Dean Witter Dividend Growth Securities Inc.
- (5) Dean Witter Convertible Securities Trust
- (6) Dean Witter Liquid Asset Fund Inc.
- (7) Dean Witter Developing Growth Securities Trust
- (8) Dean Witter Retirement Series
- (9) Dean Witter Federal Securities Trust
- (10) Dean Witter World Wide Investment Trust
- (11) Dean Witter U.S. Government Securities Trust
- (12) Dean Witter Select Municipal Reinvestment Fund
- (13) Dean Witter High Yield Securities Inc.
- (14) Dean Witter Intermediate Income Securities
- (15) Dean Witter New York Tax-Free Income Fund
- (16) Dean Witter California Tax-Free Income Fund
- (17) Dean Witter Health Sciences Trust

- (18) Dean Witter California Tax-Free Daily Income Trust
- (19) Dean Witter Global Asset Allocation Fund
- (20) Dean Witter American Value Fund
- (21) Dean Witter Strategist Fund
- (22) Dean Witter Utilities Fund
- (23) Dean Witter World Wide Income Trust
- (24) Dean Witter New York Municipal Money Market Trust
- (25) Dean Witter Capital Growth Securities
- (26) Dean Witter Precious Metals and Minerals Trust
- (27) Dean Witter European Growth Fund Inc.
- (28) Dean Witter Global Short-Term Income Fund Inc.
- (29) Dean Witter Pacific Growth Fund Inc.
- (30) Dean Witter Multi-State Municipal Series Trust

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- (31) Dean Witter Premier Income Trust
- (32) Dean Witter Short-Term U.S. Treasury Trust
- (33) Dean Witter Diversified Income Trust
- (34) Dean Witter U.S. Government Money Market Trust
- (35) Dean Witter Global Dividend Growth Securities
- (36) Active Assets California Tax-Free Trust
- (37) Dean Witter Natural Resource Development Securities Inc.
- (38) Active Assets Government Securities Trust
- (39) Active Assets Money Trust
- (40) Active Assets Tax-Free Trust
- (41) Dean Witter Limited Term Municipal Trust
- (42) Dean Witter Variable Investment Series
- (43) Dean Witter Value-Added Market Series
- (44) Dean Witter Global Utilities Fund
- (45) Dean Witter High Income Securities
- (46) Dean Witter National Municipal Trust
- (47) Dean Witter International SmallCap Fund
- (48) Dean Witter Mid-Cap Growth Fund
- (49) Dean Witter Select Dimensions Investment Series
- (50) Dean Witter Balanced Growth Fund
- (51) Dean Witter Balanced Income Fund
- (52) Dean Witter Hawaii Municipal Trust
- (53) Dean Witter Capital Appreciation Fund
- (54) Dean Witter Intermediate Term U.S. Treasury Trust
- (55) Dean Witter Information Fund
- (56) Dean Witter Japan Fund
- (57) Dean Witter Income Builder Fund
- (58) Dean Witter Special Value Fund

The term "TCW/DW Funds" refers to the following registered investment companies:

OPEN-END INVESTMENT COMPANIES

- (1) TCW/DW Core Equity Trust
- (2) TCW/DW North American Government Income Trust
- (3) TCW/DW Latin American Growth Fund
- (4) TCW/DW Income and Growth Fund
- (5) TCW/DW Small Cap Growth Fund
- (6) TCW/DW Balanced Fund
- (7) TCW/DW Total Return Trust
- (8) TCW/DW Mid-Cap Equity Trust

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- (9) TCW/DW Global Telecom Trust
- (10) TCW/DW Strategic Income Trust

CLOSED-END INVESTMENT COMPANIES

- (1) TCW/DW Term Trust 2000
- (2) TCW/DW Term Trust 2002
- (3) TCW/DW Term Trust 2003
- (4) TCW/DW Emerging Markets Opportunities Trust

NAME AND POSITION WITH DEAN WITTER INTERCAPITAL INC.	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS AND NATURE OF CONNECTION
-----	-----
Charles A. Fiumefreddo Chairman, Chief Executive Officer and Director	Executive Vice President and Director of Dean Witter Reynolds Inc. ("DWR"); Chairman, Chief Executive Officer and Director of Dean Witter Distributors Inc. ("Distributors") and Dean Witter Services Company Inc. ("DWSC"); Chairman and Director of Dean Witter Trust Company ("DWTC"); Chairman, Director or Trustee, President and Chief Executive Officer of the Dean Witter Funds and Chairman, Chief Executive Officer and Trustee of the TCW/DW Funds; Formerly Executive Vice President and Director of Dean Witter, Discover & Co. ("DWDC"); Director and/or officer of various DWDC subsidiaries.
Philip J. Purcell Director	Chairman, Chief Executive Officer and Director of DWDC and DWR; Director of DWSC and Distributors; Director or Trustee of the Dean Witter Funds; Director and/or officer of various DWDC subsidiaries.
Richard M. DeMartini Director	Executive Vice President of DWDC; President and Chief Operating Officer of Dean Witter Capital;

Director of DWR, DWSC, Distributors and DWTC;
Trustee of the TCW/DW Funds; Member (since
January, 1993) and Chairman (since January, 1995)
of the Board of Directors of NASDAQ.

James F. Higgins
Director

Executive Vice President of DWDC; President and
Chief Operating Officer of Dean Witter Financial;
Director of DWR, DWSC, Distributors and DWTC.

Thomas C. Schneider
Executive Vice
President, Chief
Financial Officer and
Director

Executive Vice President and Chief Financial
Officer of DWDC, DWR, DWSC and Distributors;
Director of DWR, DWSC and Distributors.

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NAME AND POSITION
WITH DEAN WITTER
INTERCAPITAL INC.

OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION
OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS
AND NATURE OF CONNECTION

Christine A. Edwards
Director

Executive Vice President, Secretary and General
Counsel of DWDC and DWR; Executive Vice President,
Secretary and Chief Legal Officer of Distributors;
Director of DWR, DWSC and Distributors.

Robert M. Scanlan
President and Chief
Operating Officer

President and Chief Operating Officer of DWSC,
Executive Vice President of Distributors;
Executive Vice President and Director of DWTC;
Vice President of the Dean Witter Funds and the
TCW/DW Funds.

John Van Heuvelen
Executive Vice
President

President, Chief Operating Officer and Director
of DWTC.

Joseph J. McAlinden
Executive Vice President and
and Chief Investment
Officer

Vice President of the Dean Witter Funds
and Director of DWTC.

