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 may 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 in a single Portfolio Company. However, with the approval of its 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 in one Portfolio Company utilizing up to 25% of its Available Capital. 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.

Prior to investment in Enhanced Yield Investments, the Funds will invest the proceeds of this offering and, in the case of the Enhanced Yield Fund, the proceeds of any borrowing, in Temporary Investments. The Funds will also invest any amounts received with respect to its portfolio securities in Temporary Investments, including any distribution by a Portfolio Company with respect to an Enhanced Yield Investment or the proceeds of any liquidation or sale of such Enhanced Yield Interest before the payment of expenses and fees, reinvestment in Enhanced Yield Investments or distribution to the Partners, as the case may be. Temporary Investments will consist of United States Treasury securities, securities issued or guaranteed by an agency or instrumentality of the United States, certificates of deposit with maturities, at the time of investment, of less than one year, commercial paper (rated and unrated) and other short-term securities.

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 BB/Ba to CCC/Caa. 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 structures 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 and 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 Equitable Capital, an affiliate of Equitable Capital, or a member of a group investing in such a company in a transaction in which such Fund also participates as an investor in the group, will offer to provide, and if accepted, will provide significant managerial assistance after the consummation of the acquisition. Such management assistance 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 structuring 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 for which an application has been made to the SEC. See "Regulation". 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 (*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 investment 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 such 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 Bond 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 Bond Index measures the performance of corporate debt instruments rated below BBB by Standard & Poor's Corporation and Baa3 by Moody's Investors Service, Inc. To qualify for inclusion in the index the securities must (*i*) be in the form of publicly placed, nonconvertible, 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-/Baa3 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 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 or (*b*) the average coupon on 7-year Treasury Notes plus 400 basis points, but not less than 9½%. 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, 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 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 at the time of commitment in 7-year Treasury Notes issued 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 a basis by an investment at the time of commitment, for the proposed investment, of the amount 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, 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 one and eight above have been designed to ensure that the Funds invest on the same terms as the Equitable Affiliates and that the Funds are not subject to overreaching on the part of any other party. However, changes in the leveraged buyout market, general economic or business conditions, the legal and regulatory constraints on leveraged transactions, 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 Equitable Capital or its affiliates do not offer 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 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 one such Bridge Investment except that it may make one Bridge Investment with 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. See "Estimated Use of Proceeds".

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**

The Funds will, to the extent each Fund has Available Capital to invest, coinvest with each other and expect to coinvest in most Enhanced Yield Investments with certain affiliates of Equitable Capital, subject to the availability on the part of each Fund and each Equitable Affiliate (as defined below) of capital for such investments, the investment objectives and policies and the diversification requirements of such entities and applicable legal and regulatory restrictions. Such affiliates will include Equitable Life and certain of its subsidiaries (other than Equitable Capital), the Equitable Deal Flow Fund, L.P. (the "Deal Flow Fund"), a private limited partnership, the interests in which are held by Equitable Life and certain affiliated and unaffiliated institutional investors, that invests primarily in mezzanine investments and is advised by Equitable Capital, any funds organized or advised by Equitable Capital with an investment objective similar to that of the Funds and any Equitable Capital advisory accounts with investment objectives similar to that of the Funds (collectively, the "Equitable Affiliates"). There can be no assurance that any of the Equitable Affiliates will have capital available to coinvest with the Funds.

At least 15% of each of the Funds' capital invested in Enhanced Yield Investments at the end of the Investment Period must be invested in Enhanced Yield Investments in transactions in which institutional investors unaffiliated with the Funds and Equitable Capital purchase a majority of the securities constituting each such investment or in transactions in which no Equitable Affiliate participates.

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 Agreements, the Funds together will have the right to an allocation of at least 50% of any Enhanced Yield Investment recommended to the Funds or any Equitable Affiliate for investment by Equitable Capital which meets the Funds' investment objective, policies and restrictions, until each Fund has become 75% invested in Enhanced Yield Investments and the right to an allocation of at least 25% of any such investment thereafter and prior to the time each becomes fully invested in Enhanced Yield Investments. Enhanced Yield Investments allocated to the Funds pursuant to this right will be allocated between them based on the ratio of Available Capital of each Fund. With respect to the Enhanced Yield Fund, the determination of Available Capital during the first two years of the Investment Period will be made as if such Fund had borrowed an amount equal to 50% of its Net Proceeds Available for Investment (as defined above) and thereafter will be made based on the actual percentage of borrowings made by such Fund. This amount is added to the Enhanced Yield Fund's Available Capital for the purposes of allocation in order to compensate for the fact that the Enhanced Yield Fund may only be in a position to borrow after it has purchased a portfolio of Enhanced Yield Investments to pledge as security for such borrowings. Because the Enhanced Yield Fund may borrow at any time and, therefore, its level of borrowing may vary over the Investment Period, 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, which may not borrow to invest, to become fully invested well before the Enhanced Yield Fund. This result would defeat the intention of the Funds to coinvest with each other. However, to the extent the Enhanced Yield Fund'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. Equitable Capital will provide the Independent General Partners of each Fund with information concerning the amount of capital which the Equitable Affiliates have available for investment in order to assist the Independent General Partners with their review of such Fund's investments for compliance with the allocation provisions described herein.

Equitable Capital may grant to Equitable Affiliates similar rights to purchase Enhanced Yield Investments, subject to the Funds' right to an allocation of at least 50% or 25%, as the case may be, of an Enhanced Yield Investment. 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 interest of 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, 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. 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 jointly held 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 (but not the Enhanced Yield Retirement Fund) may borrow an amount up to 50% of Net Proceeds Available for Investment reduced by the amount of capital returned to Partners of the Enhanced Yield Fund 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's permitted borrowing capacity will be reduced by the principal amount of any obligation guaranteed by the Enhanced Yield Fund. If a borrowing is made, the Enhanced Yield Fund 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 "Fund 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 may enter into interest rate "swap" or "cap" agreements in connection with any floating rate obligation in order to limit the Fund's exposure to increases in interest rates.

