INVESTMENT OBJECTIVE AND POLICIES

General

The investment objective of each Fund is to provide current income and capital appreciation by investing primarily in privately structured, friendly Leveraged Transactions. Each Fund intends to achieve this objective by investing in subordinated debt and/or preferred stock and related equity securities issued in conjunction with the "mezzanine financing" of Leveraged Transactions. The Funds may also invest in senior debt securities issued in connection with the mezzanine financing of such Leveraged Transactions. Investments in subordinated debt and/or preferred stock and related equity securities issued in conjunction with the "mezzanine financing" of Leveraged Transactions are referred to herein as "Mezzanine Investments". Leveraged Transactions may involve U.S. or non-U.S. businesses or may include transactions involving businesses which may have significant foreign operations. The Funds may also invest in debt or equity (without related debt) securities issued in connection with certain other types of acquisitions and corporate transactions. These investments are referred to in the Prospectus as "Other Investments" and are discussed below under "Investment Objective and Policies -- Other Investments". The Funds may also provide interim financing ("Bridge Investments") for certain Portfolio Companies as described below under "Investment Objective and Policies -- Bridge Investments" and, pending application of funds, may make Temporary Investments, as described below. Mezzanine Investments, Other Investments, Bridge Investments and related Follow On Investments (see "Ongoing Management Support; Follow On Investments" below) are collectively referred to herein as "Enhanced Yield Investments". At least 90% of each Fund's Available Capital (other than that invested in Temporary and Bridge Investments) will be invested in Mezzanine Investments. No more than 10% of each Fund's Available Capital will be invested in Other Investments. The Funds will only invest in friendly transactions in that neither Fund will provide financing for acquisitions opposed by the board of directors of the company to be bought out, acquired or recapitalized. The investment objective of the Funds may be changed only with the consent of a majority in interest of the Limited Partners.

A Fund's expected portfolio turnover rate for Temporary Investments is 8-12 times per year, depending on the interest rate environment and the flow of Enhanced Yield Investment opportunities. It is not possible to determine the portfolio turnover rate for Enhanced Yield Investments. Due to the nature of such investments, Equitable Capital does not expect a significant portfolio turnover rate, and in any event, expects it to be less than 50%.

There is no assurance that the investment objective of the Funds will be attained.

The investment objective, policies and restrictions of the Funds are identical except that the Enhanced Yield Retirement Fund II may not borrow in order to fund or refinance its portfolio investments. This restriction has been imposed on the Enhanced Yield Retirement Fund II, primarily to avoid the possibility that Tax-Exempt Investors may receive material amounts of unrelated business taxable income because of any borrowings made to fund the acquisition of investments. In all other respects, the Funds are intended to operate in a parallel manner.

Mezzanine Investments

Mezzanine Investments represent investments in Leveraged Transactions. The amount of leverage employed in a leveraged transaction depends upon the nature of the business acquired and the confidence of investors in the company's ability to generate sufficient cash to meet debt service obligations in a timely fashion. Equitable Capital has, for example, participated in Leveraged Transactions in which the debt to equity ratio of an acquired company immediately after consummation of the transaction was as low as 3:1 or as high as 20:1. As a result of the substantial leverage employed, the equity portion of each investment offers potential for significant appreciation over time as debt is repaid, although the risks associated with the investment may be significant if the business or prospects of the acquired company decline after the acquisition.

A leveraged acquisition is the acquisition of an existing business by a corporation or partnership formed for that purpose and funded with capital provided primarily by public or institutional investors. Leveraged acquisitions involve securities similar to those issued in other types of Leveraged Transactions, the proceeds of the sale of which are used to purchase identified assets or businesses. Leveraged recapitalizations are also a source of Mezzanine Investments for the Funds. A leveraged recapitalization typically involves the issuance of debt securities by a company to finance the purchase of all or a substantial portion of the company's common equity from its shareholders. The increased leverage may be employed as a defensive strategy against unwanted takeovers or to provide liquidity for existing shareholders. This type of transaction does not necessarily involve a merger or acquisition.

Mezzanine Investments will consist principally of subordinated debt and, to some extent, preferred stock, combined in most instances with a contingent interest component or an equity participation (an "equity kicker") offering the potential for capital appreciation. An equity participation may take the form of common stock, convertible preferred stock or other securities exercisable for or convertible into common equity, including options and warrants. In certain instances a Mezzanine Investment may also include a senior debt component. Typically, mezzanine debt will be two to four times the leveraged company's equity. Buyers of mezzanine debt typically would have the right to purchase a substantial portion of the leveraged company's equity (from 5% to 50%). Mezzanine Investments may, however, also include Leveraged Transactions without equity. Leveraged Transactions without equity are transactions ordinarily involving the purchase of high yield subordinated debt, either directly from the issuer or on the private secondary market.

In addition, to facilitate the acquisition of a Mezzanine Investment each Fund may purchase senior debt or senior subordinated debt which Equitable Capital does not intend will be held by such Fund as part of a permanent Mezzanine Investment. Neither Fund may purchase senior debt or senior subordinated debt that is not a component of a Mezzanine Investment if such purchase would cause more than 15% of such Fund's Available Capital to be invested in such senior debt or more than 15% of such Fund's Available Capital to be invested in such senior subordinated debt. An investment in senior debt or senior subordinated debt by a Fund will tend both to lower the risk of such Fund's overall portfolio and to lower such Fund's return to investors.