Sheldon Curtis
Senior Vice President,
General Counsel and
Secretary

Assistant Secretary of DWR; Senior Vice President,
Secretary and General Counsel of DWSC; Senior Vice
President, Assistant General Counsel and Assistant
Secretary of Distributors; Senior Vice President
and Secretary of DWTC; Vice President, Secretary
and General Counsel of the Dean Witter Funds and
the TCW/DW Funds.

Peter M. Avelar
Senior Vice President

Vice President of various Dean Witter Funds.

Mark Bavoso
Senior Vice President

Vice President of various Dean Witter Funds.

Richard Felegy
Senior Vice President

Edward Gaylor
Senior Vice President

Vice President of various Dean Witter Funds.

Robert S. Giambrone
Senior Vice President

Senior Vice President of DWSC, Distributors
and DWTC and Director of DWTC; Vice President of
the Dean Witter Funds and the TCW/DW Funds.

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NAME AND POSITION
WITH DEAN WITTER
INTERCAPITAL INC.

OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION
OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS
AND NATURE OF CONNECTION

Rajesh K. Gupta
Senior Vice President

Vice President of various Dean Witter Funds.

Kenton J. Hinchcliffe
Senior Vice President

Vice President of various Dean Witter Funds.

Kevin Hurley Senior Vice President	Vice President of various Dean Witter Funds.
Jenny B. Jones Senior Vice President	Vice President of Dean Witter Special Value Fund.
John B. Kemp, III Senior Vice President	Director of the Provident Savings Bank, Jersey City, New Jersey.
Anita Kolleeny Senior Vice President	Vice President of various Dean Witter Funds.
Jonathan R. Page Senior Vice President	Vice President of various Dean Witter Funds.
Ira Ross Senior Vice President	Vice President of various Dean Witter Funds.
Rochelle G. Siegel Senior Vice President	Vice President of various Dean Witter Funds.
Paul D. Vance Senior Vice President	Vice President of various Dean Witter Funds.
Elizabeth A. Vetell Senior Vice President	
James F. Willison Senior Vice President	Vice President of various Dean Witter Funds.
Ronald J. Worobel Senior Vice President	Vice President of various Dean Witter Funds.
Thomas F. Caloia First Vice President and Assistant Treasurer	First Vice President and Assistant Treasurer of DWSC, Assistant Treasurer of Distributors; Treasurer and Chief Financial Officer of the Dean Witter Funds and the TCW/DW Funds.
Marilyn K. Cranney First Vice President and Assistant Secretary	Assistant Secretary of DWR; First Vice President and Assistant Secretary of DWSC; Assistant Secretary of the Dean Witter Funds and the TCW/DW Funds.

NAME AND POSITION WITH DEAN WITTER INTERCAPITAL INC. -----	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS AND NATURE OF CONNECTION -----
Barry Fink First Vice President and Assistant Secretary	First Vice President and Assistant Secretary of DWSC; Assistant Secretary of the Dean Witter Funds and the TCW/DW Funds.
Michael Interrante First Vice President and Controller	First Vice President and Controller of DWSC; Assistant Treasurer of Distributors; First Vice President and Treasurer of DWTC.
Robert Zimmerman First Vice President	
Joan Allman Vice President	
Joseph Arcieri Vice President	Vice President of various Dean Witter Funds.
Kirk Balzer Vice President	Vice President of various Dean Witter Funds.
Douglas Brown Vice President	
Philip Casparius Vice President	
Thomas Chronert Vice President	

Rosalie Clough
Vice President

Patricia A. Cuddy
Vice President

Vice President of various Dean Witter Funds.

B. Catherine Connelly
Vice President

Salvatore DeSteno
Vice President

Vice President of DWSC.

Frank J. DeVito
Vice President

Vice President of DWSC.

Bruce Dunn
Vice President

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NAME AND POSITION
WITH DEAN WITTER
INTERCAPITAL INC.

OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION
OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS
AND NATURE OF CONNECTION

Jeffrey D. Geffen
Vice President

Deborah Genovese
Vice President

Peter W. Gurman
Vice President

John Hechtlinger
Vice President

Peter Hermann
Vice President

Vice President of various Dean Witter Funds.

Elizabeth Hinchman
Vice President

David Hoffman
Vice President

David Johnson
Vice President

Christopher Jones
Vice President

Stanley Kapica
Vice President

Michael Knox
Vice President

Vice President of Dean Witter Convertible
Securities Trust.

Konrad J. Krill
Vice President

Vice President of various Dean Witter Funds.

Paula LaCosta
Vice President

Vice President of various Dean Witter Funds.

Thomas Lawlor
Vice President

Gerard Lian
Vice President

Vice President of various Dean Witter Funds.

LouAnne D. McInnis
Vice President and
Assistant Secretary

Vice President and Assistant Secretary of DWSC;
Assistant Secretary of the Dean Witter Funds and
the TCW/DW Funds.

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NAME AND POSITION
WITH DEAN WITTER
INTERCAPITAL INC.

OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION
OR EMPLOYMENT, INCLUDING NAME, PRINCIPAL ADDRESS
AND NATURE OF CONNECTION

Sharon K. Milligan
Vice President

Julie Morrone
Vice President

David Myers
Vice President

James Nash
Vice President

Richard Norris
Vice President

Hugh Rose
Vice President

Robert Rossetti
Vice President

Ruth Rossi
Vice President and
Assistant Secretary

Vice President and Assistant Secretary of DWSC;
Assistant Secretary of the Dean Witter Funds and
the TCW/DW Funds.

Carl F. Sadler
Vice President

Rafael Scolari
Vice President

Vice President of Prime Income Trust.

Peter Seeley
Vice President

Vice President of Dean Witter World Wide
Income Trust.

Jayne M. Stevlingson
Vice President

Vice President of various Dean Witter Funds.

Kathleen Stromberg
Vice President

Vice President of various Dean Witter Funds.

Vinh Q. Tran
Vice President

Vice President of various Dean Witter Funds.

Alice Weiss
Vice President

Vice President of various Dean Witter Funds.