Equitable Capital expects that borrowings will be nonrecourse to the Limited Partners and the General Partners and will be secured solely by the assets of the Enhanced Yield Fund. It is anticipated that each Enhanced Yield Investment will be used to secure the financing of all Enhanced Yield Investments ("cross-collateralization").

Certain lenders may require that their loans be repayable as all or some of the Enhanced Yield Fund'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. The timing of loan repayments will affect the amount of cash available for current distribution to the Partners. Lenders may also impose reserves, operating restrictions or other requirements on Enhanced Yield Investments and may limit the ability of Equitable Capital to control investments or their refinancing and may limit the Enhanced Yield Fund's ability to make distributions to the Partners of the Enhanced Yield Fund.

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, 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 might be unable to meet its obligations to the 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 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 its Partners 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 declines below 2:1. See "Use of Leverage" and "Interest Rate Fluctuation" under "Risk and Other Important Factors".

There can be no assurance that the Enhanced Yield Fund will actually borrow. Equitable Capital may not be able to arrange debt financing on terms acceptable to the Enhanced Yield Fund and Equitable

Capital or Equitable Capital may believe such borrowings are not in the Enhanced Yield Fund's best interest. If the Enhanced Yield Fund were unable to obtain such debt financing, the Enhanced Yield Fund 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 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, 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'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.

**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. 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 first Closing, the Funds will begin investing the proceeds of the offering, together, in the case of the Enhanced Yield Fund, 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. Equitable Capital also receives investment opportunities from investment banking firms acting as representatives of companies or divisions on behalf of their corporate clients. During 1986, 1987, and the first quarter of 1988, Equitable Capital received proposals covering approximately $12.6 billion, $35.3 billion and $5.9 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 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 in Enhanced Yield Investments within 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 applicable Reinvestment Period. Any such proceeds not so reinvested (or committed for reinvestment), 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, 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 Enchanced Yield Investments. 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 40 corporate finance investment professionals at Equitable Capital who participate in the process of making Enhanced Yield Investments. These professionals have a diverse background in equity and debt investments, and in investment and credit analysis of a wide spectrum of industries. 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 say in how transactions are structured. See "Management Arrangements—Equitable Capital".

Once an Enhanced Yield Investment 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 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 Portfolio 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 or preferred 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 either of the Funds or any Equitable Affiliate elects to sell a security that is part of an Enhanced Yield Investment purchased as part of a coinvestment, each Fund and each such Equitable Affiliate holding such security will participate in the sale of such securities unless Equitable Capital recommends to the Funds that they not participate in such a sale on a lock step basis. If Equitable Capital does not recommend a "lock step" disposition, then notice of the proposed sale will be given to the Independent General Partners who will determine whether the Funds should participate in such sale and, if so, whether such participation should be in lock step or on some other basis. In order for the Funds not to make a lock step disposition in such a case, the Independent General Partners must find that the retention by the Funds is fair to the Funds and that the Funds' participation 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 result is fair to the Fund and is not the result of overreaching by an Equitable Affiliate.

The liquidation of an Enhanced Yield Investment may occur at different stages for any given Portfolio Company. Normal exit sale options for Portfolio Companies include either public offerings in which insiders may or may not liquidate any of their holdings, registration and reoffering of investments in such companies or divestiture of the Portfolio Company through sale to a corporate or individual buyer. In the case of a public offering by the Portfolio Company, a Fund's investments may either be sold to the public contemporaneously with the Portfolio Company's registration of such securities upon the exercise by the Fund of registration rights, if any, received at the time the investment was made, or may be liquidated after such registration over time through subsequent secondary offerings. The cost of such registration is typically borne by the Portfolio Company but such costs may be borne by the Funds and other investors participating in the sale. The Funds may liquidate their holdings of only certain classes of securities constituting an Enhanced Yield Investment. For example, they may sell the subordinated debt or preferred stock portion of such investment while retaining the common stock portion. In the case of a sale of a Portfolio Company to a third-party buyer, however, the Funds' Mezzanine Investments would typically come due and be simultaneously liquidated. Finally debt securities in an Enhanced Yield Investment may be prepaid, and preferred stock may be redeemed, by a Portfolio Company in accordance with such prepayment terms, and with the payment of such prepayment premiums, if any, negotiated at the time such securities were issued.

Timing of divestiture or liquidation depends on a Portfolio Company's performance, the judgment of the controlling investors (which may include Equitable Capital acting for the Funds and any Equitable Affiliate) as to value, the ability of the Portfolio Company to refinance its outstanding securities and other financial market opportunities. To the extent that Portfolio Companies are able to repay the debt incurred in the acquisition faster than anticipated, liquidation of the investment may occur at an early date. In growth situations, the need for capital may necessitate an entry into the public markets. General market conditions will almost always influence these decisions, as management, directors and major investors (including the Funds) will seek to maximize financial returns and to position the Portfolio Company to meet its financial needs in the market.

## MANAGEMENT ARRANGEMENTS

The portfolio investments of the Funds will be managed by Equitable Capital, as investment adviser, under the supervision of the Independent General Partners. Equitable Capital will also act as the Managing General Partner of each of the Funds with overall responsibility for the administrative and business affairs of each Fund. The other General Partners will be individuals and are referred to herein as the Independent General Partners. The Investment Company Act requires that a majority of the General Partners of each Fund be individuals who are not "interested persons" of the Fund as defined in such act. The Funds and Equitable Capital have received an order from the SEC determining that the Independent General Partners, who will initially be the same individuals for each Fund, are not "interested persons" of the Fund within the meaning of the Investment Company Act simply by virtue of being general partners of the Funds. Equitable Capital, through ML Fund Administrators Inc. (the "Administrator"), provides each of the Funds with certain day-to-day management and administrative services as described below.