As a general matter, Equitable Capital looks to the following factors in weighing whether to make a Mezzanine Investment: (*i*) whether the proposed investment will be in a company with experienced, dedicated senior managers who are willing to commit their own capital to purchase equity; (*ii*) whether a proposed investment is in a company with a substantial and sustainable revenue base, a history of profitability, and a strong asset base or a reasonable expectation of strong cash flow resulting from either a secure niche in its market or another identifiable competitive advantage; and (*iii*) whether the proposed purchase price is generally in line with industry and market averages. A premium price may be paid in an exceptional case where all other investment criteria are met and the company demonstrates extraordinary strength in management and outstanding business characteristics.

Other Investments

Each of the Funds may invest up to 10% of its Available Capital in debt or equity securities issued other than in the context of a Leveraged Transaction, including investments in financially-troubled companies undergoing workouts, recapitalizations or restructurings, debt and equity securities of highly leveraged companies, and equity securities (without related debt). Investments in companies experiencing financial or operating difficulties may be in companies undergoing restructuring or workouts or in bankruptcy proceedings which are believed by Equitable Capital to have attractive prospects for recovery or in companies that have experienced more moderate difficulties and whose prospects are expected by Equitable Capital to improve ("turn around situations"). Debt securities of financially-troubled companies typically sell at substantial discounts from face value. The securities purchased as part of an Other Investment typically will be rated below investment grade, and, more frequently, not rated at all and, along with equity securities of such companies, will have significant speculative characteristics. Equitable Capital believes that, if rated, the lowest rating that would be assigned to such unrated Other Investments would be B, by Standard & Poor's and Moody's. The characteristics of such ratings are set forth in Appendix I.

Temporary Investments

Pending investment in Enhanced Yield Investments, each Fund will invest its available funds in U.S. Treasury securities and/or certificates of deposit with maturities of less than one year. Temporary investments may also include commercial paper (rated or unrated), repurchase agreements and other short-term securities. Equitable Capital believes that, if rated, the lowest rating that would be assigned by Standard & Poor's or Moody's to such unrated Temporary Investments would be A. The characteristics of such ratings are set forth in Appendix I. Temporary Investments constituting cash, cash equivalents, securities issued or guaranteed by the U.S. Treasury or U.S. government agencies and high quality debt securities with maturities of less than one year at the time of investment will qualify for determining whether a Fund has 70% of its assets invested in Managed Companies or in qualified Temporary Investments for purposes of the business development company provisions of the Investment Company Act. See "Managed Company Transactions" and "Regulation" below.

Each Fund expects that substantially all of its available funds will be invested in Enhanced Yield Investments by the end of such Fund's three year Investment Period referred to below and must have invested or committed for investment 65% of its assets in Enhanced Yield Investments by the end of the two-year period beginning on the date of the Prospectus. However, depending on opportunities for investment, a significant portion of each Fund's capital may be invested in Temporary Investments during such investment period.

Additional Considerations

Certain Mezzanine and Other Investments may include investments in zero coupon or other debt obligations having an original issue discount. The receipt of all or a portion of interest income on such obligations is deferred, often until maturity. In certain other instances, Mezzanine and Other Investments may include securities that pay interest or dividends in kind, i.e., in securities, for an initial period of time. The Funds may also purchase Temporary Investments having an original issue discount. To the extent the Funds invest in securities with original issue discount or that pay interest or dividends in kind, current distributions will be less than the total taxable income accruing on the Funds' investments.

Number of Investments

At least 90% of each Fund's Available Capital (other than capital invested in Bridge Investments and Temporary Investments, as described below) will be invested in Mezzanine Investments. No more than 10% of each Fund's Available Capital may be invested in Other Investments. Each Fund will be limited in the amount of Available Capital it may invest in Mezzanine Investments or Bridge Investments in any one Portfolio Company. Generally, each Fund may not invest more than 10% of its Available Capital in Mezzanine Investments or 20% of its Available Capital in Bridge Investments (or Mezzanine Investments taken together with Bridge Investments) in a single Portfolio Company. However, with the approval of the Independent General Partners, a Fund may make Mezzanine Investments in up to two Portfolio Companies, utilizing, in each case, up to 20% of its Available Capital, and a Fund may make Bridge Investments (or Mezzanine Investments taken together with Bridge Investments) in one Portfolio Company utilizing up to 25% of its Available Capital. However, a Fund may not invest more than 50% of its Available Capital in Bridge Investments. These requirements will result, if a Fund becomes fully invested in Mezzanine and Other Investments, in its holding at least eight such investments. The purpose of this requirement is to mitigate exposure of a Fund's capital in any single investment.

In addition to Mezzanine Investments and Other Investments, each Fund may make Follow On Investments in a Portfolio Company in which such Fund has invested to protect or enhance its initial investment in a company. Such Follow On Investments may be in senior debt, subordinated debt or equity securities or a combination thereof. See "Investment Operations -- Ongoing Management Support", below.

The Funds will not provide financing for a hostile tender offer or proxy contest or participate in an offer by third parties to acquire control of a company, whether by tender offer or direct solicitation of proxies, if the offer is opposed by the company's board of directors, regardless of whether or not the investment by the Funds would otherwise constitute an Enhanced Yield Investment. Equitable Capital, as Investment Adviser, will be responsible for determining whether a transaction is a hostile one. The Funds may finance a bid approved by the board of directors of a company which is subject to a competing hostile bid. The Funds' inability to finance hostile transactions, while avoiding risks incident to such transactions, may prevent them from investing in securities which would otherwise be suitable investments.

Pending investment in Enhanced Yield Investments, the Funds will invest the proceeds of this offering and, in the case of the Enhanced Yield Fund II, the proceeds of any borrowing, in Temporary Investments. The Funds will also invest in Temporary Investments any amounts received with respect to its portfolio securities, including any distribution by a Portfolio Company with respect to such Enhanced Yield Investment or the proceeds of any liquidation or sale of such Enhanced Yield Investment before the payment of expenses and fees, reinvestment in Enhanced Yield Investments or distribution to the Partners, as the case may be.

