

Profits and Losses allocated to it pursuant to Sections 4.1B(2) and 4.2B(2) of the Partnership Agreement), the removed Managing General Partner would receive a final allocation of capital gains and losses (including unrealized capital gains and losses deemed realized for this purpose) pursuant to such sections of the Partnership Agreement as if such allocation were being made at the end of a fiscal year. If the Capital Account of the removed Managing General Partner has a positive balance after such final allocation, to the extent permissible under the Investment Company Act, such Fund would deliver a promissory note issued by it to the removed Managing General Partner, the principal amount of which shall be equal to the amount, if any, by which the positive balance in the removed Managing General Partner's Capital Account exceeds its Capital Contribution, and which bears interest at a rate per annum equal to the lesser of 100% of the maximum rate permitted by applicable law or the prime lending rate in effect at The Chase Manhattan Bank, N.A. at the time of removal, with interest payable annually and principal payable, if at all, only from 20% of any available cash before any distributions thereof are made to the Partners. If the Capital Account of the removed Managing General Partner has a negative balance after such final allocation, the removed Managing General Partner shall contribute cash to the capital of such Fund in an amount equal to the negative balance in its Capital Account (limited to the outstanding balance on the MGP Notes), which contribution of cash will be a Capital Contribution, thus affecting the amounts allocated to it. After such contribution any obligation of the removed Managing General Partner under any note contributed to such Fund as capital will be extinguished. The interest of the removed Managing General Partner would convert to that of a Limited Partner with respect to its remaining interest in Profits and Losses allocated and related distributions. No assurance can be given that such exemptive order will be granted. In the event that such exemptive relief is not granted in the form applied for by the Funds, the Managing General Partner will not receive a final allocation of Profits and Losses and its Interest will convert to that of a Limited Partner, and the removed Managing General Partner will continue to receive those distributions to which it is entitled to as a Limited Partner under the Partnership Agreement.

Voting Rights of Limited Partners

General

The Limited Partners of a Fund cannot participate in its management or control. However, the Partnership Agreement provides that, subject to certain conditions described below, the Limited Partners may approve certain matters. Neither Fund will hold annual meetings of Limited Partners. Each will hold special meetings of Limited Partners as required by the Partnership Agreement or by the provisions of the Investment Company Act. Upon notification to the Independent General Partners, Limited Partners of a Fund may, at their expense, obtain a list of the names and addresses of all of the Limited Partners of such Fund for the purpose of soliciting votes.

A. Subject to the provisions described under "Limitations on Voting Rights" below, the General Partners of a Fund may not, without the consent of all of the Limited Partners, do the acts listed in Section 5.5 of the Partnership Agreement, including: (i) admit any person as a General Partner or Limited Partner of such Fund, except as specifically provided in the Partnership Agreement, (ii) knowingly perform any act, unless specifically required by the terms of the Partnership Agreement, that would subject any Limited Partner to the liability of a General Partner or (iii) continue the business with property of such Fund on the death, retirement, removal, dissolution, entry of an order for relief in a bankruptcy proceeding, adjudication of incompetence or insanity of a general partner except as specifically provided in the Partnership Agreement.

B. Subject to the provisions described under "Limitations on Voting Rights" below and under "Risk and Other Important Factors -- Federal Income Tax Risks -- Taxation of the Funds as Corporations" above, the Independent General Partners of a Fund may not, without the consent of a majority in interest of the Limited Partners of such Fund: (i) sell or otherwise dispose of all or substantially all of such Fund's assets at any one time not in the ordinary course of business as determined by the investment objective of such Fund or (ii) elect to dissolve such Fund.

C. Subject to the provisions described under "Limitations on Voting Rights" below, a majority in interest of the Limited Partners of a Fund may: (i) approve or disapprove the election or removal of General Partners of such Fund; (ii) approve or disapprove the election or removal of the Investment Adviser to such Fund; (iii) approve or disapprove proposed changes in the nature of such Fund's business so as to cause it to cease to be, or to withdraw its election as, a business development company under the Investment Company Act; (iv) approve or disapprove any proposed investment advisory contract or management agreement or terminate any such existing contracts; provided, however, that such new contracts are also approved by a majority of the Independent General Partners; (v) approve or disapprove the appointment of a successor Managing General Partner; (vi) approve amendments to the Partnership Agreement as provided in Article 10 of the Partnership Agreement, provided that no such amendment shall conflict with the Investment Company Act; and (vii) approve or disapprove of any other matters that the Investment Company Act or an exemptive order of the Securities and Exchange Commission requires to be approved by the Limited Partners so long as such Fund is a business development company subject to the provisions of the Investment Company Act.

D. Subject to the provisions described under "Limitations on Voting Rights" below and the provisions of Section 10.2 of the Partnership Agreement, a majority in interest of the Limited Partners may amend the Partnership Agreement, provided that such amendment does not conflict with the Investment Company Act or the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act").

Limitations on Voting Rights

In order to preserve the limited liability of the Limited Partners and protect the tax status of each Fund, Section 11.2 of the Partnership Agreement limits the foregoing rights.

Notwithstanding any other provisions of the Partnership Agreement, the exercise by the Limited Partner of a Fund of the foregoing voting rights is subject to the prior receipt by such Fund of an opinion of independent counsel for such Fund to the effect that neither the possession of such right or rights nor the exercise of

such right or rights will (i) violate the provisions of the Delaware Act or the laws of such other jurisdictions in which such Fund is then formed or qualified, (ii) adversely affect the liability of its Limited Partners or (iii) adversely affect the treatment of such Fund as a partnership for federal income tax purposes, or, if no such opinion has been obtained within 45 days of notification of the required percentage of Limited Partners wishing to take such action, the Fund's not receiving an opinion of such counsel within such time period to the effect that the possession or exercise of such right would substantially increase the likelihood of such adverse effects then the foregoing provision will not apply to the exercise by Limited Partners of any voting rights required by the Investment Company Act or the Delaware Act.