Equitable Capital will act as the investment adviser to each Fund pursuant to Investment Advisory Agreements between Equitable Capital and each Fund and will be responsible for recommending all Enhanced Yield Investments and Temporary Investments to the Funds. Each Investment Advisory Agreement between a Fund and Equitable Capital must be initially approved by the initial Limited Partner of such Fund and thereafter annually approved by the Independent General Partners of such Fund. Whether or not an Investment Advisory Agreement with Equitable Capital is continued with respect to a Fund, Equitable Capital will remain as Managing General Partner of such Fund and continue to receive distributions and allocations in accordance with the Partnership Agreement. However, upon removal of Equitable Capital as investment adviser to a Fund, the Incentive Distribution (as defined below under "Distributions and Allocations") will be payable by such Fund to Equitable Capital only with respect to those Enhanced Yield Investments held by such Fund identified by Equitable Capital prior to its termination. See "Description of the Investment Advisory Agreements", below.

Equitable Capital and the three Independent General Partners set forth in this Prospectus will serve as the General Partners of each Fund until successors have been elected to serve as General Partners or until their earlier resignation or removal. In the event that Equitable Capital is removed or is not re-elected at any meeting of Limited Partners held for the purpose of electing general partners of a Fund, such Fund will have to seek alternate arrangements with respect to those administrative and other services provided to such Fund by Equitable Capital. The Independent General Partners will be required to approve all investments made by such Fund, though investments meeting certain Guidelines will be reviewed only for compliance with such Guidelines. See "Investment Objective and Policies" and "Summary of the Partnership Agreement".

### Description of the Investment Advisory Agreements

Pursuant to each Investment Advisory Agreement, Equitable Capital will provide investment advisory services to the related Fund. Under such Agreement, Equitable Capital will be responsible for the identification of all Enhanced Yield and Temporary Investments made by such Fund and all other investment advisory services necessary for the operation of such Fund in carrying out its investment objective and policies.

Equitable Capital's investment advisory services include locating, structuring, acquiring, monitoring, holding and disposing of Enhanced Yield Investments for a Fund and, in the case of the Enhanced Yield Fund, structuring its financing, if any. The Funds will make only the Enhanced Yield Investments recommended to them by Equitable Capital, and Equitable Capital (subject to the supervision of the General Partners) has the exclusive power and authority to make, monitor, manage and control a Fund's Enhanced Yield Investments. Equitable Capital will determine the manner in which voting rights to consent to corporate action, and any other rights pertaining to a Fund's Enhanced Yield Investments will be exercised.

Equitable Capital will bear the ordinary operating expenses of each of the Funds relating to portfolio investments, including the expenses of investigating investment opportunities, structuring and financing Enhanced Yield Investments, monitoring Portfolio Companies and certain expenses of selling Enhanced Yield Investments. Each Fund will pay its pro rata share of all expenses of third parties, such as legal counsel, appraisers and independent business consultants, hired or used by Equitable Capital in connection with the investigation, negotiation, purchase, holding and sale of actual or proposed Enhanced Yield Investments and any registration fees incurred in connection with any such sale. Portfolio Companies usually bear the expenses of such third parties, in which event the Funds will not be obligated to pay any of them. The Funds will also reimburse Equitable Capital, as investment adviser, for their pro rata share of the fees and expenses of the law department of Equitable Life paid by Equitable Capital in connection with any such purchase, holding or sale in which the Funds participate.

Each Fund will pay Equitable Capital an annual fee (payable quarterly in advance) (the "Investment Advisory Fee"), equal in amount to the greater of (*i*) an annual payment determined by multiplying $2,000,000 by a fraction, the numerator of which is the number of Units outstanding of such Fund and the denominator of which is the aggregate number of Units outstanding of both Funds and (*ii*) a fee calculated at the annual rate of 1.0% of such Fund's Available Capital. The Investment Advisory Fee payable by a Fund to Equitable Capital will be reduced by an amount equal to (*i*) any distributions from such Fund received by Equitable Capital, as Managing General Partner of such Fund, from Temporary Investments and (*ii*) 80% of "Deductible Fees" with respect to Portfolio Companies. "Deductible Fees" consist of transaction, commitment, "break-up", investment banking or similar fees received by Equitable Capital allocable to Enhanced Yield Investments purchased or as to which purchase commitments were issued by such Fund. Such fees will be reviewed quarterly by the Independent General Partners.

Each Investment Advisory Agreement has been approved by the Independent General Partners and the initial Limited Partner of the Fund to which the agreement applies. Unless earlier terminated as described below, each Investment Advisory Agreement will remain in effect for an initial two year period and thereafter continue from year to year if approved by a majority of the Independent General Partners of such Fund. Each Investment Advisory Agreement is not assignable and may be terminated without penalty on 60 days' written notice at the option of the related Fund or by vote of the Limited Partners of the related Fund. Equitable Capital may not terminate a Fund's Investment Advisory Agreement until the fifth anniversary of such Fund's Final Closing. Subsequent to that time Equitable Capital may terminate such agreement on 60 days' written notice so long as such Fund has found a suitable replacement investment adviser.

Each Investment Advisory Agreement provides that neither Equitable Capital nor any of its affiliates will be liable, responsible or accountable in damages or otherwise to a Fund or any Limited Partner of such Fund for any error of judgment or mistake of law or for any loss suffered by such Fund in connection with the matters covered by the Investment Advisory Agreement, except a loss resulting from willful misfeasance, bad faith, gross negligence or reckless disregard of duty on the part of Equitable Capital in the performance of its duties under the Investment Advisory Agreement.