The Funds' Enhanced Yield Investments generally will be unrated securities. Such securities would, however, if rated, be classified as speculative securities which generally would be of the type rated B. See Appendix I for a description of ratings by certain major rating agencies.

Approval of Investments

The Funds will invest in Mezzanine and Other Investments in Portfolio Companies consisting of Managed Companies and Non-Managed Companies which either (i) meet certain "Guidelines" that have been established by Equitable Capital and have been approved by the Independent General Partners, as more fully described under the captions "Managed Company Transactions" and "Non-Managed Company Transactions" below, or (ii) are otherwise specifically approved by the Independent General Partners. There can be no assurance as to what proportion of the Enhanced Yield Investments of either Fund will meet the Guidelines.

The Funds will only invest in transactions recommended by Equitable Capital. See "Conflicts of Interest". In addition, an Enhanced Yield Investment must be in a Managed Company unless, at the time the investment is made, at least 70% of the assets of the Fund purchasing such investment is invested in Managed Companies and certain qualified Temporary Investments. See "Regulation".

Provided Equitable Capital arranges a Fund's Mezzanine and Other Investments within the parameters of the Guidelines and certifies to that effect, and the Independent General Partners determine that the investment meets the applicable Guidelines, the investment will be eligible for investment by such Fund to the extent it has available funds sufficient to make the investment. Equitable Capital will submit to the Independent General Partners of a Fund, in connection with any certification that an investment meets the Guidelines, such summary of the terms of the investment and description of the Portfolio Company as is necessary to enable the Independent General Partners to review whether the proposed investment complies with the Guidelines. The Independent General Partners will use their best efforts to determine whether the proposed investment complies with the Guidelines within 24 hours of receipt of the information from Equitable Capital.

The Funds may also invest in Mezzanine and Other Investments which do not meet the Guidelines. Any Mezzanine or Other Investment which does not conform to the applicable Guidelines must be approved by a majority of the Independent General Partners. Before any such investment may be made, Equitable Capital must submit to the Independent General Partners a description of the Portfolio Company (including financial statements and biographies of any key members of the company's management), annual projections for the Portfolio Company for the succeeding five years, the principal proposed terms of the recommended investment and projections indicating anticipated year-by-year returns on the debt portion of the investment, the expected current yield and projected total return on the investment. The Independent General Partners will use their best efforts to approve or disapprove the proposed investment within 24 hours of receipt of the information. In order to approve a proposed investment which does not meet the Guidelines the Independent General Partners of a Fund must determine that the investment is appropriate for such Fund in light of its objective and policies. In addition, in approving a particular investment that does not meet the Guidelines, the Independent General Partners would be required to determine that (a) the terms of the transaction, including consideration to be paid, are reasonable and fair to the Limited Partners of such Fund and do not involve overreaching of such Fund or such Partners on the part of any person concerned and (b) the proposed transaction is consistent with the interests of such Limited Partners and is consistent with the investment objective and policies of such Fund as recited in filings made by such Fund under the Securities Act, its registration statement and reports filed under the Securities Exchange Act of 1934 and its reports to its Partners.

At the closing of each Enhanced Yield Investment, Equitable Capital will be required to certify that no material adverse change has been made in the material terms of such investment from the terms approved by the Independent General Partners.

Managed Company Transactions

Managed Companies with respect to a Fund are Portfolio Companies to which such Fund offers to provide and, if accepted, provides significant managerial assistance after the consummation of the acquisition. Such management assistance may be provided by a member of the group investing in the Portfolio Company and may include assisting the Portfolio Company in recruiting capable directors or key management personnel, assisting a Portfolio Company in establishing working relationships with professional advisers, such as investment bankers, commercial bankers, accountants and lawyers, assigning Equitable Capital personnel with financial or management expertise to work closely with a Portfolio Company on an ongoing basis or to serve as a director of a Portfolio Company and providing periodic consultations and advice to the directors or management of a Portfolio Company relating to particular business decisions or policies. Such assistance may also be provided through rights exercised on behalf of Equitable Affiliates with investments in the Portfolio Company to participate in the management or control of a Portfolio Company, such as a right to designate a member of such company's board of directors. If a Fund exercises a controlling influence over the management or policies of a Portfolio Company either by itself or as part of a group acting together, such Portfolio Company will qualify as a Managed Company with respect to such Fund. The Funds do not, as a general matter, intend to seek control of, or exercise a controlling influence over, Portfolio Companies. An Enhanced Yield Investment must be in a Managed Company unless, at the time of such investment, at least 70% of assets of the Fund purchasing such investment is invested in Managed Companies or in certain qualified Temporary Investments.

The Guidelines have been designed based on the current and overall returns historically sought by Equitable Capital in arranging and purchasing investments similar to Mezzanine and Other Investments. However, these Guidelines may not always be responsive to all market changes. To that end, the General Partners of each Fund may from time to time reevaluate and modify Guidelines for Mezzanine and Other Investments, but only upon the affirmative vote of a majority of the Independent General Partners. In addition, any modification of the Guidelines will require an amendment to the exemptive order relating generally to "coinvestments" for which an application has been made by the Funds to the SEC. See "Regulation".

There can be no assurance of the number or proportion of Enhanced Yield Investments which will meet the Guidelines. Furthermore, the Guidelines are based upon projected returns and there can be no assurance the Funds' investments will achieve the results set forth in the Guidelines.