Katherine Wickham
Vice President

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Item 29. PRINCIPAL UNDERWRITERS

- (a) Dean Witter Distributors Inc. ("Distributors"), a Delaware corporation, is the principal underwriter of the Registrant. Distributors is also the principal underwriter of the following investment companies:

- (1) Dean Witter Liquid Asset Fund Inc.
- (2) Dean Witter Tax-Free Daily Income Trust
- (3) Dean Witter California Tax-Free Daily Income Trust
- (4) Dean Witter Retirement Series
- (5) Dean Witter Dividend Growth Securities Inc.
- (6) Dean Witter Global Asset Allocation
- (7) Dean Witter World Wide Investment Trust
- (8) Dean Witter Capital Growth Securities
- (9) Dean Witter Convertible Securities Trust
- (10) Active Assets Tax-Free Trust
- (11) Active Assets Money Trust
- (12) Active Assets California Tax-Free Trust
- (13) Active Assets Government Securities Trust
- (14) Dean Witter Short-Term Bond Fund
- (15) Dean Witter Mid-Cap Growth Fund
- (16) Dean Witter U.S. Government Securities Trust
- (17) Dean Witter High Yield Securities Inc.
- (18) Dean Witter New York Tax-Free Income Fund
- (19) Dean Witter Tax-Exempt Securities Trust
- (20) Dean Witter California Tax-Free Income Fund

- (21) Dean Witter Limited Term Municipal Trust
- (22) Dean Witter Natural Resource Development Securities Inc.
- (23) Dean Witter World Wide Income Trust
- (24) Dean Witter Utilities Fund
- (25) Dean Witter Strategist Fund
- (26) Dean Witter New York Municipal Money Market Trust
- (27) Dean Witter Intermediate Income Securities
- (28) Prime Income Trust
- (29) Dean Witter European Growth Fund Inc.
- (30) Dean Witter Developing Growth Securities Trust
- (31) Dean Witter Precious Metals and Minerals Trust
- (32) Dean Witter Pacific Growth Fund Inc.
- (33) Dean Witter Multi-State Municipal Series Trust
- (34) Dean Witter Federal Securities Trust
- (35) Dean Witter Short-Term U.S. Treasury Trust
- (36) Dean Witter Diversified Income Trust
- (37) Dean Witter Health Sciences Trust
- (38) Dean Witter Global Dividend Growth Securities
- (39) Dean Witter American Value Fund
- (40) Dean Witter U.S. Government Money Market Trust
- (41) Dean Witter Global Short-Term Income Fund Inc.
- (42) Dean Witter Premier Income Trust
- (43) Dean Witter Value-Added Market Series
- (44) Dean Witter Global Utilities Fund
- (45) Dean Witter High Income Securities
- (46) Dean Witter National Municipal Trust
- (47) Dean Witter International SmallCap Fund

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- (48) Dean Witter Balanced Growth Fund
- (49) Dean Witter Balanced Income Fund
- (50) Dean Witter Hawaii Municipal Trust
- (51) Dean Witter Variable Investment Series
- (52) Dean Witter Capital Appreciation Fund
- (53) Dean Witter Intermediate Term U.S. Treasury Trust
- (54) Dean Witter Information Fund
- (55) Dean Witter Japan Fund
- (56) Dean Witter Income Builder Fund
- (57) Dean Witter Special Value Fund
- (1) TCW/DW Core Equity Trust
- (2) TCW/DW North American Government Income Trust
- (3) TCW/DW Latin American Growth Fund
- (4) TCW/DW Income and Growth Fund
- (5) TCW/DW Small Cap Growth Fund
- (6) TCW/DW Balanced Fund
- (7) TCW/DW Total Return Trust
- (8) TCW/DW Mid-Cap Equity Trust
- (9) TCW/DW Global Telecom Trust
- (10) TCW/DW Strategic Income Trust

(b) The following information is given regarding directors and officers of Distributors not listed in Item 28 above. The principal address of Distributors is Two World Trade Center, New York, New York 10048. None of the following persons has any position or office with the Registrant.

Name	Positions and Office with Distributors
----	-----
Fredrick K. Kubler	Senior Vice President, Assistant Secretary and Chief Compliance Officer.
Michael T. Gregg	Vice President and Assistant Secretary.

Item 30. LOCATION OF ACCOUNTS AND RECORDS

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the Rules thereunder are maintained by the Investment Manager at its offices, except records relating to holders of shares issued by the Registrant, which are maintained by the Registrant's Transfer Agent, at its place of business as shown in the prospectus.

Item 31. MANAGEMENT SERVICES

Registrant is not a party to any such management-related service

Item 32. UNDERTAKINGS

Registrant hereby undertakes to furnish each person to whom a prospectus is delivered with a copy of the Registrant's latest annual report to shareholders upon request and without charge.

SIGNATURES

Pursuant to the requirements of the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York and the State of New York on the 30th day of December, 1996.

PRIME INCOME TRUST

By /s/ Sheldon Curtis

Sheldon Curtis
Vice President and Secretary

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signatures -----	Title -----	Date ----
(1) Principal Executive Officer By /s/Charles A. Fiumefreddo ----- Charles A. Fiumefreddo	President, Chief Executive Officer, Trustee and Chairman	12/30/96
(2) Principal Financial Officer /s/Thomas F. Caloia ----- Thomas F. Caloia	Treasurer and Principal Accounting Officer	12/30/96
(3) Majority of the Trustees Charles A. Fiumefreddo (Chairman) Philip J. Purcell By /s/Sheldon Curtis ----- Sheldon Curtis Attorney-in-Fact	Manuel H. Johnson Michael E. Nugent John L. Schroeder	12/30/96
Michael Bozic Edwin J. Garn John R. Haire By /s/David M. Butowsky ----- David M. Butowsky Attorney-in-Fact		12/30/96

EXHIBIT INDEX

2. -- Amended and Restated By-Laws of Registrant

- 8. -- Form of Amendment to the Custody Agreement
between the Registrant and The Bank of New
York
- 12. -- Opinion of Sheldon Curtis, Esq.
- 14. -- Consent of Independent Accountants
- 15(a) -- Schedule of Computation Yield Quotation
- (b) -- Financial Data Schedule

BY-LAWS

OF

PRIME INCOME TRUST
AMENDED AND RESTATED AS OF OCTOBER 25, 1996

ARTICLE I
DEFINITIONS

The terms "COMMISSION", "DECLARATION", "DISTRIBUTOR", "INVESTMENT ADVISER", "MAJORITY SHAREHOLDER VOTE", "1940 ACT", "SHAREHOLDER", "SHARES", "TRANSFER AGENT", "TRUST", "TRUST PROPERTY", and "TRUSTEES" have the respective meanings given them in the Declaration of Trust of Prime Income Trust dated August 17, 1989, as amended from time to time.

ARTICLE II
OFFICES

SECTION 2.1. PRINCIPAL OFFICE. Until changed by the Trustees, the principal office of the Trust in the Commonwealth of Massachusetts shall be in the City of Boston, County of Suffolk.