Each Investment Advisory Agreement also provides that to the fullest extent permitted by law and the related Partnership Agreement, each Fund, out of its assets, and subject to the terms of such Partnership Agreement, and not out of the assets of the General Partners, will indemnify and hold harmless Equitable Capital and any of 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 civil, criminal, administrative or investigative (including any action by or in the right of such Fund), by reason of any act or omission or alleged act or omission arising out of Equitable Capital's activities as investment adviser to such Fund, or by reason of any act or omission arising out of the activities of such an affiliate as an officer, partner, director, shareholder or affiliate of Equitable Capital, if such activities were performed in good faith and were reasonably believed by such person to be in or not opposed to the best interests of such Fund and to be within the scope of the authority conferred by the Investment Advisory Agreement or by law or under or by the direction of the Managing General Partner (if other than Equitable Capital) or the Independent General Partners of such Fund, against losses, damages, or expenses for which such person has not otherwise been reimbursed (including, without limitation, attorney's fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred by such person in connection with such action, suit or proceeding so long as such person was not guilty of gross negligence, willful misfeasance, bad faith or reckless disregard of such person's duties with respect to such acts or omissions, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. Any such indemnification will be limited to the extent (*a*) that the satisfaction of any indemnification and any holding harmless will be from and limited to Fund assets and no Limited Partner will have any personal liability on account of any indemnification, and (*b*) that any indemnification of an affiliate of Equitable Capital will be limited to losses, damages or expenses (*i*) that such affiliate incurred solely as a result of such affiliate's status as an affiliate of Equitable Capital or (*ii*) to which the affiliate is subject because it has performed an obligation of Equitable Capital, in its role as Investment Adviser, on behalf of Equitable Capital. Notwithstanding the foregoing, absent a judicial or administrative determination that Equitable Capital or any of its affiliates seeking indemnification was not liable on the merits or guilty of disabling conduct under Section 17(h) of the Investment Company Act, the decision by such Fund to indemnify Equitable Capital or any such affiliate must be based upon the reasonable determination of independent counsel or the Independent General Partners of such Fund not parties to the claim for which indemnification is to be sought, after review of the facts, that such conduct did not occur.

**Equitable Capital**

Equitable Capital is an indirect, wholly-owned subsidiary of Equitable Life specializing in fixed income and equity portfolio management and is registered as an investment adviser under the Investment Advisers Act of 1940 (the "Investment Advisers Act"). Organized in 1985, Equitable Capital performs the functions previously performed by the Finance Operations Area of Equitable Life and by Equitable Investment Management Corporation, an equity investment manager. It has approximately $31 billion in fixed income and equity assets under management. The principal executive offices of Equitable Capital are located at 1285 Avenue of the Americas, New York, New York 10019.

Equitable Capital has extensive experience in private placement financing, with a growing emphasis on enhanced yield, specially structured and negotiated financings for leveraged transactions, especially management-led leveraged buyouts. Since January, 1983 Equitable Capital (including its predecessors) has advised Equitable Life and Equitable Affiliates, including the Deal Flow Fund, in respect of portfolio securities and commitments issued in connection with leveraged buyouts and recapitalizations in an amount exceeding $1.7 billion. Equitable Capital is one of the nation's leading providers of mezzanine financing in leveraged buyouts.

As of December 31, 1987, assets under management of Equitable Capital included:

—$4 billion in privately placed enhanced return investments, including in excess of $1.7 billion in securities similar to those in which the Fund will invest.

—$7.2 billion in privately placed fixed income corporate obligations, generally of investment grade.

—$1.2 billion in actively-traded high-yield securities, primarily public bonds.

—$14.3 billion in publicly-traded high-grade corporate and U. S. Government and agency obligations, as well as cash equivalents.

—$4.5 billion in common and preferred stock.

### Management of Equitable Capital

The directors and principal executive officers of Equitable Capital are as follows:

| | |
|---|---|
| Brian F. Wruble | Chairman of the Board of Directors, President and Chief Executive Officer |
| Frank Savage | Vice Chairman of the Board of Directors |
| David K. Downes | Director and Executive Vice President, Chief Financial and Administrative Officer and Treasurer |
| Robert W. Barth | Director |
| Benjamin D. Holloway | Director |
| John Katz | Director |
| William J. Moran | Director |
| Zane E. Brown | Executive Vice President |
| John D. Miller | Executive Vice President |
| Alden M. Stewart | Executive Vice President |

Mr. Wruble, age 45, is also an Executive Vice President of Equitable Life and is a member of its Investment Policy Committee. From 1982 to 1985 (when Equitable Capital was formed) Mr. Wruble was Equitable Life's Chief of Finance Operations, with overall responsibility for formulation of investment strategy for Equitable Life's General Asset Account which then approximated $30 billion. In addition, since 1982 he has maintained direct oversight of Equitable Life's corporate finance and bond investment activities, which currently encompass more than $20 billion of assets under management. Mr. Wruble joined Equitable Life in 1979 as Vice President and head of the Portfolio Management Department. He subsequently assumed responsibility for Equitable Life's Investment Advisory Department, providing active asset allocation and investment timing services for balanced pension accounts. Before joining Equitable Life, Mr. Wruble spent nearly ten years on Wall Street, most recently at Smith, Barney, Harris Upham & Co., where he was co-manager of fundamental equities research and a member of the Institutional Investor "All America Research Team". Mr. Wruble serves as President and a Chairman of Equitable Realty Assets Corporation, as Chairman of Equico Capital Corporation and a director of Equitable Variable Life Insurance Company and Frye CopySystems, Inc. He and Mr. Miller will direct the operation of the Equitable Capital professionals managing the Funds' Enhanced Yield Investments.

Mr. Savage, age 50, is responsible for international operations and assists Mr. Wruble in the overall management of Equitable Capital. He has been a Senior Vice President of Equitable Life since 1987 and was a Vice President from prior to 1983 to 1987. Mr. Savage is a member of the Board of Trustees of The John Hopkins University and the Council on Foreign Relations, Inc. He is a director of Equico Capital Corporation, Essence Communications, Inc. and United Mutual Life Insurance Company.

Mr. Downes, age 48, is responsible for financial, accounting, legal, systems, personnel and administrative operations. He joined Equitable Capital in 1985 from Merrill Lynch & Co., Inc., where he was Vice President and Controller from prior to 1983 until he joined Equitable Capital.

Mr. Barth, age 51, is President and Chief Executive Officer of the Individual Financial Management Group of Equitable Life and of Equitable Variable Life Insurance Company. Since 1985 he has been an Executive Vice President of Equitable Life. From 1984 to 1985 he was a Senior Vice President, in 1984 a Vice President and prior to 1984 an Agency Manager, of Equitable Life. Mr. Barth is Chairman of the Board of Directors of Equitable Realty Partners, L.P., a director of Equitable Investment Corporation, Donaldson, Lufkin & Jenrette Securities Corporation, Alliance Capital Management Corporation, Equitable of Colorado and the Communication Design Group and a trustee of The Equitable Trust and The Equitable Funds. Mr. Barth is a trustee of the Morehouse School of Medicine and a director and part owner of ECTA Corporation.