Amendment

The General Partners of a Fund may amend the related Partnership Agreement as provided in Section 10.2(B) of the Partnership Agreement. Subject to Section 11.2 of the Partnership Agreement summarized under "Limitation on Voting Rights" above, a majority in interest of the Limited Partners may amend the Partnership Agreement in accordance with Section 10.2(A) of the Partnership Agreement.

Limitation on Liability of the General Partners

Each Partnership Agreement provides that none of the General Partners of a Fund or any of their affiliates shall be liable, responsible or accountable in damages or otherwise to such Fund or any Limited Partner for any loss or damage incurred by reason of any act or omission performed or omitted by such General Partner or affiliate in good faith and reasonably believed by such General Partner or affiliate to be in or not opposed to the best interests of such Fund and to be within the scope of the authority granted to it by the Partnership Agreement or by law or by the consent of the Limited Partners in accordance with the provisions of the Partnership Agreement, provided that such General Partner or affiliate was not guilty of gross negligence, willful misfeasance, bad faith or reckless disregard of its duties with respect to such acts or omissions and, with respect to the Managing General Partner of such Fund or any of its affiliates, was not guilty of any of the foregoing,

negligence or misconduct with respect to such acts or omissions.

Indemnification of the General Partners by a Fund

A Fund, out of its assets and not out of the assets of the General Partners (except insofar as the Managing General Partner satisfies a claim by an Independent General Partner that such Fund has failed to satisfy), will, to the fullest extent permitted by law, indemnify and hold harmless any General Partner of such Fund and any of his, her or its affiliates 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 criminal, civil, administrative or investigative (including any action by or in the right of a Fund), by reason of any acts, omissions or alleged acts or omissions arising out of such person's or entity's activities as a General Partner or as an officer, partner, director, shareholder or an affiliate of such General Partner, if such activities were performed in good faith and reasonably believed by such person or entity to be in or not opposed to the best interests of such Fund and within the scope of the authority conferred by the Partnership Agreement or by law or where consented to by the Limited Partners of such Fund in accordance with the Partnership Agreement, against losses, damages or expenses for which such person has not otherwise been reimbursed, provided that such person was not guilty of gross negligence, willful misfeasance, bad faith or reckless disregard of its duties with respect to such acts or omissions and, with respect to the Managing General Partner of such Fund or any of its affiliates, was not guilty of any of the foregoing, negligence or misconduct with respect to such acts or omissions and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. Either Fund may make advance payments to a General Partner out of the assets of a Fund in connection with the expense of defending any action with respect to which indemnification might be sought. The indemnified General Partner and any of his, her or its affiliates shall give a written undertaking to reimburse the Fund in the event it is subsequently determined that he, she or it is not entitled to such indemnification and (a) the indemnified General Partner and any of his, her or its affiliates shall provide security for his, her or its undertaking, (b) the Fund shall be insured against losses arising by reason of lawful advances, or (c) a majority of

the disinterested General Partners shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the indemnitee ultimately will be found entitled to indemnification. The rights accruing to any General Partner and any of his, her or its affiliates shall not exclude any other right to which he, she or it may be lawfully entitled and shall inure to the benefit of his, her or its heirs, executors, administrators or other legal representatives. Notwithstanding any of the foregoing, absent the determination by a court that a General Partner or any of his, her or its affiliates seeking indemnification was not liable on the merits or guilty of disabling conduct within the meaning of Section 17(h) of the Investment Company Act, the decision by such Fund to indemnify a General Partner or any such affiliate must be based upon the reasonable determination of independent counsel or the Independent General Partners of such Fund that are not parties or otherwise interested in the proposed indemnification, after review of the facts, that such disabling conduct did not occur. A successful claim for indemnification by a General Partner of a Fund would reduce the assets of such Fund.

Indemnification of Independent General Partners by Equitable Capital

Equitable Capital has agreed to indemnify the Independent General Partners for liabilities not arising out of gross negligence or willful misfeasance, bad faith or reckless disregard of their duty, to the extent a Fund has not fully indemnified the Independent General Partners for any such liability, up to an aggregate limit of \$100 million.

Liability of Partners to Third Parties

The General Partners of a Fund will be liable for all general obligations of such Fund to the extent not paid by that Fund. Each Partnership Agreement provides that no Limited Partner of the related Fund shall be personally liable for the debts of such Fund beyond the amount committed by such Limited Partner to the capital of such Fund. Furthermore, under the Delaware Act, only a Limited Partner's Capital Contributions to such Fund, and its share of assets and undistributed profits, are subject to the risks of such Fund's business so long as the Limited Partner does not participate in the control of the

business of such Fund. Under the Delaware Act, a Limited Partner is otherwise entitled to limited liability and is not responsible for such Fund's obligations if its activities in connection with the business of such Fund are limited to the exercise by it, in accordance with the provisions of the Partnership Agreement, of the rights granted it therein. Certain states where the Funds may do business have statutes providing for the same limitations on limited partner liability, but in those states that do not have such statutes and where judicial precedents are unclear, a Limited Partner may not have the benefit of such limitations. Under the Delaware Act, if a Limited Partner participates in the control of such Fund's business, in violation of the terms of the Partnership Agreement, that Limited Partner may lose the limitation of liability afforded by the Delaware Act and become liable as a general partner to persons who transact business with such Fund reasonably believing based upon the Limited Partner's conduct, that the Limited Partner is a general partner.