The Guidelines for each Fund are as follows:

1. *Parallel Investments*: If one or more Equitable Affiliates invests in securities of a Portfolio Company in which a Fund also invests, as is expected to occur with most Enhanced Yield Investments, (a) each such Fund will hold securities of every class issued by the Portfolio Company to be acquired by such Equitable Affiliate, (b) the ratio of the amount or number of securities of each class acquired by such Equitable Affiliate to the amount or number of all securities in such classes acquired by such Equitable Affiliate shall equal the ratio of the amount or number of securities of each such class of securities acquired by each such Fund to the amount or number of securities of all such classes acquired by each such Fund, and (c) the terms of such purchases will be identical in all material respects, except that Equitable Affiliates may purchase loan participations representing interests in senior bank debt of a Portfolio Company independent of any in-

vestment in such company by the Fund. Equitable Affiliates may not, however, purchase loan participations that represent more than 15% of the aggregate amount of any class of senior debt issued by a Portfolio Company unless each such Fund also invests proportionally in such participations.

2. *All-in-Yield*: Interest or dividend income on a Mezzanine or Other Investment together with proceeds projected to be generated upon the sale of any equity component thereof, must provide a projected all-in-yield which is at least 750 basis points in excess of the Merrill Lynch High Yield Master Index at the time of commitment for such investment (excluding any senior debt or any senior subordinated debt purchased in connection with such investment but which Equitable Capital does not expect will be a permanent investment for such Fund ("Excluded Senior Debt")). For the purposes of the Guidelines, projected "all-in-yield" means total projected income and capital gains to be received by a Fund from all debt and any equity components of a Mezzanine or Other Investment, as the case may be. The Merrill Lynch High Yield Master Index measures the performance of corporate debt instruments rated below BBB by Standard & Poor's Corporation and Baa by Moody's Investors Service, Inc. To qualify for inclusion in the index the securities must (i) be in the form of publicly placed, non-convertible, fixed rate, domestic corporate debt, (ii) carry a term of maturity of at least one year, (iii) have an aggregate outstanding principal amount of at least $10,000,000, and (iv) be rated below BBB/Baa by the rating agencies mentioned above. Bonds in default are excluded from the index. All securities meeting the above criteria are included in the index.

3. *Yield on Debt or Preferred Stock*: For each Mezzanine or Other Investment, the yield on any debt portion and/or the dividend rate on preferred stock (other than preferred stock convertible into common stock, which is subject to Guideline 4) of an investment (excluding any Excluded Senior Debt) must in the aggregate be, at the time of commitment for such investment, at least equal to the lower of (a) 15% per annum and (b) the average coupon on 7-year Treasury Notes plus 400 basis points, but not less than 9-1/2%. In addition, convertible debt securities or

capital notes with equity features must yield at least 100 basis points over 7-year Treasury Notes. Any class of Excluded Senior Debt must yield, if the interest rate is fixed, at least 200 basis points over 7-year Treasury Notes and, if the interest rate is floating, 100 basis points over the rate at that time announced by The Chase Manhattan Bank, N.A. as its stated prime lending rate.

4. *Equity*: Each Mezzanine or Other Investment in a Portfolio Company must include (a) an equity component in the form of common stock, warrants or options to purchase common stock, debt securities or preferred stock convertible into common stock, (b) a minimum all-in-yield component or (c) a contingent interest feature. Such equity component or feature, together with interest or dividend income prescribed by the Guidelines, shall be sufficient to provide the all-in-yield specified in Guideline 2 above.

5. *Cash Distribution*: Each Mezzanine or Other Investment must either (a) provide for current cash distributions at least equal to the annual amount of interest which would be payable if such investment were invested in 7-year Treasury Notes at the time of commitment or (b) provide such current cash distributions, if any, required so that all Mezzanine and Other Investments held by a Fund purchasing such investment and the proposed investment would by their terms provide on an aggregate annual basis current cash distributions at least equal to the amount of interest income which would be generated on such basis by an investment, at the time of commitment for the proposed investment, of the amount proposed to be invested in such investments in 7-year Treasury Notes issued at the time of commitment. A Mezzanine or Other Investment as to which there has been a material payment default which has not been cured will be deemed to be generating no current cash distributions for the purposes of calculating compliance with Guideline 5(b).

6. *Workout Investments*: An Equitable Affiliate must also invest in the securities constituting any Other Investment which is an investment in the restructuring or workout of a financially troubled company.

7. *Existing Investment*: An Equitable Affiliate must also purchase an Enhanced Yield Investment issued by a Portfolio Company if, at the time of investment by the Funds, Equitable Affiliates owned more than 10% of the aggregate principal amount of outstanding debt securities or more than 10% of the outstanding equity securities of such Portfolio Company.

8. *Terms and Conditions*: The Funds must purchase all Mezzanine and Other Investments on terms at least as favorable, in all material respects, as those available to any third party investors or Equitable Affiliates.

The Guidelines for Managed Companies are designed so that the Funds will make investments competitive with returns achieved on or about the date of this Prospectus by institutional and other substantial investors for mezzanine investments similar to the Funds' Mezzanine Investments. In particular, Guidelines 1 and 8 above have been designed to ensure that the Funds invest on the same terms as the Equitable Capital Partners I Funds and other Equitable Affiliates and that the Funds are not subject to overreaching on the part of any other party. However, changes in the leveraged transaction market, general economic or business conditions, legal and regulatory constraints on leveraged transactions, and Equitable Capital's competitive position and relationship with sponsors of leveraged transactions may render the Guidelines unrealistic or inapposite. Accordingly, there can be no assurance that Enhanced Yield Investments meeting the Guidelines will be available to Equitable Capital and the Funds for investment, nor can there be any assurance that Enhanced Yield Investments meeting the Guidelines will actually yield the returns set forth in the Guidelines. See "Risk and Other Important Factors -- General Risks of Investment in the Funds".