Mr. Holloway, age 63, is President and Chief Executive officer of Equitable Investment Corporation, the direct parent of Equitable Capital. From 1984 to 1987 Mr. Holloway was Chairman, President and Chief Executive Officer of Equitable Real Estate Group, Inc. From 1979 to the present Mr. Holloway has been an Executive Vice President of Equitable Life.

Mr. Katz, age 49, has been a Senior Vice President of Equitable Investment Corporation since December, 1985. From November, 1982 to December, 1985 he was a Vice President of Equitable Life. Mr. Katz is also a director of Integrity Life Insurance Company, National Integrity Life Insurance Company and Equico Securities, Inc.

Mr. Moran, age 54, has been an Executive Vice President of Equitable Investment Corporation since January, 1986. Prior to holding that position he was a Senior Vice President of Equitable Life from prior to 1983. Mr. Moran is a director of Equitable Life Leasing Corporation, Equitable Real Estate Investment Corporation, Equitable Agri-Business Corporaton, and the Tandem Corporation.

Mr. Brown, age 36, has been an Executive Vice President of Equitable Capital since 1987. From prior to 1983 to joining Equitable Capital in 1987, he was a Manager at Brown Brothers Harriman & Co., a private bank. He is an Investment Officer with the Equitable Financial Companies, a Vice President of Equitable Variable Life Insurance Company and an Assistant Treasurer of the Equitable Funds.

Mr. Miller, age 42, has been an Executive Vice President of Equitable Capital since 1985. From prior to 1983 to 1987 he was a Vice President of Equitable Life. Mr. Miller is Head of Corporate Finance of Equitable Capital and is responsible for all private placement investment activities of Equitable Capital including privately placed leveraged buyout investments. Mr. Miller joined Equitable Life in 1969 and has extensive experience in the private placement area and portfolio management, including management of a $1 billion separate account for which he selected private placements and public bonds. He played a key role in a number of major corporate restructurings between 1979 and 1982. Mr. Miller played a major role in Equitable Life's entrance into the leveraged buyout market in 1983 and in the development of its philosophy and approach to investing in the leveraged buyout market. During 1986 and 1987, Mr. Miller's operation completed approximately 400 private placement transactions totaling more than $5.7 billion of investments for Equitable Capital accounts. Mr. Miller is a director of Equico Capital Corporation, Joy Technologies Inc. and Yellow Front Stores Inc.

Mr. Stewart, age 43, has been an Executive Vice President of Equitable Capital since January 1987. From October 1986 to January 1987, he was a portfolio manager at Neuberger & Berman, a broker-dealer. Since prior to 1983 to October, 1986, Mr. Stewart was a portfolio manager at Equitable Investment Management Corporation, one of the predecessors to Equitable Capital.

**Equitable Deal Flow Fund, L.P.**

The Deal Flow Fund is a Delaware limited partnership that has an investment objective and policies substantially identical to those of the Funds. It has been offered in a private placement to certain institutional investors. Equitable Managed Assets, L.P., a Delaware limited partnership of which Equitable Life and Equitable Capital are partners, serves as the general partner of the Deal Flow Fund and Equitable Capital serves as the "manager" (or investment adviser). The Deal Flow Fund is seeking to raise up to $1.5 billion through a private offering.

Equitable Life and other Equitable Affiliates have committed $500,000,000 to the Deal Flow Fund. As of May 31, 1988, institutional investors unaffiliated with Equitable Life have committed approximately $469 million in additional investments. The Deal Flow Fund has commenced operations and, as of May 31, 1988, had invested approximately $638 million in 26 transactions. The Deal Flow Fund has the right to an allocation by Equitable Capital of 50% of any Enhanced Yield Investment that meets the Deal Flow Fund's investment objective and policies until it first becomes 75% invested in Enhanced Yield Investments, and the right to an allocation of 25% of any such investment after it becomes so invested and prior to the time it becomes 90% invested in Enhanced Yield Investments.

**The Equitable Life Assurance Society of the United States**

Equitable Life is the nation's third largest life insurance company, and together with its subsidiaries, is a major diversified financial services enterprise with over $100 billion in assets under management. Equitable Life is one of the largest pension fund managers in the United States. It had approximately $66 billion in pension assets under management at December 31, 1987.

**Description of Mezzanine-type Investment Portfolio of Equitable Capital and Affiliates**

From January 1983 through December 31, 1987, Equitable Capital and its predecessor have advised Equitable Life and Equitable Affiliates, including the Deal Flow Fund, with respect to mezzanine-type investments in 53 companies. Acquisition prices for companies in which Equitable Affiliates made a significant investment range from approximately $14 million to approximately $3.7 billion. In these transactions Equitable Affiliates invested $1.2 billion in subordinated debt, $227 million in equity investments and $236 million in senior debt. These investments are in companies spanning a broad range of industries, including manufacturing, retailing, broadcasting and service businesses. The weighted average coupon rate on the debt portion of these investments is approximately 12.7%. Appendix II to this Prospectus sets forth certain information concerning each such investment.

Included within these 53 investments are seven investments which are on Equitable Capital's "surveillance list". This list covers investments in portfolio companies the economic circumstances of which are at least uncertain enough to warrant close surveillance. Collectively, the purchase price of these seven investments constitute approximately 9% of the $1.7 billion aggregate purchase price of outstanding mezzanine-type investments in which Equitable Capital has participated.

As of June 21, 1988, the surveillance list included 3 investments which have been restructured and 2 investments in which Equitable Capital has agreed or expects to agree to defer interest payments. Respectively, these investments represent approximately 2% and 1% of the total $1.7 billion of such outstanding mezzanine-type investments.

Equitable Life and the Equitable Affiliates have sold or otherwise disposed of investments in the companies listed below. The total cost of these investments which have been sold was approximately $124 million. The total value of the cash proceeds and/or marketable securities received from the sale or disposition of these investments was $181 million. The following table sets forth certain information regarding the mezzanine-type investments which have been sold or otherwise disposed of.