Moreover, the Delaware Act prohibits a limited partnership from making a distribution to a partner (a "prohibited distribution") to the extent that at the time of the distribution, and after giving effect thereto, the fair value of the assets of the limited partnership is less than the liabilities of the limited partnership. If a Limited Partner knowingly receives a prohibited distribution, or if the distribution otherwise violates other provisions of applicable law or the Partnership Agreement, such Limited Partner will be liable for a period of three years for the amount so received. Furthermore, under the Partnership Agreement, Limited Partners may be required to repay to a Fund any amounts distributed which are required to be withheld by such Fund on behalf of such Limited Partners for tax purposes.

Partners' Independent Activities

The Partnership Agreement of each Fund provides that the General Partners of such Fund (as well as any Limited Partner of such Fund) and any shareholder, director, employee or affiliate thereof may engage in or possess an interest in other business ventures of every nature and description, whether or not such ventures are competitive with such Fund. Neither a Fund nor any Partner thereof will have any interest in any independent

business venture of another Partner by virtue of the Partnership Agreement or any relationship created thereby.

FCC Considerations

In accordance with applicable FCC policies regarding alien ownership of certain media and communications companies, see "Regulation -- Communications Act", the Partnership Agreement of each Fund prohibits any Limited Partner (and, in the case of a Limited Partner that is not an individual, any officer, director, or equivalent non-corporate official) from being involved in the media activities of a Fund or a media or communications company that is a Portfolio Company. As a general matter, the prohibitions do not apply to matters dealing solely with the financial terms and conditions of investments by the Funds in media and communications companies. In general, a Limited Partner may not act as an employee, independent contractor or agent of, or provide services to, the Funds if such Limited Partner's functions or activities would concern or relate to the media enterprises of the Funds. In addition, a Limited Partner may not communicate with a general partner or an officer, director or employee of a media company in which the Funds invest regarding the day-to-day media operations of the Funds or such media companies. Involvement in, or communications regarding media enterprises or operations includes the ability to control, direct or influence (such as through personnel decisions) the programming, editorial or similar decisions relating to the use of the relevant media facility. If the Managing General Partner determines that, because a Limited Partner has become an alien (for purposes of Section 310 of the Communications Act) or has a relationship with a media or communications company that is a Portfolio Company or in which the Funds seek to invest, there is a substantial risk that a Fund or such company is, or will be, in violation of applicable alien ownership limits, such Limited Partner may be required by the Managing General Partner to take one or more actions to prevent the violation from continuing or occurring. In this regard, a Limited Partner might have to sell its Units, modify or terminate its relationship with the particular media or communications company, or obtain a waiver from the FCC at no cost or expense to the Funds and on terms and conditions acceptable to the Managing General Partner.

Term and Termination

Each Fund will terminate on December 31, 2000, or ten years from the Final Closing of such Fund, if later, subject to the right of the Independent General Partners of each Fund to extend the term of such Fund for up to two additional one-year periods, if they determine that each such extension is in the best interests of the Fund, after which the Fund will liquidate any remaining investments as soon as practicable, but in any event within five years. Each Fund will dissolve upon the expiration of its term or upon the earlier occurrence of any one or more of the following events: (i) the entry of an order for relief in a bankruptcy proceeding, the adjudication of incompetency or insanity, or the death, incapacity, dissolution, removal or resignation of all of its General Partners; (ii) the election to dissolve such Fund by a majority in interest of its Limited Partners (subject to the condition described under "Voting Rights of Limited Partners -- Limitations on Voting Rights" above); (iii) the withdrawal, resignation, removal or Incapacity of its Managing General Partner, or assignment by such Managing General Partner of all of its general partner Interest, without the designation of a successor Managing General Partner; (iv) the sale or other disposition at any one time of all or substantially all of the assets of such Fund; or (v) the entry of a decree of judicial dissolution of such Fund by a court pursuant to the Delaware Act.

Upon dissolution of a Fund, the Managing General Partner of such Fund will liquidate, or the Independent General Partners will appoint a liquidating trustee to liquidate, all or any part of such Fund assets and distribute such assets or the proceeds thereof in accordance with Section 9.2 of the Partnership Agreement.

Appointment of General Partners as Attorneys-in-Fact

Each Limited Partner of a Fund irrevocably constitutes and appoints the General Partners of such Fund, and each of them, such Limited Partner's true and lawful attorneys-in-fact, with full power of substitution and with full power and authority in such Limited Partner's name, place and stead to make, execute, acknowledge and file all certificates and other instruments to permit such Fund to become or continue as a limited partnership, all instruments that reflect a change or

modification of such Fund in accordance with the Partnership Agreement or carry out the provisions of the Partnership Agreement or applicable law, all conveyances and other instruments deemed advisable by the General Partners to reflect the dissolution and termination of such Fund, including a certificate of cancellation, and all other instruments that may be required or permitted by law to be filed on behalf of such Fund.

Distinctions from Corporate Form

Each Fund is organized in the form of a limited partnership, which differs from the corporate form in a number of respects, including management, the term of existence, liability of investors and taxation. A limited partnership is managed by one or more general partners whereas a corporation is managed by a board of directors. The term of a limited partnership is fixed whereas a corporation typically has perpetual existence. Although limited partners and corporate shareholders generally have limited liability, under certain conditions the limited partners may have liabilities to third parties. See "Risk and Other Important Factors -- Partnership and Contractual Risks: Possible Loss of Limited Liability" and "Summary of the Partnership Agreement -- Liability of Partners to Third Parties". For information with respect to the taxation of a limited partnership, see "Certain Federal Income Tax Considerations".