SECTION 2.2. OTHER OFFICES. In addition to its principal office in the Commonwealth of Massachusetts, the Trust may have an office or offices in the City of New York, State of New York, and at such other places within and without the Commonwealth as the Trustees may from time to time designate or the business of the Trust may require.

ARTICLE III
SHAREHOLDERS' MEETINGS

SECTION 3.1. PLACE OF MEETINGS. Meetings of Shareholders shall be held at such place, within or without the Commonwealth of Massachusetts, as may be designated from time to time by the Trustees.

SECTION 3.2. MEETINGS. Meetings of Shareholders of the Trust shall be held whenever called by the Trustees or the President of the Trust and whenever election of a Trustee or Trustees by Shareholders is required by the provisions of Section 16(a) of the 1940 Act, for that purpose. Special meetings of Shareholders shall also be called by the Secretary upon the written request of the holders of Shares entitled to vote not less than twenty-five percent (25%) of all votes entitled to be cast at such meeting, except to the extent otherwise required by Section 16(c) of the 1940 Act, as made applicable to the Trust by the provisions of Section 2.3 of the Declaration. Such request shall state the purpose or purposes of such meeting and the matters proposed to be acted on thereat. Except to the extent otherwise required by Section 16(c) of the 1940 Act, as made applicable to the Trust by the provisions of Section 2.3 of the

Declaration, the Secretary shall inform such Shareholders of the reasonable estimated cost of preparing and mailing such notice of the meeting, and upon payment to the Trust of such costs, the Secretary shall give notice stating the purpose or purposes of the meeting to all entitled to vote at such meeting. No meeting need be called upon the request of the holders of Shares entitled to cast less than a majority of all votes entitled to be cast at such meeting, to consider any matter which is substantially the same as a matter voted upon at any meeting of Shareholders held during the preceding twelve months.

SECTION 3.3. NOTICE OF MEETINGS. Written or printed notice of every Shareholders' meeting stating the place, date, and purpose or purposes thereof, shall be given by the Secretary not less than ten (10) nor more than ninety (90) days before such meeting to each Shareholder entitled to vote at such meeting. Such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the Shareholder at his address as it appears on the records of the Trust.

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SECTION 3.4. QUORUM AND ADJOURNMENT OF MEETINGS. Except as otherwise provided by law, by the Declaration or by these By-Laws, at all meetings of Shareholders the holders of a majority of the Shares issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum for the transaction of business. In the absence of a quorum, the Shareholders present or represented by proxy and entitled to vote thereat shall have power to adjourn the meeting from time to time. Any adjourned meeting may be held as adjourned without further notice. At any adjourned meeting at which a quorum shall be present, any business may be transacted as if the meeting had been held as originally called.

SECTION 3.5. VOTING RIGHTS, PROXIES. At each meeting of Shareholders, each holder of record of Shares entitled to vote thereat shall be entitled to one vote in person or by proxy, executed in writing by the Shareholder or his duly authorized attorney-in-fact, for each Share of beneficial interest of the Trust and for the fractional portion of one vote for each fractional Share entitled to vote so registered in his name on the records of the Trust on the date fixed as the record date for the determination of Shareholders entitled to vote at such meeting. No proxy shall be valid after eleven months from its date, unless otherwise provided in the proxy. At all meetings of Shareholders, unless the voting is conducted by inspectors, all questions relating to the qualification of voters and the validity of proxies and the acceptance or rejection of votes shall be decided by the chairman of the meeting. Pursuant to a resolution of a majority of the Trustees, proxies may be solicited in the name of one or more Trustees or Officers of the Trust.

SECTION 3.6. VOTE REQUIRED. Except as otherwise provided by law, by the Declaration of Trust, or by these By-Laws, at each meeting of Shareholders at which a quorum is present, all matters shall be decided by Majority Shareholder Vote.

SECTION 3.7. INSPECTORS OF ELECTION. In advance of any meeting of Shareholders, the Trustees may appoint Inspectors of Election to act at the meeting or any adjournment thereof. If Inspectors of Election are not so appointed, the chairman of any meeting of Shareholders may, and on the request of any Shareholder or his proxy shall, appoint Inspectors of Election of the meeting. In case any person appointed as Inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Trustees in advance of the convening of the meeting or at the meeting by the person acting as chairman. The Inspectors of Election shall determine the number of Shares outstanding, the Shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, shall receive votes, ballots or consents, shall hear and determine all challenges and questions in any way arising in connection with the right to vote, shall count and tabulate all votes or consents, determine the results, and do such other acts as may be proper to conduct the election or vote with fairness to all Shareholders. On request of the chairman of the meeting, or of any Shareholder or his proxy, the Inspectors of Election shall make a report in writing of any challenge or question or matter determined by them and shall execute a certificate of any facts found by them.

SECTION 3.8. INSPECTION OF BOOKS AND RECORDS. Shareholders shall have such rights and procedures of inspection of the books and records of the Trust as are granted to Shareholders under the laws of the Commonwealth of Massachusetts.

SECTION 3.9. ACTION BY SHAREHOLDERS WITHOUT MEETING. Except as otherwise provided by law, the provisions of these By-Laws relating to notices and meetings to the contrary notwithstanding, any action required or permitted to be taken at any meeting of Shareholders may be taken without a meeting if a majority of the Shareholders entitled to vote upon the action consent to the action in writing and such consents are filed with the records of the Trust. Such consent shall be treated for all purposes as a vote taken at a meeting of Shareholders.

SECTION 3.10. PRESENCE AT MEETINGS. Presence at meetings of shareholders requires physical attendance by the shareholder or his or her proxy at the meeting site and does not encompass attendance by telephonic or other electronic means.

ARTICLE IV TRUSTEES

SECTION 4.1. MEETINGS OF THE TRUSTEES. The Trustees may in their discretion provide for regular or special meetings of the Trustees. Regular meetings of the Trustees may be held at such time and place as shall be determined from time to time by the Trustees without further notice. Special meetings of the Trustees may be called at any time by the President and shall

be called by the President or the Secretary upon the written request of any two (2) Trustees.

SECTION 4.2. NOTICE OF SPECIAL MEETINGS. Written notice of special meetings of the Trustees, stating the place, date and time thereof, shall be given not less than two (2) days before such meeting to each Trustee, personally, by telegram, by mail, or by leaving such notice at his place of residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the Trustee at his address as it appears on the records of the Trust. Subject to the provisions of the 1940 Act, notice or waiver of notice need not specify the purpose of any special meeting.