Non-Managed Company Transactions

Investments in Non-Managed Companies will also be identified by Equitable Capital. A Non-Managed Company is a Portfolio Company to which the Funds do not offer or provide significant managerial assistance. As business development companies under the Investment Company Act, neither Fund may invest in Non-Managed Companies unless, at the time of such investment, at least 70% of its assets is invested in Managed Companies and certain qualified Temporary Investments.

All the Guidelines applicable to Managed Companies also will be applicable to investments in Non-Managed Companies. In addition, the following Guidelines will also apply to Non-Managed Companies:

1. *Investment Ownership:* The Funds may not in the aggregate purchase more than 50% of a Mezzanine or Other Investment issued by a Non-Managed Company.

2. *Other Investors:* At least 25% of each class of security constituting part of a Mezzanine or Other Investment in a Non-Managed Company purchased by a Fund must be purchased by one or more substantial institutional investors which may be Equitable Affiliates.

These criteria are designed to provide a market validation mechanism by requiring that a large portion of the securities in a Non-Managed Company be held by significant institutional investors.

Bridge Investments

The Funds may also make Bridge Investments in Portfolio Companies. Bridge Investments are interim debt investments, which will generally have an expected maturity of twelve months or less, in Portfolio Companies. Bridge Investments may include senior debt, senior subordinated debt, increasing rate notes, subordinated debt, other types of debt instruments, preferred stock and common equity. The interest rate on Bridge Investments is expected to be either fixed or floating and may be escalating. A Fund will only make a Bridge Investment in a Portfolio Company in which it has made or expects to make a Mezzanine Investment. (The Portfolio Company issuing a Bridge Investment may not, however, be under an obligation to issue the related Mezzanine Investment to the Funds.) Part or all of a Bridge Investment may be replaced by a Mezzanine Investment. However, the Funds may make Bridge Investments which are not expected to be refinanced, in whole or in part, by a Mezzanine Investment. Such a Bridge Investment would be in different levels of debt and equity securities than the related Mezzanine Investment. It is anticipated that any portion of a Bridge Investment which is not refinanced by a Mezzanine Investment will be refinanced or purchased by unaffiliated third parties. A Fund may not invest more than 20% of its Available Capital in any Bridge Investment (or Mezzanine Investment taken together with a Bridge Investment) in a single Portfolio Company except that, with the approval of its Independent General Partners, it may make one Bridge Investment (or Mezzanine Investment taken together with a Bridge Investment) in a single Portfolio Company utilizing up to 25% of its Available Capital. Furthermore, neither of the Funds may make any Bridge Investments that would cause 50% or more of such Fund's Available Capital to be invested in Bridge Investments.

Equitable Capital will submit to the Independent General Partners a recommendation with respect to each Bridge Investment. Such recommendation will include, among other things, an estimate of that portion, if any, of the Bridge Investment that Equitable Capital anticipates will be refinanced by a Mezzanine Investment including an estimate of the amount, if any, that will be within the parameters of the Guidelines for Managed Companies and the amount of time it is anticipated it will take to refinance the Bridge Investment with permanent financing.

Coinvestments

To the extent each Fund has Available Capital to invest, the Funds expect to coinvest with each other and expect to coinvest in most Enhanced Yield Investments with Equitable Affiliates, subject to the availability on the part of each Fund and each Equitable Affiliate of capital for such investments, the investment objectives and policies and the diversification requirements of such entities and applicable legal and regulatory restrictions. Equitable Affiliates include the Equitable Capital Partners I Funds, the Institutional Funds, certain other affiliates of Equitable Capital with a similar investment objective as the Funds and which may be sponsored or organized by Equitable Capital and certain Equitable Capital advisory accounts with an investment objective similar to that of the Funds (collectively referred to herein as the "Equitable Affiliates"). There can be no assurance that any of the Equitable Affiliates will have capital available to coinvest with the Funds.

As of September 30, 1989, the Enhanced Yield Fund I, the Enhanced Yield Retirement Fund I and Institutional Fund I, respectively, had remaining uninvested capital of $175,280,735, $88,730,163, and $172,318,793.

Investments proposed as Enhanced Yield Investments will be allocated among the Funds and the Equitable Affiliates, as a general matter, pursuant to a ratio proportional to the amount of capital which each such entity has indicated is available for investment in Mezzanine, Other or Bridge Investments, as the case may be. However, under the Partnership Agreement, the Funds together will have the right to an aggregate allocation of at least 25% of any proposed Enhanced Yield Investment which meets the Funds' investment objective, policies and restrictions during the period that the Equitable Capital Partners I Funds are entitled to a 25% allocation right to any such proposed investment (i.e. from the date that such Equitable Capital Partners I Funds are 75% invested through the date when such Funds become fully invested). Enhanced Yield Investments will be allocated between the Funds based on the ratio of Available Capital of each Fund. At the time that the Funds commence their investment activities, Equitable Capital expects that each of the Equitable Capital Partners I Funds will be at least 75% invested and will together have an aggregate allocation right to at least 25% of an Enhanced Yield Investment. With respect to proposed Enhanced Yield Investments of at least $10 million in size, each Fund and each Equitable Affiliate will be allocated a minimum amount of $1 million, and with respect to such investments of less than $10 million in size, none of the Funds and Equitable Affiliates will be required to coinvest in amounts of less than $1 million. A Follow On Investment in a Portfolio Company in which the Funds and Equitable Affiliates have invested will be allocated according to the amount that each such investor initially invested in Mezzanine, Bridge or Other Investments in such Portfolio Company.