Principal Office of the Funds

The principal business office of each Fund shall be at 1285 Avenue of the Americas, New York, New York 10019, unless changed by the General Partners of such Fund. The business of each Fund may also be conducted at such additional places as the General Partners of such Fund may determine. Limited Partners should contact the Administrator with respect to any questions concerning their Fund accounts. The address and telephone number of the Administrator are as follows: ML Fund Administrators Inc., One Liberty Plaza, 165 Broadway, New York, New York 10006-3603, (800) 288-3694.

Applicable Law

Each Partnership Agreement will be construed and enforced in accordance with the laws of the State of Delaware.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a description of certain federal income tax consequences of an investment in a Fund and a very limited discussion of certain state and local tax considerations. A separate discussion of certain federal income tax and ERISA matters applicable to employee benefit plans such as pension funds, Keogh plans and individual retirement accounts and other Tax-Exempt Investors appears below in "Certain Tax and ERISA Considerations for Tax-Exempt Investors", and a separate discussion of certain federal tax matters applicable to foreign investors appears below in "Certain Federal Tax Considerations for Foreign Investors".

The statements in this discussion are based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing and currently proposed Treasury Regulations ("Regulations") under the Code, legislative history of the Code, existing administrative rulings and practices of the Internal Revenue Service ("IRS") and judicial decisions. No assurance can be given that legislative, judicial or administrative changes will not be forthcoming which would affect the accuracy of any statements in this discussion. Any such changes may or may not be retroactive with respect to transactions entered into or contemplated prior to the effective date of such changes. Prospective Limited Partners should also be aware that, although each Fund intends to adopt positions it believes are in accord with current interpretations of the federal income tax law, the IRS may not agree with the tax positions taken by a Fund and that, if challenged by the IRS, such Fund's tax positions might not be sustained by the courts.

ACCORDINGLY, EACH PROSPECTIVE LIMITED PARTNER IS URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISOR WITH RESPECT TO SUCH PARTNER'S OWN TAX SITUATION, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL AND OTHER TAX LAWS AND ANY POSSIBLE CHANGES IN THE TAX LAWS AFTER THE DATE HEREOF.

Classification as a "Partnership"

Neither Fund has requested, and neither Fund intends to request, an advance ruling by the IRS that it

will be treated as a partnership for federal income tax purposes. The IRS would likely deny any such request since neither Fund will satisfy all of the requirements contained in published IRS Procedures for obtaining such a ruling. Instead, at the time of the admission of investors as Limited Partners in a Fund, Debevoise & Plimpton, counsel to the Fund ("Counsel") will deliver its opinion to such Fund that it will be treated as a partnership for federal income tax purposes. The opinion of Counsel regarding partnership status will be based upon certain representations of Equitable Capital. An opinion of Counsel is not binding on the IRS, however, and no assurance can be given that the IRS will not challenge the status of a Fund as a partnership for federal income tax purposes. If such a challenge were sustained by a court, such Fund would be treated as a corporation for tax purposes, with the consequences described below. Based upon certain representations of Equitable Capital and MLPF&S, counsel will also deliver its opinion to each Fund at the time of the admission of investors as Limited Partners in such Fund that such Fund will not be a publicly traded partnership taxable as a corporation. However, continued eligibility of such Fund for classification as a partnership will depend on no adverse changes or interpretation of law and on such Fund and Equitable Capital exercising their authority so as to prevent such Fund from becoming a publicly traded partnership as described below. See "Publicly Traded Partnerships Treated as Corporations" below.

Treasury Regulations provide that, in the absence of other significant relevant factors, an unincorporated organization will not be treated as a corporation for tax purposes unless it has more corporate characteristics than non-corporate characteristics. The major corporate characteristics considered are continuity of life, limited liability, free transferability of interests and centralized management.

Although each Fund may be considered to have the corporate characteristic of centralized management, based in part upon the representation of Equitable Capital, as the Managing General Partner, that it has substantial assets that may be reached by creditors of each Fund and that each Fund will at all times be operated in accordance with the Partnership Agreement, this Prospectus and applicable state partnership law, Counsel believes that each Fund will lack the corporate characteristics of

continuity of life, limited liability and free transferability under applicable Regulations. Accordingly, each Fund will not have more corporate characteristics than non-corporate characteristics and, in the opinion of Counsel, each Fund will be treated as a partnership for federal income tax purposes. However, there can be no assurance that the Code or Regulations with respect to classification of an entity as a partnership will not be amended in the future. While Counsel expects that any such amendment would have prospective effect only and is not likely to have an adverse effect on either Fund, there can be no assurances in this regard.

If for any reason a Fund were taxable as a corporation, capital gains and losses and other income and deductions of such Fund would not be passed through to the Limited Partners, and the Limited Partners would be treated as shareholders for tax purposes. Since neither Fund is expected to meet the eligibility requirements for the tax treatment available to certain regulated investment companies registered as such under the Investment Company Act, such Fund would be required to pay income tax at corporate tax rates on its net income, thereby reducing the amount of cash available for distribution to the Limited Partners. Any distributions by such Fund to each Limited Partner would be taxable to that Limited Partner as a dividend, to the extent of that Partner's share of such Fund's current and accumulated earnings and profits, and treated as gain from the sale of a Fund interest to the extent it exceeded both the current and accumulated earnings and profits of such Fund and the Limited Partner's tax basis for his, her or its interest. In addition, such Fund could incur income tax upon its deemed incorporation if at such time its liabilities exceeded its adjusted basis in Fund assets.