SECTION 4.3. TELEPHONE MEETINGS. Subject to the provisions of the 1940 Act, any Trustee, or any member or members of any committee designated by the Trustees, may participate in a meeting of the Trustees, or any such committee, as the case may be, by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitutes presence in person at the meeting.

SECTION 4.4. QUORUM, VOTING AND ADJOURNMENT OF MEETINGS. At all meetings of the Trustees, a majority of the Trustees shall be requisite to and shall constitute a quorum for the transaction of business. If a quorum is present, the affirmative vote of a majority of the Trustees present shall be the act of the Trustees, unless the concurrence of a greater proportion is expressly required for such action by law, the Declaration or these By-Laws. If at any meeting of the Trustees there be less than a quorum present, the Trustees present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall have been obtained.

SECTION 4.5. ACTION BY TRUSTEES WITHOUT MEETING. The provisions of these By-Laws covering notices and meetings to the contrary notwithstanding, and except as required by law, any action required or permitted to be taken at any meeting of the Trustees may be taken without a meeting if a consent in writing setting forth the action shall be signed by all of the Trustees entitled to vote upon the action and such written consent is filed with the minutes of proceedings of the Trustees.

SECTION 4.6. EXPENSES AND FEES. Each Trustee may be allowed expenses, if any, for attendance at each regular or special meeting of the Trustees, and each Trustee who is not an officer or employee of the Trust or of its investment manager or underwriter or of any corporate affiliate of any of said persons shall receive for services rendered as a Trustee of the Trust such compensation as may be fixed by the Trustees. Nothing herein contained shall be construed to preclude any Trustee from serving the Trust in any other capacity and receiving compensation therefor.

SECTION 4.7. EXECUTION OF INSTRUMENTS AND DOCUMENTS AND SIGNING OF CHECKS AND OTHER OBLIGATIONS AND TRANSFERS. All instruments, documents and other

papers shall be executed in the name and on behalf of the Trust and all checks, notes, drafts and other obligations for the payment of money by the Trust shall be signed, and all transfer of securities standing in the name of the Trust shall be executed, by the Chairman, the President, any Vice President or the Treasurer or by any one or more officers or agents of the Trust as shall be designated for that purpose by vote of the Trustees; notwithstanding the above, nothing in this Section 4.7 shall be deemed to preclude the electronic authorization, by designated persons, of the Trust's Custodian (as described herein in Section 9.1) to transfer assets of the Trust, as provided for herein in Section 9.1.

SECTION 4.8. INDEMNIFICATION OF TRUSTEES, OFFICERS, EMPLOYEES AND AGENTS. (a) The Trust shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative

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(other than an action by or in the right of the Trust) by reason of the fact that he is or was a Trustee, officer, employee, or agent of the Trust. The indemnification shall be against expenses, including attorneys' fees, judgments, fines, and amounts paid in settlement, actually and reasonably incurred by him in connection with the action, suit, or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Trust shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or on behalf of the Trust to obtain a judgment or decree in its favor by reason of the fact that he is or was a Trustee, officer, employee, or agent of the Trust. The indemnification shall be against expenses, including attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of the action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust; except that no indemnification shall be made in respect of any claim, issue, or matter as to which the person has been adjudged to be liable for negligence or misconduct in the performance of his duty to the Trust, except to the extent that the court in which the action or suit was brought, or a court of equity in the county in which the Trust has its principal office, determines upon application that, despite the adjudication of liability but in view of all circumstances of the case, the

person is fairly and reasonably entitled to indemnity for those expenses which the court shall deem proper, provided such Trustee, officer, employee or agent is not adjudged to be liable by reason of his willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

(c) To the extent that a Trustee, officer, employee, or agent of the Trust has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsection (a) or (b) or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith.

(d) (1) Unless a court orders otherwise, any indemnification under subsections (a) or (b) of this section may be made by the Trust only as authorized in the specific case after a determination that indemnification of the Trustee, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) or (b).

(2) The determination shall be made:

(i) By the Trustees, by a majority vote of a quorum which consists of Trustees who were not parties to the action, suit or proceeding; or

(ii) If the required quorum is not obtainable, or if a quorum of disinterested Trustees so directs, by independent legal counsel in a written opinion; or

(iii) By the Shareholders.

(3) Notwithstanding any provision of this Section 4.8, no person shall be entitled to indemnification for any liability, whether or not there is an adjudication of liability, arising by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of duties as described in Section 17(h) and (i) of the Investment Company Act of 1940 ("disabling conduct"). A person shall be deemed not liable by reason of disabling conduct if, either:

(i) a final decision on the merits is made by a court or other body before whom the proceeding was brought that the person to be indemnified ("indemnatee") was not liable by reason of disabling conduct; or

(ii) in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the indemnatee was not liable by reason of disabling conduct, is made by either--

(A) a majority of a quorum of Trustees who are neither "interested persons" of the Trust, as defined in Section 2(a)(19) of the Investment Company Act of 1940, nor parties to the action, suit or proceeding, or

(B) an independent legal counsel in a written opinion.

(e) Expenses, including attorneys' fees, incurred by a Trustee, officer, employee or agent of the Trust in defending a civil or criminal action, suit or proceeding may be paid by the Trust in advance of the final disposition thereof if:

(1) authorized in the specific case by the Trustees; and

(2) the Trust receives an undertaking by or on behalf of the Trustee, officer, employee or agent of the Trust to repay the advance if it is not ultimately determined that such person is entitled to be indemnified by the Trust; and

(3) either, (i) such person provides a security for his undertaking, or

(ii) the Trust is insured against losses by reason of any lawful advances, or

(iii) a determination, based on a review of readily available facts, that there is reason to believe that such person ultimately will be found entitled to indemnification, is made by either--

(A) a majority of a quorum which consists of Trustees who are neither "interested persons" of the Trust, as defined in Section 2(a)(19) of the 1940 Act, nor parties to the action, suit or proceeding, or

(B) an independent legal counsel in a written opinion.

(f) The indemnification provided by this Section shall not be deemed exclusive of any other rights to which a person may be entitled under any by-law, agreement, vote of Shareholders or disinterested Trustees or otherwise, both as to action in his official capacity and as to action in another capacity while holding the office, and shall continue as to a person who has ceased to be a Trustee, officer, employee, or agent and inure to the benefit of the heirs, executors and administrators of such person; provided that no person may satisfy any right of indemnity or reimbursement granted herein or to which he may be otherwise entitled except out of the property of the Trust, and no Shareholder shall be personally liable with respect to any claim for indemnity or reimbursement or otherwise.