With respect to the Enhanced Yield Fund II, the determination of Available Capital for purposes of allocation of investments during the first two years of the Investment Period will be made as if such Fund had borrowed an amount equal to 50% of the Net Proceeds Available for Investment (referred to under "Estimated Use of Proceeds" above) and thereafter will be made based on the actual borrowings or commitments to borrow made by such Fund. This amount is added to the Enhanced Yield Fund II's Available Capital for the purposes of allocation in order to compensate for the fact that the Enhanced Yield Fund II may only be in a position to borrow after it has purchased a portfolio of Enhanced Yield Investments which can be pledged as security for such borrowings. Because the Enhanced Yield Fund II will not be limited to borrowing only at the commencement of its operations, the ratio of Available Capital of the Funds will not be constant. If no such assumed amount were added to the Enhanced Yield Fund's Available Capital, the allocation formula would, if substantial borrowings occurred, cause the Enhanced Yield Retirement Fund II to become fully invested well before the Enhanced Yield Fund II. This result would defeat the intention of the Funds to coinvest with each other. However, to the extent the Enhanced Yield Fund II's actual leverage deviates from the assumption above, the allocation formula may not result in coinvestments for each Fund's entire portfolio of Enhanced Yield Investments.

The Independent General Partners will review quarterly the nature and extent of coinvestment by each Fund and Equitable Affiliates to determine whether the participation or lack of participation of Equitable Affiliates is consistent with the allocation formula set forth above and the interests of the Limited Partners and does not involve overreaching by any party to the transaction.

As noted above, subject to the availability of capital, the Funds will coinvest with each other. Further, the Funds are generally expected to coinvest with Equitable Affiliates. However, if approved by the Independent General Partners, the Funds may also invest independently of such Equitable Affiliates due to differing investment objectives, the cash positions or diversification requirements of such entities or as the result of regulatory considerations. Therefore, Follow On Investments may result in the Funds and Equitable Affiliates holding different proportions of securities in Portfolio Companies. While each Fund will have the right to coinvest in any Follow On Investment proposed to be made by an Equitable Affiliate, such Fund may not be in a position due, for example, to a lack of available capital, to make such an investment or such investment might not meet the Guidelines, as applied to Follow On Investments or the Independent General Partners might not approve such investment. Further, the liquidation of an Enhanced Yield Investment by a Fund or an Equitable Affiliate may result in such entities holding different proportions of securities in a Portfolio Company. However, the Funds will dispose of securities held by each of them as coinvestments on a proportionate basis and on the same terms and conditions and will, unless the Independent General Partners otherwise approve, dispose of securities held by each of them as coinvestments with Equitable Affiliates on the same basis. See "Investment Operations -- Liquidating Investments" below.

The Funds will not invest in securities issued in leveraged transactions sponsored by any affiliate of Equitable Capital, including Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), or purchase securities in transactions in which any such affiliate is acting as a managing or lead underwriter.

Leverage

The Enhanced Yield Fund II (but not the Enhanced Yield Retirement Fund II) may borrow an amount up to 50% of the Net Proceeds Available for Investment reduced by the amount of capital returned to Partners of the Enhanced Yield Fund II on or before the close of the previous quarter in order to fund or refinance a part of its Enhanced Yield Investments or to make Follow On Investments. See "Estimated Use of Proceeds". The Enhanced Yield Fund II's permitted borrowing capacity will be reduced by the principal amount of any obligation guaranteed by the Enhanced Yield Fund II. If a borrowing is made, the Enhanced Yield Fund II will either draw down principal on such loan to fund all or a portion of each Enhanced Yield Investment it makes or draw down principal on such loan after making some or all of its investments, thereby providing additional capital for investment during the Investment Period or for Follow On Investments. See "Distributions and Allocations". Equitable Capital will not be required to secure separate approval from the Independent General Partners to draw down principal on such loan.

Such a loan may provide for a floating interest rate (for example, with prime or commercial rates) or fixed interest rate on funds drawn down and invested in Enhanced Yield Investments and a standby commitment fee applied to any portion of the lending commitment not drawn down. The Enhanced Yield Fund II may enter into interest rate "floor", "swap" or "cap" agreements in connection with any floating rate obligation in order to limit the Fund's exposure to increases in interest rates.

Any borrowings will be nonrecourse to the Limited Partners and are expected to be nonrecourse to the General Partners and will be secured solely by the assets of the Enhanced Yield Fund II. It is anticipated that each Enhanced Yield Investment will be used to secure the financing of all Enhanced Yield Investments ("cross collaterization"). It is likely that periodic valuations of Enhanced Yield Investments used as collateral for any borrowing by the Enhanced Yield Fund II will be required. Adverse credit developments or poor operating performance with respect to Portfolio Companies would likely require downward adjustments to the collateral base for such borrowing, which might reduce the amount of borrowings available to the Enhanced Yield Fund II or might cause such Fund to be in default under the terms of the borrowing. To the extent any borrowings made by the Enhanced Yield Fund II are secured by Enhanced Yield Investments owned by such Fund, any default by such Fund in respect to such borrowing could result in such Fund being required to liquidate all or part of its Enhanced Yield Investments. Such liquidation may not be at a favorable time, under favorable conditions or in a normal market.

Certain lenders may require that their loans be repayable as all or some of the Enhanced Yield Fund II's investments are liquidated, or that all or a portion of the loan become due before liquidation of a corresponding portion of the Enhanced Yield Investments. Unless otherwise specifically required by lenders to the contrary, Equitable Capital will direct repayments of principal at such times and in such amounts as in its discretion is in the best interests of the Enhanced Yield Fund II. The timing of loan repayments will affect the amount of cash available for current distribution to the Partners. Lenders may also require reserves, operating restrictions or other requirements and may limit the ability of Equitable Capital to control such Fund's investments or their refinancing and may limit the Enhanced Yield Fund II's ability to make distributions to the Partners of the Enhanced Yield Fund II.