Proposals to reclassify widely held or publicly traded limited partnerships as corporations for federal income tax purposes have been suggested on a number of occasions by Treasury and in the Congress in recent years. Under Section 7704 of the Code, certain publicly traded partnerships are taxable as corporations. See "Publicly Traded Partnerships Treated as Corporations" below. Based upon anticipated Fund operations, including the provisions of the Partnership Agreements designed to comply with the safe harbors described below and the intention of Equitable Capital, as Managing General Partner, to

restrict substantially sales of Units to the extent necessary to avoid the creation of a secondary market for Units (or a substantial equivalent thereof) neither Fund expects that such provision will apply to it. However, no assurance can be given that the IRS will concur with this view. Moreover, regulations may be adopted that would cause a Fund to be treated as a publicly traded partnership. In addition, it cannot be predicted whether additional legislation that would tax widely held limited partnerships as corporations will ever be enacted and, if enacted, whether any such legislation would be applied to a Fund. Unitholders, therefore, are strongly urged to consider ongoing developments in this area and to consult their own tax advisors in assessing the tax consequences of an investment in either Fund with respect to their own personal tax situations.

Publicly Traded Partnerships Treated as Corporations. Section 7704 of the Code provides for the taxation of certain "publicly traded partnerships" as corporations. (Although the Code provides an exception under which certain publicly traded partnerships are not taxed as corporations, it is not anticipated that the Funds would qualify for such exception.) A partnership is a publicly traded partnership if (i) interests in such partnership are traded on an established securities market or (ii) interests in such partnership are readily tradeable on a secondary market (or the substantial equivalent thereof). Interests in the Funds will not be listed for trading on an established securities market and Equitable Capital, as Managing General Partner, will use its best efforts to ensure that Units will not be readily tradable on any secondary market (or substantial equivalent thereof). There can be no assurance, however, that such efforts will be successful. A Limited Partner may not transfer a Unit unless he, she or it represents and provides other documentation satisfactory in form and substance to the Managing General Partner that, among other things, such transfer was not effected through a broker-dealer or matching agent which makes a market in Units or which provides a readily available, regular and ongoing opportunity to Unitholders to sell or exchange their Units through a public means of obtaining or providing information of offers to buy, sell or exchange Units. In the case of the sale of a Unit in the Enhanced Yield Fund II, the Managing General Partner must determine that such sale, assignment or transfer will not, by itself or together with any other sales, transfers or

assignments, substantially increase the risk of such Fund's being classified as a publicly traded partnership. In the case of the sale of a Unit in the Enhanced Yield Retirement Fund II, the Managing General Partner must determine that such sale, assignment or transfer would not, by itself or together with any other sales, transfers or assignments, likely result in such Fund being classified as a publicly traded partnership. A transferor will not be required to make the representations described above if he, she or it represents that the transfer is effected through an agent whose procedures have been approved by the Managing General Partner as consistent with the requirements for avoiding classification as a publicly traded partnership.

On June 17, 1988, the Internal Revenue Service issued Advance Notice 88-75 (the "Notice"). The Notice provides certain safe harbors which, if satisfied by a partnership, will result in interests in the partnership not being treated as readily tradable on a secondary market or the substantial equivalent thereof. The Notice provides in relevant part that interests in a partnership will not be considered readily tradable on a secondary market or a substantial equivalent thereof within the meaning of Section 7704(b) of the Code for a taxable year of the partnership if the sum of the percentage interests in partnership capital or profits represented by partnership interests that are sold or otherwise disposed of during the taxable year does not exceed 5% (2% in the case of a partnership that also relies on a separate matching service safe harbor described below) of the total interest in partnership capital or profits (the "5% Safe Harbor"). For this purpose, the following transfers, as well as certain redemptions (collectively, "Safe-Harbor Transfers"), will be disregarded: (i) transfers in which the basis of the partnership interest in the hands of the transferee is determined, in whole or in part, by reference to its basis in the hands of the transferor or is determined under section 732 of the Code; (ii) transfers at death; (iii) transfers between members of a family (as defined in Section 267(c)(4) of the Code); (iv) the issuance of interests by or on behalf of the partnership in exchange for cash, property, or services; (v) distributions from a retirement plan qualified under section 401(a); and (vi) block transfers. (The term "block transfer" means the transfer by a partner in one or more transactions during any thirty calendar day period of partnership interests representing in the aggregate more

than 5 percent of the total interest in partnership capital or profits.) The Notice also provides that sales through a matching service ("Matched Sales") will be disregarded (the "Matching Service Safe Harbor") for purposes of determining whether partnership interests are to be considered readily tradable on a secondary market or the substantial equivalent thereof if: (i) at least a 15 calendar day delay occurs between the day the matching agent receives written confirmation from the listing customer that an interest in a partnership is available for sale (the "contact date") and the earlier of (A) the day information is made available to potential buyers regarding the offering of such interest for sale, or (B) the day information is made available to the listing customer regarding the existence of any outstanding bids to purchase an interest in such partnership at a stated price; (ii) the closing of the sale effected through the matching service does not occur prior to the 45th calendar day after the contact date; (iii) the listing customer's information is removed from the matching service within 120 calendar days after the contact date; (iv) following any removal (other than removal by reason of a sale of any part of such interest) of the listing customer's information from the matching service, no interest in the partnership is entered into the matching service by such listing customer for at least 60 calendar days; and (v) the sum of the percentage interests in partnership capital and profits represented by partnership interests that are sold or otherwise disposed of other than in Safe-Harbor Transfers during the taxable year of the partnership does not exceed 10 percent of the total interest in partnership capital and profits. If a partnership relies on the Matching Service Safe Harbor for its Matched Sales, the 5% Safe Harbor is applied (to sales other than Safe-Harbor Transfers and Matched Sales) by substituting 2% for 5%.