## Disposition of Certain Mezzanine-type Investments

| Company Name(1) | Date of Initial Investment (Sale or Prepayment) | Security Purchased | Cost of Investment ($000) | Pre-Tax Gross Cash Proceeds ($000)(2) | Remaining Investment in Pre-Tax Securities Proceeds |
|---|---|---|---|---|---|
| Adams Communications Inc. | 3/84 (10/85) (12/86) (12/87) | 12% Capital Notes due 1994 with Warrants | 1,457<br>43 | 1,500(3)<br>1,800(3) | Warrants remaining for purchase of equity, fair valued at $70,000 as of the date of receipt in 10/85(3) |
| Ti-Caro Inc. | 5/84 (4/87) (5/87) | 16% Subordinated Notes due 1996(4)<br>Common Stock | 25,714<br>6,000 | 31,457<br>18,260(5) | 168,299 shares of common stock of Dixie Yarns Inc. market valued at $4,199,060 in 5/87(5) |
| Permian Corp. | 10/84 (11/85) | 16% Senior Subordinated Notes due 1999 | 12,500 | 14,625 | None |
| International Healthcare Corporation | 3/85 (9/86) (10/86) (12/86) | 14% Guaranteed Subordinated Notes due 1997 with Warrants | 6,804 | 5,209(6) | $995,795 aggregate principal amount of 13% Junior Subordinated Notes of Addiction Recovery Corporation and $4,744,000 aggregate principal amount of a 12% Senior Note of Addiction Recovery Corporation(6) |
| Ecolaire, Inc. | 4/85 (6/87) | 14% Guaranteed Subordinated Notes due 1995<br>Preferred Stock due 1997<br>Common Stock | 8,000<br>750<br>150 | 8,000 | 100,800 shares of 10% Junior Preferred Stock and 48,000 shares of Class B common stock of Joy Technologies, Inc., valued at $3,000,000 on the date of exchange in 6/87(7) |
| Farley/Northwest, Inc. | 8/85 (10/86) (3/87) | 14% Senior Notes due 1993<br>15% Senior Subordinated Notes due 1996 | 10,000<br>9,869 | 11,438<br>11,450 | None |
| McCaw Development Corporation | 11/85 (4/87) | 13.75% Senior Notes due 1997<br>14.5% Junior Subordinated Notes due 1997<br>Warrants | 14,000<br>5,994<br>6 | 16,834<br>7,400<br>1,014 | None |
| Household Merchandising Inc. | 1/86 (3/86) (8/87) | 15% Senior Subordinated Debentures due 1997<br>Common and Preferred Stock | 18,588<br>4,412 | 21,400<br>17,816(8) | None |

(1) Additional information concerning these investments, including the primary businesses in which these companies are engaged, is set forth in Appendix II to this Prospectus.

(2) Proceeds from debt investments were received through repayment, negotiated or permitted prepayment or sale in the secondary market of such investments. Amounts shown for gross proceeds from debt investments do not include accrued interest received through the date of disposition.

(3) Represents cash proceeds from (*i*) the negotiated prepayment in October 1985 of the 12% Capital Notes and warrants for $2,900,000 net of the cost of 100 new warrants received, (*ii*) redemption of 30 of the new warrants for $150,000 in December 1986 and (*iii*) a $250,000 special warrant buyout (associated with a restructuring of Adams Communications Inc. ("Adams") received in December 1987. Also, in exchange for the Adams warrants, Equitable Affiliates received warrants to purchase 70 shares each of Adams Television Corporation I ("ACTV I") and Adams Television Corporation II ("ACTV II"). The receipt of these warrants was completed in February 1988. ACTV I and ACTV II are spin-offs of Adams Communications.

(4) Ti-Caro Inc. paid interest on these notes at a rate of 15.5% monthly for the first two years of investment and 16% semiannually thereafter.

(5) In connection with the acquisition of Ti-Caro Inc. by Dixie Yarns Inc. in April 1987, Equitable Affiliates received 900,000 shares of common stock of Dixie Yarns Inc. in exchange for their Ti-Caro Inc. common stock. Equitable Affiliates sold 731,701 (81%) of the Dixie Yarns Inc. shares in May 1987 for $18,259,598. The remaining 168,299 shares, valued as of the date of the above sale, are restricted until March 1989. Equitable Affiliates have the right to request Dixie Yarns Inc. to register these shares under the federal securities laws to permit resale to the public.

(6) In September 1986, $4,744,000 aggregate principal amount of the 14% Guaranteed Subordinated Notes was exchanged for a $4,744,000 participation in a 12% Senior Note of Addiction Recovery Corporation, a subsidiary of International Healthcare Corporation. The remaining $2,060,000 on the 14% Guaranteed Subordinated Notes was repaid in October and December 1986. In respect of the warrants, Equitable Affiliates received (*i*) $459,000 in October 1986 and $2,690,000 on December 31, 1986 and (*ii*) $995,795 aggregate principal amount of 13% Junior Subordinated Notes of Addiction Recovery Corporation in October 1986.

(7) Proceeds of the sale of Ecolaire Preferred and Common Stock were in the form of Joy Technologies, Inc. Junior Preferred Stock and Common Stock which Equitable Capital valued at $3,000,000 on the date of exchange.

(8) Includes $1,494,045 from the redemption of a preferred stock series received in March 1986 and $16,322,365 received from the sale of common and remaining preferred stock in August 1987.

**Investors in the Funds will have no interest in any of the investments described above and in Appendix II.**

There can be no assurance that Equitable Capital will be able to duplicate its historical performance or invest in similar transactions on behalf of the Funds. See "Risk and Other Important Factors—Risks of Investments".