The use of leverage will magnify any capital gains or losses. While the "spread" between the current yield expected to be paid for Enhanced Yield Investments and the expected cost of the loan will augment the return of the Limited Partners of the Enhanced Yield Fund II, if the spread narrows (because of an increase in the cost of the debt or defaults in payment to the Fund on its Enhanced Yield Investments), distributions to such Limited Partners would be adversely affected. If the spread were reversed, the Enhanced Yield Fund II might be unable to meet its obligations to its lender, which might then seek to cause the Fund to liquidate some or all of its investments. There can be no assurance that the Enhanced Yield Fund II would realize full value for its investments or recoup all of its capital if its Enhanced Yield Investments were involuntarily liquidated. Under the Investment Company Act, distributions to the Partners of the Enhanced Yield Fund II will be prohibited in the event the ratio of the value of the Fund assets to the principal amount of any borrowings and any third party obligations guaranteed by the Enhanced Yield Fund II declines below 2:1. See "Leverage" and "Interest Rate and Stock Market Fluctuation; Recent Developments" under "Risk and Other Important Factors".

There can be no assurance that the Enhanced Yield Fund II will actually borrow. Equitable Capital may not be able to arrange debt financing on terms acceptable to the Enhanced Yield Fund II and Equitable Capital, or Equitable Capital may believe such borrowings are not in the Enhanced Yield Fund II's best interest. If the Enhanced Yield Fund II were unable to obtain such debt financing, the Enhanced Yield Fund II might not be able to achieve as great a diversification in Enhanced Yield Investments and spreading of risk. The inability to diversify could increase the sensitivity of the Enhanced Yield Fund II to general risks associated with leveraged acquisition financing and the risk to Limited Partners associated with any one Enhanced Yield Investment.

The Enhanced Yield Retirement Fund II, which may not leverage as set forth above, has been organized primarily to minimize the risk of the receipt by Tax-Exempt Investors of material amounts of unrelated business taxable income resulting from such leverage. The Enhanced Yield Retirement Fund II's inability to leverage will reduce the potential gain or loss from Enhanced Yield Investments held by it as compared to the potential gain or loss for such investments for the Enhanced Yield Fund II.

Valuation

On a quarterly basis Equitable Capital will perform a valuation of the unliquidated assets of the Funds including Temporary Investments, Mezzanine Investments, Other Investments and Bridge Investments. Valuations of portfolio securities will be made through a variety of methods. For securities which are publicly traded and for which market quotations are available, valuations will be set by the closing sales or bid price as of the last day of the fiscal quarter.

Equitable Capital will value securities that are not fully traded in any liquid public markets pursuant to policies and procedures approved by the Independent General Partners and subject to their supervision. The absence of a liquid public market may affect the ability of the Independent General Partners to accurately value the securities and the Funds' assets. For securities which are in a class of public securities but are restricted from free trading (such as Rule 144 stock), valuation will be set by discounting the closing sales or bid price to reflect the illiquidity caused by such restrictions.

Privately held securities will be valued by Equitable Capital at fair value pursuant to valuation policies approved by the Independent General Partners. There is no limitation on the amount of a Fund's investments that may be made in or maintained in privately-held securities.

The Independent General Partners will review the valuation policies from time to time to determine their appropriateness. The Independent General Partners may also hire independent firms to review Equitable Capital's methodology of valuation or to conduct a valuation.

Investment Operations

Locating Investments

After the initial Closing, the Funds will begin investing the proceeds of the offering, together, in the case of the Enhanced Yield Fund II, with the proceeds of any debt financing, in Enhanced Yield Investments identified by Equitable Capital. Pending such investments, proceeds of the offering will be invested in Temporary Investments.

Equitable Capital will seek and develop investment opportunities through several channels. Equitable Capital has developed relationships with many sponsors of leveraged transactions and has historically had access to transactions in excess of the investment capacity of Equitable Life and its affiliates. From time to time Equitable Capital may enter into agreements with sponsors pursuant to which such sponsors agree to provide investment opportunities to accounts for which Equitable Capital provides investment advice, including the Funds. Such agreements may provide, among other things, that such sponsors shall receive a fee from any such account, including the Funds, which make an investment pursuant to an investment opportunity made available by such sponsor. Typically, however, sponsor fees are paid by the portfolio company, although, pursuant to agreements with sponsors, the Funds may be required to pay sponsor fees in certain investments in portfolio companies which are otherwise attractive opportunities for the Funds. There are no standard fees in this type of transaction and, accordingly, fees, if any, would be negotiated on a case-by-case basis. See "Risks and Other Important Factors -- Partnership and Contractual Risks: Relations with Sponsors of Leveraged Transactions". Equitable Capital also receives investment opportunities from investment banking firms acting as representatives of companies or divisions on behalf of their corporate clients and unaffiliated sponsors of Leveraged Transactions and other leveraged acquisitions. During 1986, 1987, 1988 and through the third quarter of 1989, Equitable Capital received proposals covering approximately $12.7 billion, $35.3 billion, $42.3 billion and $24.4 billion respectively, in mezzanine investments which, in any particular case, may not have been suitable for the Funds. There can be no assurance that Equitable Capital will continue to have such access to leveraged transactions.

The Funds intend to acquire a portfolio of Enhanced Yield Investments in businesses characterized by strong management, visible cash flow, and a superior asset base or strong and identifiable market niche. The Funds will consider public companies in the process of going private and private companies and new companies which were formerly units of larger corporations. They will not make investments in new businesses (as opposed to new companies formed to operate established businesses).