Each Partnership Agreement contains provisions designed to cause the respective Fund to satisfy at least one of such safe harbors. Each Partnership Agreement also provides that any transfer of Units to a market maker will be null and void. Equitable Capital, as Managing General Partner, has also represented that it intends to exercise its discretion regarding transfers in a manner designed to prevent each Fund from becoming a publicly traded partnership. Accordingly, it is not anticipated that either of the Funds will be a publicly traded partnership. There can be no assurance, however, that Equitable Capital

will be successful in its efforts. Moreover, if necessary to avoid conflict with the Employee Retirement Income Security Act of 1974, as amended, the Enhanced Yield Retirement Fund II may amend its Partnership Agreement in ways that increase the risk of its classification as a publicly traded partnership. In addition, regulations or additional legislation may be adopted that would cause a Fund to be treated as a publicly traded partnership. Investors are urged to consider ongoing developments in this area.

Counsel cannot predict whether any additional provisions affecting the taxation of limited partnerships will eventually be enacted, or in what form they may be enacted. Accordingly, each investor should consult his personal tax advisor about the effect of any changes in the tax laws after the date hereof.

Income Taxation of Investors in the Funds

The Code provides that a partnership is not itself subject to federal income taxation. Rather, each Limited Partner will be required to take into account in computing his, her or its federal income tax liability his, her or its allocable share of such Fund's capital gains and capital losses and other income, losses, deductions, credits and items of tax preference for any taxable year of such Fund ending within or with the taxable year of such Limited Partner, without regard to whether he, she or it has received or will receive any distribution from such Fund. Fund revenues may be retained by a Fund for Follow On Investments or to repay any Fund borrowings (in the case of Enhanced Yield Fund II). Certain of the Enhanced Yield Investments and Temporary Investments which the Funds purchase may include zero coupon or other obligations having original issue discount. For federal income tax purposes, amortization of original issue discount will be attributable to Partners as interest income even though the Funds do not currently realize any cash flow as a result of such amortization. In addition, the Funds may receive or be deemed to receive taxable distributions of stock with respect to certain Enhanced Yield Investments. While each of the Funds expects that it will have sufficient cash flow to permit it to make annual distributions in the amount necessary to permit Partners to pay all federal income tax liabilities resulting from ownership of interests in such Fund, there can be no assurance that it will be able to do so. Each

Fund is required to (i) file annually an information return on IRS Form 1065 and, following the close of such Fund's taxable years, (ii) provide to each Partner a Schedule K-1 indicating such Partner's allocable share of each Fund's income, gain, losses, deductions, credits, and items of tax preference. Assignees of Limited Partners who are not admitted to a Fund will not receive any tax information from such Fund.

Limitation on Deductions

A Limited Partner's ability to use his, her or its share of Fund losses to offset his, her or its income from other sources is subject to certain limitations. The amount of any such loss which may be used to offset other income in a given year is limited to the lesser of (i) the Limited Partner's adjusted tax basis for his, her or its interest in such Fund as of the end of the year in which the loss is incurred and (ii) in the case of individuals and certain closely-held corporations, the amount which the Limited Partner is deemed under Section 465 of the Code to have "at risk" in such Fund. See "Amount 'At Risk'" below. Moreover, the full excess amount of a noncorporate taxpayer's capital losses in a given year that exceed such taxpayer's capital gain in such year will be allowed as a deduction only to the extent of \$3,000 of ordinary income (\$1,500 for married taxpayers filing separate returns). See "Other Tax Considerations -- Capital Gains and Losses -- Individual Capital Gains" below. Corporate taxpayers are allowed to offset capital losses in full against capital gains, but not against ordinary income. However, in the case of corporate taxpayers, excess capital losses may be carried back three years and carried forward five years. See "Other Tax Considerations -- Capital Gains and Losses -- Corporate Capital Gains" below.

In addition to the limitations on deductions discussed above, individuals, certain closely-held corporations and certain noncorporate taxpayers are prohibited from using trade or business losses sustained by limited partnerships and other businesses in which the taxpayer does not materially participate to offset income from other sources. This so-called "passive activity loss" limitation should not apply to limit losses sustained by a Fund since such Fund's investment activities are not expected to rise to the level of carrying on a trade or business for this purpose. See "Passive Activity

Loss Limitation" below. It is anticipated that an individual Limited Partner's ability to deduct his, her or its proportionate share of Fund expenses will also be subject to the limitation in Section 67(a) of the Code on certain itemized deductions. See "Deductibility of Operating Expenses and Payments to the General Partners and Investment Adviser" below.

Basis in Fund Interest

A Limited Partner's adjusted tax basis in his, her or its interest in a Fund (i) will be equal to the amount of his, her or its cash contribution to such Fund for Units, (ii) will be increased by his, her or its allocable share of (a) items of Fund taxable income and gain and tax-exempt income and (b) nonrecourse indebtedness of such Fund, if any (generally allocated among the Partners in accordance with profit-sharing ratios), and (iii) will be reduced, but not below zero, by his, her or its allocable share of (a) items of Fund tax deduction and loss, (b) distributions by such Fund or constructive distributions resulting from a reduction in such Partner's share of Fund indebtedness and (c) allocations to him, her or it of expenditures of the partnership described in Section 705(a)(2)(B) of the Code not deductible in computing its taxable income and not properly chargeable to his, her or its capital account.