**The Managing General Partner**

Each Partnership Agreement provides that Equitable Capital, as the Managing General Partner, is responsible for purchasing investments for the related Fund which its Independent General Partners have reviewed for compliance with the Guidelines or otherwise approved, for providing administrative services necessary for the operation of such Fund and for the admission of additional or assignee Limited Partners to such Fund. Equitable Capital, as the Managing General Partner of each Fund, will contribute a promissory note to such Fund in a principal amount equal to 1.01% of the Net Capital Contributions of such Fund's Limited Partners (the principal amount of which note will be reduced proportionally as such Limited Partners receive distributions representing returns of capital), and will receive 1% of all distributions representing income or capital gains by such Fund and the Incentive Distributions. Equitable

Capital will also receive the allocation of profits and losses described below under "Fund Distributions and Allocations". The Funds consider that the Partnership Agreement of each Fund, as it relates to the duties of Equitable Capital as the Managing General Partner and to the allocations and distributions to Equitable Capital constitute investment advisory agreements under the Investment Company Act and in such regard each Partnership Agreement will comply with the provisions of the Investment Company Act.

Equitable Capital, as the Managing General Partner will also receive an administrative fee (the "Fund Administration Fee") from each Fund, payable quarterly in advance, equal to (*i*) for each of the first four years of operation of each Fund, an annual amount equal to the greater of (*x*) 1% of the gross offering proceeds of the Units in such Fund but not greater than $500,000 (the "Minimum Fee") and (*y*) .45% of the amount of Net Proceeds Available for Investment for such Fund, (*ii*) for each of the next four years, the greater of (*x*) the "Minimum Fee" and (*y*) (1) .45% of the excess of the aggregate amount of Net Proceeds Available for Investment for both Funds over 50% of the amount of both Funds' capital reductions, but in no event exceeding in the aggregate the sum of $3.2 million and all direct out-of-pocket expenses incurred in connection with the administration of the smaller of the two Funds, (2) multiplied by a fraction the numerator of which is the Units in the Fund with respect to which the Fund Administration Fee is payable and the denominator of which is the number of Units of both Funds, and (*iii*) for each year thereafter, the annual sum of $300,000, in the case of the Enhanced Yield Fund, and $100,000, in the case of the Enhanced Yield Retirement Fund, plus all direct out-of-pocket expenses incurred on behalf of such Fund in connection with its management but in no event exceeding in the aggregate $2.5 million, in the case of the Enhanced Yield Fund, and, $1.0 million, in the case of the Enhanced Yield Retirement Fund. For the purpose of calculating the Fund Administration Fee with respect to a Fund, "capital reductions" consists of the cumulative amount of capital distributed to the Partners by such Fund and realized losses from investments through the end of the preceding quarter. The Fund Administration Fee is intended to reimburse the Managing General Partner for its expenses and provide a fee for the provision by Equitable Capital and the Administrator to a Fund of administrative services; provided, however, that Equitable Capital, or the Administrator (see below) will be separately reimbursed for its actual out-of-pocket extraordinary expenses, including, but not limited to, extraordinary fees and expenses, and statutory insurance and bonding expenses, and any optional insurance and bonding expenses permitted by the 1940 Act. The Fund Administration Fee will also cover the fees and expenses of each Fund's independent accountants and custodian. The Independent General Partners of a Fund may approve an increase to such fee, without the consent of the Limited Partners of such Fund, to reflect properly the market value of services rendered.

**The Administrator**

Each Fund and Equitable Capital will enter into an Administrative Services Agreement (the "Administrative Agreement") with ML Fund Administrators Inc. (the "Administrator"), a Delaware corporation and an affiliate of Merrill Lynch & Co., Inc., the parent of MLPF&S. Pursuant to the Administration Agreements, the Administrator will be responsible for the day-to-day administrative affairs of the Funds and for the management of the accounts of Limited Partners.

Equitable Capital will assign to the Administrator its right to receive the Fund Administration Fee payable with respect to each Fund and any reimbursements for certain expenses, set forth above. The Administrator will provide the Funds, at the Administrator's expense, with office space, facilities, equipment and personnel necessary to carry out its obligations under such agreements and such other services as Equitable Capital and the Fund Administrator, subject to supervision by the Individual General Partners, shall from time to time determine to be necessary and appropriate. The Fund Administration Fee is expected to increase proportionally with any proceeds to a Fund from a foreign offering. See "Foreign Offering".

The Administrator will coordinate investor relations services for each Fund on behalf of Equitable Capital. The Funds' investor relations representative is accessible at (212) 449-2006 during business hours.

**The Independent General Partners**

Initially each of the Funds will have two Independent General Partners, although the Partnership Agreements permit their number to be increased to nine. Prior to the first Closing, each Fund may admit a third Independent General Partner. Each of the Funds will initially have the same Independent General Partners. The Independent General Partners will provide overall guidance and supervision with respect to the operations of the Funds and will perform the various duties imposed on the directors of business development companies by the Investment Company Act. The Independent General Partners will supervise Equitable Capital and will be required to approve all Guidelines for investments, review all Guideline transactions for compliance with the Guidelines and approve all non-Guideline transactions. In addition, if a Portfolio Company has defaulted in a material respect on payments due under a lending agreement, whether senior debt or mezzanine debt, or the ratio of earnings before interest, taxes and depreciation, to cash fixed charges of such company, as set forth in the Portfolio Company's latest available financial statements, is less than or equal to 1.1:1 (a "troubled company"), then any changes in the terms of the Funds' investment therein would require the approval of the Independent General Partners. In addition to general duties as general partners of the Funds, the Independent General Partners, among other things will supervise the management and underwriting arrangements of the Funds, the custody arrangement with respect to Enhanced Yield Investments, the selection of accountants, fidelity bonding and transactions with affiliates. The Independent General Partners will review quarterly the nature and extent of coinvestments by the Funds and Equitable Affiliates and will receive within thirty days of the beginning of each quarter, reports from Equitable Capital on the amount of capital available on the part of Equitable Affiliates for investment in Enhanced Yield Investments as of the beginning of such quarter to assist in such review. All actions taken by the Independent General Partners will be taken by majority vote, unless a higher percentage is required by law.

The two Independent General Partners of the Funds are Robert W. Lear and Robert F. Shapiro.

Mr. Lear, age 71, has been an Executive-in-Residence and Visiting Professor at the Columbia University Graduate School of Business since prior to 1983. He is also a director of Cambrex Corp., Church & Dwight Company, Crane Co., and the Korea Fund (a closed-end investment fund). Mr. Lear is a trustee of the Scudder Capital Growth, Development, Equity Inc., Global and International Funds (mutual funds) and a member of the advisory boards of Chemical Bank and the Welsh, Carson, Anderson, Stowe Venture Capital Funds.