(g) The Trust may purchase and maintain insurance on behalf of any person who is or was a Trustee, officer, employee, or agent of the Trust, against

any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such. However, in no event will the Trust purchase insurance to indemnify any officer or Trustee against liability for any act for which the Trust itself is not permitted to indemnify him.

(h) Nothing contained in this Section shall be construed to protect any Trustee or officer of the Trust against any liability to the Trust or to its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

ARTICLE V COMMITTEES

SECTION 5.1. EXECUTIVE AND OTHER COMMITTEES. The Trustees, by resolution adopted by a majority of the Trustees, may designate an Executive Committee and/or committees, each committee to consist of two (2) or more of the Trustees of the Trust and may delegate to such committees, in the intervals between meetings of the Trustees, any or all of the powers of the Trustees in the management of the business and affairs of the Trust. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint a Trustee to act in place of such absent member. Each such committee shall keep a record of its proceedings.

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The Executive Committee and any other committee shall fix its own rules or procedure, but the presence of at least fifty percent (50%) of the members of the whole committee shall in each case be necessary to constitute a quorum of the committee and the affirmative vote of the majority of the members of the committee present at the meeting shall be necessary to take action.

All actions of the Executive Committee shall be reported to the Trustees at the meeting thereof next succeeding to the taking of such action.

SECTION 5.2. ADVISORY COMMITTEE. The Trustees may appoint an advisory committee which shall be composed of persons who do not serve the Trust in any other capacity and which shall have advisory functions with respect to the investments of the Trust but which shall have no power to determine that any security or other investment shall be purchased, sold or otherwise disposed of by the Trust. The number of persons constituting any such advisory committee shall be determined from time to time by the Trustees. The members of any such advisory committee may receive compensation for their services and may be allowed such fees and expenses for the attendance at meetings as the Trustees may from time to time determine to be appropriate.

SECTION 5.3. COMMITTEE ACTION WITHOUT MEETING. The provisions of these By-Laws covering notices and meetings to the contrary notwithstanding, and except as required by law, any action required or permitted to be taken at

any meeting of any Committee of the Trustees appointed pursuant to Section 5.1 of these By-Laws may be taken without a meeting if a consent in writing setting forth the action shall be signed by all members of the Committee entitled to vote upon the action and such written consent is filed with the records of the proceedings of the Committee.

ARTICLE VI OFFICERS

SECTION 6.1. EXECUTIVE OFFICERS. The executive officers of the Trust shall be a Chairman, a President, one or more Vice Presidents, a Secretary and a Treasurer. The Chairman shall be selected from among the Trustees but none of the other executive officers need be a Trustee. Two or more offices, except those of President and any Vice President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. The executive officers of the Trust shall be elected annually by the Trustees and each executive officer so elected shall hold office until his successor is elected and has qualified.

SECTION 6.2. OTHER OFFICERS AND AGENTS. The Trustees may also elect one or more Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers and may elect, or may delegate to the President the power to appoint, such other officers and agents as the Trustees shall at any time or from time to time deem advisable.

SECTION 6.3. TERM AND REMOVAL AND VACANCIES. Each officer of the Trust shall hold office until his successor is elected and has qualified. Any officer or agent of the Trust may be removed by the Trustees whenever, in their judgment, the best interests of the Trust will be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed.

SECTION 6.4. COMPENSATION OF OFFICERS. The compensation of officers and agents of the Trust shall be fixed by the Trustees, or by the President to the extent provided by the Trustees with respect to officers appointed by the President.

SECTION 6.5. POWER AND DUTIES. All officers and agents of the Trust, as between themselves and the Trust, shall have such authority and perform such duties in the management of the Trust as may be provided in or pursuant to these By-Laws, or to the extent not so provided, as may be prescribed by the Trustees; provided, that no rights of any third party shall be affected or impaired by any such By-Law or resolution of the Trustees unless he has knowledge thereof.

SECTION 6.6. THE CHAIRMAN. The Chairman shall preside at all meetings of the Shareholders and of the Trustees, he shall be a signatory on all Annual and Semi-Annual Reports as may be sent to shareholders, and he shall perform such other duties as the Trustees may from time to time prescribe.

SECTION 6.7. THE PRESIDENT. (a) The President shall be the chief executive officer of the Trust; he shall have general and active management of the business of the Trust, shall see that all orders and resolutions of the Board of Trustees are carried into effect, and, in connection therewith, shall be authorized to delegate to one or more Vice Presidents such of his powers and duties at such times and in such manner as he may deem advisable.

(b) In the absence of the Chairman, the President shall preside at all meetings of the shareholders and the Board of Trustees; and he shall perform such other duties as the Board of Trustees may from time to time prescribe.

SECTION 6.8. THE VICE PRESIDENTS. The Vice Presidents shall be of such number and shall have such titles as may be determined from time to time by the Trustees. The Vice President, or, if there be more than one, the Vice Presidents in the order of their seniority as may be determined from time to time by the Trustees or the President, shall, in the absence or disability of the President, exercise the powers and perform the duties of the President, and he or they shall perform such other duties as the Trustees or the President may from time to time prescribe.

SECTION 6.9. THE ASSISTANT VICE PRESIDENTS. The Assistant Vice President, or, if there be more than one, the Assistant Vice Presidents, shall perform such duties and have such powers as may be assigned them from time to time by the Trustees or the President.

SECTION 6.10. THE SECRETARY. The Secretary shall attend all meetings of the Trustees and all meetings of the Shareholders and record all the proceedings of the meetings of the Shareholders and of the Trustees in a book to be kept for that purpose, and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the Shareholders and special meetings of the Trustees, and shall perform such other duties and have such powers as the Trustees, or the President, may from time to time prescribe. He shall keep in safe custody the seal of the Trust and affix or cause the same to be affixed to any instrument requiring it, and, when so affixed, it shall be attested by his signature or by the signature of an Assistant Secretary.

SECTION 6.11. THE ASSISTANT SECRETARIES. The Assistant Secretary, or, if there be more than one, the Assistant Secretaries in the order determined by the Trustees or the President, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such duties and have such other powers as the Trustees or the President may from time to time prescribe.

SECTION 6.12. THE TREASURER. The Treasurer shall be the chief financial officer of the Trust. He shall keep or cause to be kept full and accurate accounts of receipts and disbursements in books belonging to the Trust, and he shall render to the Trustees and the President, whenever any of them require it, an account of his transactions as Treasurer and of the financial condition of the Trust; and he shall perform such other duties as the

Trustees, or the President, may from time to time prescribe.