If recognition of a Limited Partner's distributive share of Fund losses would reduce the tax basis of the Partner's interest in such Fund below zero, the recognition of such losses is deferred until such time as the recognition of such losses would not reduce the Limited Partner's basis below zero. To the extent that Fund cash distributions, or any decrease in a Limited Partner's share of the nonrecourse indebtedness of such Fund (which is considered a constructive cash distribution to the Partners), would reduce a Limited Partner's basis below zero, such distributions constitute taxable income to the recipient Limited Partner. If the Limited Partner is not a "dealer" in securities, the distribution will normally represent a capital gain, which will be long-term provided such Fund interest has been held for longer than the capital gains holding period (currently one year). Congress is considering proposals to reduce the capital gains rate. See "Other Tax Considerations -- Capital Gains and Losses" below. Under current law, the same tax

rates apply to capital gains that apply to ordinary income.

Amount "At Risk"

Under Section 465 of the Code, individuals and certain closely-held corporations are entitled to deduct their distributive shares of partnership losses attributable to partnership activities only to the extent of the amount they are considered "at risk" with respect to their partnership interests at the end of the taxable year.

A Limited Partner in a Fund initially will be considered "at risk" with respect to his Fund interest to the extent of the cash contributed to such Fund for Units, provided such Units are not financed with borrowings from persons with certain interests (other than as a creditor) in such Fund activities or with borrowings solely secured by Units. While a Limited Partner's tax basis in his, her or its Units will be increased by his, her or its allocable share of any nonrecourse liabilities of such Fund (see "Basis in Fund Interest" above), such liabilities are not includable in the Partner's amount "at risk".

The amount a Limited Partner is "at risk" in a Fund will be increased by, among other things, his, her or its share of such Fund's ordinary income and capital gain. A Limited Partner's amount "at risk" will be reduced by (i) all Fund distributions to, or on behalf of, the Partner and (ii) his, her or its share of Fund deductions and losses. The Partner's share of Fund deductions and losses over Fund income not allowable in any year as a result of the "at risk" limitation is carried forward until such time, if ever, as it is allowable under the "at risk" rules.

Under normal operating results of each Fund, the General Partners do not anticipate that the Limited Partners will be subject to any deferral of losses by reason of the "at risk" rules. However, the timing, duration and extent of any deferral of losses as a consequence of the "at risk" limitation will depend upon the amount of Fund revenue and expenses and the amount and the terms of Fund leverage (in the case of Enhanced Yield Fund II). In any event, prospective Limited Partners should consider the effect of the "at risk" rules in arranging any financing for a purchase of Units.

Passive Activity Loss Limitation

Under the passive activity loss provisions of the Code, losses and credits from trade or business activities in which certain taxpayers do not materially participate (i.e., "passive activities") will generally only be allowed against income from such activities. Therefore, such losses generally cannot be used to offset salary or other earned income, active business income or "portfolio income" (such as dividends, interest, royalties and nonbusiness capital gains) of such taxpayers. Losses and credits suspended under this limitation can be carried forward indefinitely and can be used in later years against income from passive activities. Moreover, a taxable disposition by a taxpayer of the entire interest in a passive activity will cause the restoration of any suspended losses attributable to that activity. The passive activity loss limitation applies to individuals, estates, trusts and, with limited exceptions, personal service corporations. A modified form of the rule also applies to certain closely-held corporations. Losses of a partnership classified as a publicly traded partnership (but not taxed as a corporation) are also characterized as passive losses from a separate activity. As discussed above, however, it is not anticipated that either Fund will be classified as a publicly traded partnership. See "Classification as a Partnership -- Publicly Traded Partnerships Treated as Corporations".

Counsel believes that the activity of each Fund would not be considered a trade or business activity to which the passive activity loss provisions described above would apply, but rather an investment activity of the Limited Partner for the investment, holding and eventual disposition of stock and debt securities (e.g., portfolio assets). Accordingly, a Limited Partner's proportionate share of any losses from such Fund should not be subject to disallowance under the passive activity loss limitation. On the other hand, as portfolio income, a Limited Partner's proportionate share of ordinary income (whether dividend or interest income) and capital gain from such Fund may not be offset by such Partner's losses, if any, from passive activities subject to the loss limitation rules described above. Moreover, it is possible that under future regulations, the activity of each Fund will be characterized as an activity which, for the purpose of the passive loss provisions, is treated as a separate

trade or business even though such activity does not otherwise constitute the conduct of a trade or business. Accordingly, a prospective Limited Partner should not invest in either Fund with the expectation of having his, her or its share of income and capital gain from such Fund offset by losses from his, her or its interests in passive activities.

Deductibility of Operating Expenses and Payments to the General Partners and Investment Adviser

Section 67(a) of the Code provides that an individual is allowed a deduction for itemized expenses incurred for the production of income only to the extent such expenses, combined with certain other itemized deductions, in the aggregate exceed 2% of such individual's adjusted gross income. Accordingly, because it is anticipated that Fund expenses will not be deductible as trade or business expenses, but rather as investment expenses, individuals who are Limited Partners would be affected by this limitation. To the extent certain Fund expenses are nondeductible under this limitation, Limited Partners who are individuals may have to recognize net taxable income in an amount greater than cash available from the Fund for distribution to the Partners.