The Funds are closed-end funds and intend to invest at least 65% of their assets during the twenty-four months from the effective date of this Prospectus and to invest their funds fully in Enhanced Yield Investments during the thirty-six months from the date of the Final Closing. Any remaining Capital Contributions in a Fund that have not been invested or "committed for investment" (*i.e.* made subject to a binding contractual commitment) in Enhanced Yield Investments during the first three years from the date of the Final Closing (the "Investment Period"), to the extent not utilized or reserved for operating expenses or Follow On Investments, will be distributed to the Partners of such Fund as soon as practicable after the Investment Period. However, any net offering proceeds invested in Enhanced Yield Investments which are liquidated during the Investment Period, to the extent not utilized or reserved for expenses or for Follow On Investments, may be reinvested in Enhanced Yield Investments within the period ending on the later of the end of the Investment Period or the twelve-month period following such liquidation (the "Reinvestment Period"). Any such proceeds not so reinvested or "committed for reinvestment" (*i.e.* made subject to a binding contractual commitment), utilized or reserved will be distributed to Partners as soon as practicable. Equitable Capital cannot estimate the number of Enhanced Yield Investments that will be liquidated during the Investment Period or the amount of proceeds therefrom that will be reinvested.

Further, if after the Interim Investment Period, less than 65% of a Fund's assets has been invested or committed for investment in Enhanced Yield Investments, such Fund will make a distribution of capital to its Partners (or, in the case of the Enhanced Yield Fund II, may pay down outstanding debt) so that, after such distribution (or repayment), at least 65% of all remaining assets is invested or committed for investment in Enhanced Yield Investments. Such return of capital or any uninvested proceeds will be subject to deduction for all of the commissions, fees and expenses imposed on investor funds that were either invested or not returned. Equitable Capital anticipates that at the end of the Investment Period substantially all of the Funds' Enhanced Yield Investments will be Mezzanine and Other Investments.

The management of the Funds' investments will involve the approximately 55 corporate finance investment professionals at Equitable Capital who participate in the process of making Enhanced Yield Investments. Each proposed transaction presented to Equitable Capital is assigned to an analytical team headed by a Managing Director. The analytical team subjects the proposed investment to a rigorous analysis, involving testing of the investment under various assumptions as to the state of general economic and business affairs and as to the business of the company in which the investment is to be made. Such "sensitivity and downside" testing relies on sophisticated sources of market and industry information developed over years of private corporate investing. Recommendations of the analytical team are presented to a review council composed of senior managers of Equitable Capital. Because of its market presence, Equitable Capital often sees transactions in their earliest stages and has an important role in negotiating such transactions. See "Management Arrangements -- Equitable Capital".

Once an Enhanced Yield Investment is determined by a Fund's Independent General Partners to meet the Guidelines or is approved, Equitable Capital will be responsible for completing the acquisition on behalf of the Funds and for assuring that any investment made does not materially adversely differ from those material terms presented to the Independent General Partners for their certification or approval.

Ongoing Management Support; Follow On Investments

Equitable Capital will be responsible for monitoring and managing each Enhanced Yield Investment and the rights of both Funds as investors. Equitable Capital will also be responsible for arranging financing for the Enhanced Yield Fund II and making decisions as to the timing of advances and repayments of such loans. Each Advisory Agreement will provide that Equitable Capital may not, without the approval of the Independent General Partners of a Fund, modify the terms of an Enhanced Yield Investment in a Portfolio Company held by such Fund if either (a) such Portfolio Company is in material default with respect to its payment obligations under any lending agreement to which such company is a party or (b) such Portfolio Company has a ratio of earnings before interest, taxes and depreciation to cash fixed charges of 1.1:1 or less for the latest fiscal year for which Equitable Capital has received financial statements from such Portfolio Company.

Follow On Investments may be made in Portfolio Companies in the form of additional capital contributions or investment in additional debt, preferred stock or common equity to enhance the Funds' investment, to preserve the Funds' proportionate ownership where subsequent financing is planned or to protect the Funds' investment where a Portfolio Company's cash flow does not meet expectations. If the investment in the Portfolio Company, taking into account the Follow On Investment, continues to satisfy the Guidelines, Equitable Capital will certify to that effect before either of the Funds makes the Follow On Investment. If the investment does not meet the Guidelines, the Independent General Partners of a Fund proposing to make it must approve it before it can be made subject to the same standards as are used in evaluating Mezzanine Investments not conforming to the Guidelines.

Liquidating Investments

Equitable Capital will be solely responsible in most cases for the decision and the actions to liquidate an Enhanced Yield Investment. See "Conflicts of Interests". However, the Funds will dispose of securities held by each of them as coinvestments on a proportionate basis, and on the same terms and conditions (a "lock-step" disposition). Further, if at any time a Fund or any Equitable Affiliate elects to sell a security purchased as part of a coinvestment by such Fund with an Equitable Affiliate, each Fund and each such Equitable Affiliate holding such security will participate in the sale of such securities on a lock-step basis, unless the Independent General Partners determine, after considering any recommendations by Equitable Capital, that a Fund not participate in such a sale or not participate on a lock-step basis. In order for a Fund not to make a lock-step disposition, the Independent General Partners must find that the retention by the Fund is fair to the Fund and that such Fund's participation or choice not to participate in the sale is not the result of overreaching by Equitable Capital or any Equitable Affiliate. If the Independent General Partners of each Fund do not make such a finding in connection with a sale, each Fund must participate in such sale on the basis of a lock-step disposition. If at any time the result of a proposed disposition of any portfolio security held by a Fund would be to alter the proportionate holdings of each class of securities held by a Fund and any Equitable Affiliate, then the Independent General Partners of the Fund must determine that such a