SECTION 6.13. THE ASSISTANT TREASURERS. The Assistant Treasurer, or, if there shall be more than one, the Assistant Treasurers in the order determined by the Trustees or the President, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Trustees, or the President, may from time to time prescribe.

SECTION 6.14. DELEGATION OF DUTIES. Whenever an officer is absent or disabled, or whenever for any reason the Trustees may deem it desirable, the Trustees may delegate the powers and duties of an officer or officers to any other officer or officers or to any Trustee or Trustees.

ARTICLE VII DIVIDENDS AND DISTRIBUTIONS

Subject to any applicable provisions of law and the Declaration, dividends and distributions upon the Shares may be declared at such intervals as the Trustees may determine, in cash, in securities or other property, or in Shares, from any sources permitted by law, all as the Trustees shall from time to time determine.

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Inasmuch as the computation of net income and net profits from the sales of securities or other properties for federal income tax purposes may vary from the computation thereof on the records of the Trust, the Trustees shall have power, in their discretion, to distribute as income dividends and as capital gain distributions, respectively, amounts sufficient to enable the Trust to avoid or reduce liability for federal income taxes.

ARTICLE VIII CERTIFICATES OF SHARES

SECTION 8.1. CERTIFICATES OF SHARES. Certificates for Shares of each series or class of Shares shall be in such form and of such design as the Trustees shall approve, subject to the right of the Trustees to change such form and design at any time or from time to time, and shall be entered in the records of the Trust as they are issued. Each such certificate shall bear a distinguishing number; shall exhibit the holder's name and certify the number of full Shares owned by such holder; shall be signed by or in the name of the Trust by the President, or a Vice President, and countersigned by the Secretary or an Assistant Secretary or the Treasurer and an Assistant Treasurer of the Trust; shall be sealed with the seal; and shall contain such recitals as may be required by law. Where any certificate is signed by a Transfer Agent or by a Registrar, the signature of such officers and the seal may be facsimile, printed or engraved. The Trust may, at its option, determine not to issue a certificate or certificates to evidence Shares owned of record by any Shareholder.

In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall appear on, any such certificate or certificates shall cease to be such officer or officers of the Trust, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Trust, such certificate or certificates shall, nevertheless, be adopted by the Trust and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall appear therein had not ceased to be such officer or officers of the Trust.

No certificate shall be issued for any share until such share is fully paid.

SECTION 8.2. LOST, STOLEN, DESTROYED AND MUTILATED CERTIFICATES. The Trustees may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Trust alleged to have been lost, stolen or destroyed, upon satisfactory proof of such loss, theft, or destruction; and the Trustees may, in their discretion, require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give to the Trust and to such Registrar, Transfer Agent and/or Transfer Clerk as may be authorized or required to countersign such new certificate or certificates, a bond in such sum and of such type as they may direct, and with such surety or sureties, as they may direct, as indemnity against any claim that may be against them or any of them on account of or in connection with the alleged loss, theft or destruction of any such certificate.

ARTICLE IX CUSTODIAN

SECTION 9.1. APPOINTMENT AND DUTIES. The Trust shall at times employ a bank or trust company having capital, surplus and undivided profits of at least five million dollars (\$5,000,000) as custodian with authority as its agent, but subject to such restrictions, limitations and other requirements, if any, as may be contained in these By-Laws and the 1940 Act:

- (1) to receive and hold the securities owned by the Trust and deliver the same upon written or electronically transmitted order;
- (2) to receive and receipt for any moneys due to the Trust and deposit the same in its own banking department or elsewhere as the Trustees may direct;
- (3) to disburse such funds upon orders or vouchers;

all upon such basis of compensation as may be agreed upon between the Trustees and the custodian. If so directed by a Majority Shareholder Vote, the custodian

shall deliver and pay over all property of the Trust held by it as specified in such vote.

The Trustees may also authorize the custodian to employ one or more sub-custodians from time to time to perform such of the acts and services of the custodian and upon such terms and conditions as may be agreed upon between the custodian and such sub-custodian and approved by the Trustees.

SECTION 9.2. CENTRAL CERTIFICATE SYSTEM. Subject to such rules, regulations and orders as the Commission may adopt, the Trustees may direct the custodian to deposit all or any part of the securities owned by the Trust in a system for the central handling of securities established by a national securities exchange or a national securities association registered with the Commission under the Securities Exchange Act of 1934, or such other person as may be permitted by the Commission, or otherwise in accordance with the 1940 Act, pursuant to which system all securities of any particular class or series of any issuer deposited within the system are treated as fungible and may be transferred or pledged by bookkeeping entry without physical delivery of such securities, provided that all such deposits shall be subject to withdrawal only upon the order of the Trust.

ARTICLE X WAIVER OF NOTICE

Whenever any notice of the time, place or purpose of any meeting of Shareholders, Trustees, or of any committee is required to be given in accordance with law or under the provisions of the Declaration or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the meeting of shareholders, Trustees or committee, as the case may be, in person, shall be deemed equivalent to the giving of such notice to such person.

ARTICLE XI MISCELLANEOUS

SECTION 11.1. LOCATION OF BOOKS AND RECORDS. The books and records of the Trust may be kept outside the Commonwealth of Massachusetts at such place or places as the Trustees may from time to time determine, except as otherwise required by law.

SECTION 11.2. RECORD DATE. The Trustees may fix in advance a date as the record date for the purpose of determining Shareholders entitled to notice of, or to vote at, any meeting of Shareholders, or Shareholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of Shareholders for any other proper purpose. Such date, in any case, shall be not more than ninety (90) days, and in case of a meeting of Shareholders not less than ten (10) days, prior to the date on which particular action requiring such determination of Shareholders is to be taken. In lieu of fixing a record date the Trustees may provide that the transfer books shall be closed for a stated period but not to exceed, in any

case, twenty (20) days. If the transfer books are closed for the purpose of determining Shareholders entitled to notice of a vote at a meeting of Shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting.

SECTION 11.3. SEAL. The Trustees shall adopt a seal, which shall be in such form and shall have such inscription thereon as the Trustees may from time to time provide. The seal of the Trust may be affixed to any document, and the seal and its attestation may be lithographed, engraved or otherwise printed on any document with the same force and effect as if it had been imprinted and attested manually in the same manner and with the same effect as if done by a Massachusetts business corporation under Massachusetts law.

SECTION 11.4. FISCAL YEAR. The fiscal year of the Trust shall end on such date as the Trustees may by resolution specify, and the Trustees may by resolution change such date for future fiscal years at any time and from time to time.