In light of these provisions, neither Fund currently anticipates that an individual investor in such Fund will be able to claim his proportionate share of the fees paid to the General Partners and the Investment Adviser and their affiliates and certain other Fund expenses as a deduction, except in the case of an individual investor with miscellaneous itemized deductions in the aggregate in excess of 2% of his or her adjusted gross income who is not subject to the alternative minimum tax. An individual investor in such Fund should rely on relevant legal authorities, including recently Proposed and Temporary Regulations, in making a determination as to the deductibility of such expenses. It is also possible that the IRS would claim that a portion of the fees actually represent additional offering and organizational costs and thus are not currently deductible to such extent. See "Fund Organization and Syndication Fees" below. In addition, the IRS could contend that a portion of such fees are allocable to the acquisition of Fund investments and thus should be capitalized as part of the cost of such investments. As all of the facts regarding the nature of the services to be rendered are not known

and may vary according to the circumstances presented, it is not practicable to predict whether all or a portion of such fees would be deductible if challenged, and there can be no assurance that any such challenge would not be upheld. The limitations of Section 67 also apply to other types of taxpayers, such as certain estates or trusts, that are treated as individuals for purposes of such Section.

Limitations on the Deductibility of Interest

(a) Investment Interest. In the case of a non-corporate taxpayer, subject to a phase-in, as discussed below, the Code limits the deduction of investment interest in any one tax year to the amount of "net investment income" of the taxpayer. Investment interest disallowed under this limitation is carried forward and treated as investment interest in succeeding taxable years. Such carry-forward interest is deductible only to the extent the taxpayer has net investment income in succeeding tax years.

Investment interest generally is interest expense properly allocable to property held for investment and includes interest expense properly allocable to portfolio income under the passive loss rule. Investment interest also includes interest expense properly allocable to an activity, involving a trade or business, in which the taxpayer does not materially participate, if that activity is not treated as a passive activity under the passive loss rule. On the other hand, investment interest does not include any interest that is taken into account in determining the taxpayer's income or loss from a passive activity or interest properly allocable to a rental real estate activity in which a taxpayer actively participates within the meaning of the passive loss rule.

"Net investment income" is defined as the excess of a taxpayer's investment income over investment expenses for the taxable year. Investment income includes gross income from property held for investment, gain attributable to the disposition of property held for investment and amounts treated as portfolio income under the passive loss rule. Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. On the other hand, investment income and investment expenses do not include any income or expenses taken into account in computing income or loss

from a passive activity. See "Taxation of the Funds -- Passive Activity Loss Limitation". Moreover, income from a rental real estate activity in which the taxpayer actively participates is not included in investment income.

The investment interest limitations are phased in over the period 1987 to 1991. The phase-in generally applies to interest that would not have been disallowed under prior law. In such case, the taxpayer is allowed to deduct a portion of the newly disallowed interest. The amount of investment interest disallowed during the phase-in period is the excess over the amount of the prior law \$10,000 ceiling (\$5,000 in the case of married individuals filing a separate return, and zero in the case of a trust), plus the applicable percentage (80% for taxable years beginning in 1989, 90% for taxable years beginning in 1990 and 100% for taxable years beginning in 1991 and thereafter) of the additional amount which would be disallowed without taking into account the prior law \$10,000 ceiling. In addition, in computing the investment interest limitation for taxable years beginning on or after January 1, 1987 and before January 1, 1991, the amount of net investment income is reduced by the amount of losses from passive activities that is allowed as a deduction by virtue of the phase-in rule for passive losses. See "Taxation of the Funds -- Passive Activity Loss Limitation". Any amount of investment interest that is disallowed under the investment interest limitation during or after the phase-in period is not allowed as a deduction in a subsequent year except to the extent the taxpayer has net investment interest income in that subsequent year.

It is expected that interest paid by a Fund on its borrowings, if any, as well as any interest paid by a Limited Partner on borrowings incurred to purchase Units, will be considered "investment interest". However, it is also expected that any investment income from a Fund passed through to the Partners would qualify as "investment income" that would increase the amount of investment interest that each Limited Partner would be able to deduct.

Because the amount of any Partner's investment interest which would be subject to disallowance in any year would depend upon the amount of investment income generated by such Fund as well as investment income and

expenses of the Partner from sources other than such Fund, the extent, if any, to which interest on Fund indebtedness would be subject to disallowance would depend upon the facts of such Partner's particular tax situation. In any event, prospective investors should consider the effect of the investment interest limitations in seeking to arrange debt financing of their investment in Units.

(b) *Interest Related to Tax-Exempt Obligations.* Section 265(a)(2) of the Code disallows any deduction for interest paid by a taxpayer on indebtedness incurred or continued for the purpose of purchasing or carrying tax-exempt obligations. Similarly, Section 265(a)(4) of the Code disallows any deduction for interest paid by a taxpayer to purchase or carry shares of stock in a regulated investment company that distributes exempt interest dividends during the taxable year of the holder. In the case of a Limited Partner owning a substantial portfolio of tax-exempt obligations or shares of stock in a regulated investment company that distributes exempt interest dividends, the IRS might take the position that the Limited Partner's allocable portion of any interest attributable to Fund borrowings (or any interest paid by the Limited Partner in connection with the purchase of Units) should be viewed as incurred to enable the Limited Partner to continue carrying such tax-exempt obligations or such shares of stock and, therefore, that the deduction of any such interest by the Limited Partner should be disallowed in whole or in part.

Fund Organizational and Syndication Fees

The Funds will pay their organizational expenses and offering expenses and any organizational and offering expenses incurred by Equitable Capital, the Administrator and their affiliates on behalf of the Funds which do not exceed \$6,000,000 in aggregate for both Funds or, together with the amount of the selling commissions, financial advisory fees and marketing and sales expense reimbursements payable to MLPF&S, 15% of the total offering proceeds of each Fund. The organizational and offering expenses will be allocated between the Funds pursuant to the ratio of Units sold by each Fund.

Expenses connected with the syndication of Fund interests (for example, selling commissions, financial advisory fees, promotional expenses and most of the printing costs and professional fees incurred in connec-