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SECTION 11.5. ORDERS FOR PAYMENT OF MONEY. All orders or instructions for the payment of money of the Trust, and all notes or other evidences of indebtedness issued in the name of the Trust, shall be signed by such officer or officers or such other person or persons as the Trustees may from time to time designate, or as may be specified in or pursuant to the agreement between the Trust and the bank or trust company appointed as Custodian of the securities and funds of the Trust.

ARTICLE XII COMPLIANCE WITH FEDERAL REGULATIONS

The Trustees are hereby empowered to take such action as they may deem to be necessary, desirable or appropriate so that the Trust is or shall be in compliance with any federal or state statute, rule or regulation with which compliance by the Trust is required.

ARTICLE XIII AMENDMENTS

These By-Laws may be amended, altered, or repealed, or new By-Laws may be adopted, (a) by a Majority Shareholder Vote, or (b) by the Trustees; provided, however, that no By-Law may be amended, adopted or repealed by the Trustees if such amendment, adoption or repeal requires, pursuant to law, the Declaration, or these By-Laws, a vote of the Shareholders. The Trustees shall in no event adopt By-Laws which are in conflict with the Declaration, and any apparent inconsistency shall be construed in favor of the related provisions in the Declaration.

ARTICLE XIV DECLARATION OF TRUST

The Declaration of Trust establishing Prime Income Trust, dated August 17, 1989, a copy of which is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name Prime Income Trust (formerly known as Allstate Prime Income Trust) refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, Shareholder, officer, employee or agent of Prime Income Trust shall be held to any personal liability, nor shall resort be had to their private property for the satisfaction of any obligation or claim or otherwise, in connection with the affairs of said Prime Income Trust, but the Trust Estate only shall be liable.

AMENDMENT TO CUSTODY AGREEMENT

Amendment made as of this 17th day of April, 1996 by and between Prime Income Trust (the "Fund") and The Bank of New York (the "Custodian") to the Custody Agreement between the Fund and the Custodian dated September 20, 1991 (the "Custody Agreement"). The Custody Agreement is hereby amended as follows:

Article XV Section 8 of the Custody Agreement shall be deleted and be replaced by Sections 8.(a), 8.(b) and 8.(c) as set forth below:

"8. (a) The Custodian will use reasonable care with respect to its obligations under this Agreement and the safekeeping of Securities and moneys owned by the Fund. The Custodian shall indemnify the Fund against and save the Fund harmless from all liability, claims, losses and demands whatsoever, including attorneys' fees, howsoever arising or incurred as the result of the failure of a subcustodian which is a banking institution located in a foreign country and identified on Schedule A attached hereto and as amended from time to time upon mutual agreement of the parties (each, a "Subcustodian") to exercise reasonable care with respect to the safekeeping of such Securities and moneys to the same extent that the Custodian would be liable to the Fund if the Custodian were holding such securities and moneys in New York. In the event of any loss to the Fund by reason of the failure of the Custodian or a Subcustodian to utilize reasonable care, the Custodian shall be liable to the Fund only to the extent of the Fund's direct damages, to be determined based on the market value of the Securities and moneys which are the subject of the loss at the date of discovery of such loss and without reference to any special conditions or circumstances.

8. (b) The Custodian shall not be liable for any loss which results from (i) the general risk of investing, or (ii) investing or holding Securities and moneys in a particular country including, but not limited to, losses resulting from nationalization, expropriation or other governmental actions; regulation of the banking or securities industry; currency restrictions, devaluations or fluctuations; or market conditions which prevent the orderly execution of securities transactions or affect the value of Securities or moneys.

8. (c) Neither party shall be liable to the other for any loss due to forces beyond its control including, but not limited to, strikes or work stoppages, acts of war or terrorism, insurrection, revolution, nuclear fusion, fission or radiation, or acts of God."

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective Officers, thereunto duly authorized and their

respective seals to be hereunto affixed, as of the day and year first above written.

PRIME INCOME TRUST

[SEAL]

By: /s/ David A. Hughey

David A. Hughey

Attest:

/s/ Robert M. Scanlan

Robert M. Scanlan

THE BANK OF NEW YORK

[SEAL]

By: /s/ Steve Grunston

Steve Grunston

Attest:

/s/ Vincent Blazewicz

Vincent Blazewicz

PRIME INCOME TRUST

December 30, 1996

Prime Income Trust
Two World Trade Center
New York, New York 10048

Dear Sirs:

With respect to the Registration Statement on Form N-2 (the "Registration Statement") filed by Prime Income Trust, a Massachusetts business trust (the "Fund"), with the Securities and Exchange Commission for the purpose of registering under the Securities Act of 1933, an amended, 150,000,000 shares of Beneficial Interest of \$0.01 par value of the Fund (the "Shares"), I, as your counsel, have examined such Fund records, certificates and other documents and reviewed such questions of law as I have considered necessary or appropriate for the purposes of this opinion, and on the basis of such examination and review, I advise you that, in my opinion, proper trust proceedings have been taken by the Fund so that the Shares have been validly authorized; and when the Shares have been issued and sold in accordance with the terms of the Underwriting Agreement referred to in the Registration Statement, the Shares will be validly issued, fully paid and non-assessable.

I hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to me under the caption "Legal Counsel" in the Prospectus forming a part of the Registration Statement. In giving this consent, I do not thereby admit that I am within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

/s/ Sheldon Curtis

Sheldon Curtis
General Counsel

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of the registration statement on Form N-2 dated December 30, 1996 of our report dated November 11, 1996, relating to the financial statements and financial highlights of Prime Income Trust, which appears in such Prospectus. We also consent to the references to us under the headings "Financial Highlights" and "Experts" in such Prospectus.

/s/ PRICE WATERHOUSE LLP
PRICE WATERHOUSE LLP
1177 Avenue of the Americas
New York, New York 10036
December 27, 1996

SCHEDULE OF COMPUTATION OF YIELD QUOTATION
PRIME INCOME TRUST
30 DAY AS OF SEPTEMBER 30, 1996

$$\text{YIELD} = 2\{ [((a-b)/c d) + 1]^{-1} \}^6$$

WHERE: a = Dividends and interest earned during the period

b = Expenses accrued for the period

c = The average daily number of shares outstanding during the period that were entitled to receive dividends

d = The maximum offering price per share on the last day of the period

$$\begin{aligned} \text{YIELD} &= 2\{ [((6,341,388.64 - 1,002,874.71)/92,912,966.826 \times 9.94) + 1]^{-1} \}^6 \\ &= 7.04\% \end{aligned}$$

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