Mr. Shapiro, age 53, is the President of RFS & Associates, Inc. (consultants and investments). From 1986 to 1987 he was the Co-Chairman of Wertheim Schroder & Co. Inc. (investment bankers) and from 1974 to 1986 he was the President of its predecessor, Wertheim & Co. Inc. Mr. Shapiro is a director of TJX Companies, Inc. (specialty retailing) and Zayre Corporation (discount stores and specialty retailing). Mr. Shapiro was Chairman of the Securities Industry Association in 1985.

Each Independent General Partner will receive an annual fee of $30,000 from each Fund for each of the first three years of operations and $15,000 for each year thereafter, together with all out-of-pocket expenses relating to attendance at meetings of the Independent General Partners. Compensation paid to the Independent General Partners, including fees for any special services performed, must be approved by a majority of the General Partners.

**Responsibility of the General Partners**

The General Partners are under a duty to conduct the affairs of each Fund in the best interests of such Fund and consequently must exercise good faith and integrity in handling its affairs. Prospective Limited Partners who have questions concerning the duties of the General Partners should consult with their counsel.

The Partnership Agreement provides that the General Partners of a Fund will not be liable to it or to its Limited Partners for any act or omission performed or omitted by them in good faith but only for any act or omission not constituting gross negligence, bad faith, willful misfeasance or reckless disregard of the duties of a General Partner (or, in the case of the Managing General Partner, for any act or omission not constituting any of the foregoing, negligence or misconduct). Each of such General Partners will be indemnified to the fullest extent permitted by law by such Fund for any liability incurred by such General Partner arising out of his, her or its activities as a general partner of such Fund, except for any liability arising out of gross negligence, willful misfeasance, bad faith or reckless disregard of the duties of General Partner on the part of such General Partner (or, in the case of the Managing General Partner, any liability not arising out of any of the foregoing, negligence or misconduct). In addition, Equitable Capital has agreed to indemnify the Independent General Partners of a Fund for liabilities not arising out of gross negligence, bad faith or willful misfeasance to the extent such Fund does not indemnify the Independent General Partners for such liability up to an aggregate limit of $100 million. See "Indemnification of the General Partners by the Funds" and "Indemnification of the Independent General Partners by the Managing General Partner" under "Summary of the Partnership Agreement". Equitable Life has authorized the indemnification by Equitable Life of the Independent General Partners for liabilities arising out of their service as general partners of the Funds, to the extent permitted under applicable law.

In the opinion of the Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act is against public policy and, therefore, unenforceable.

**Expenses**

The organizational and offering expenses of the Funds, including accounting, legal, printing, clerical and other expenses and registration and filing fees, estimated at $3,250,000 if the maximum number of Units offered hereby is sold and $4,000,000 if the increased maximum number of Units offered hereby is sold, incurred by Equitable Capital, the Administrator or any of their affiliates on behalf of the Funds in connection with the organization of the Funds and this offering will be reimbursed by the Funds to the extent that such expenses, together with those paid by the Funds, do not exceed $6,000,000. The organizational and offering expenses of the Funds will be allocated among the Funds pursuant to the ratio of the number of Units sold by each of the Funds.

Following commencement of operations by the Funds, the Administrator, on behalf of Equitable Capital as the Managing General Partner, will provide the Funds, at its expense, with office space, facilities, equipment and personnel necessary for the administration of the Funds and the accounts of Limited Partners. Equitable Capital, as investment adviser, will pay for ordinary expenses associated with the management of the portfolio investments of the Funds including the expenses of investigating investment opportunities, structuring and financing Enhanced Yield Investments and monitoring Portfolio Companies. The Funds will pay their pro rata share of all expenses of third parties, such as legal counsel, appraisers and independent business consultants hired or used for work done on behalf of the Funds in connection with the investigation, negotiation, purchase, holding and sale of actual or proposed Enhanced Yield Investments and any registration fees incurred in connection with any such sale. Such outside expenses will typically be paid by the Portfolio Company; however, if they are not so paid they will be borne by each Fund pro rata with other investors, if any, in proportion to its investment in such company. See "Description of the Investment Advisory Agreements" above. The Administrator will pay all other ordinary expenses relating to the Funds' administration, including fees and expenses for regular legal, auditing and consulting services, costs of printing and mailing proxies and reports to Limited Partners and custodian fees. Expenses associated with litigation, and other extraordinary or nonrecurring expenses, as well as expenses of statutory and optional insurance and bonding, as permitted by the Investment Company Act, and fees and expenses, including legal fees and expenses, of the Independent General Partners, will be paid by the Funds. The Independent General Partners are authorized to retain consultants for the Funds, at the expense of the Funds, and consultants may be utilized under special circumstances with respect to particular Enhanced Yield Investments.

Each Fund will, as stated above, also pay the Investment Advisory Fee to Equitable Capital, as investment adviser, and the Fund Administration Fee to Equitable Capital, as Managing General Partner. See "Management Arrangements—Description of the Investment Advisory Agreements" and "—The Managing General Partner".

## CONFLICTS OF INTEREST

Equitable Capital and the Equitable Affiliates and MLPF&S, which is acting as selling agent in the offering made hereby, may be subject to various conflicts of interests in their relationships with the Funds. The arrangements among the Funds, Equitable Capital and their affiliates have been established by Equitable Capital and are not the result of arm's-length negotiation by the Funds. The conflicts of interest include:

1. *Transactions with the Funds.* Article Five of the Partnership Agreement imposes various constraints on Equitable Capital in its dealings with the Funds; and the terms and conditions of and compensation for services rendered by a General Partner or its affiliates to the Funds are intended to be consistent with and governed by industry norms. Furthermore, the Investment Company Act contains restrictions as to certain transactions between a Fund and its affiliates. See "Regulation". Generally, transactions involving a Fund and affiliates of Equitable Capital must receive the prior approval of the SEC or such Fund's Independent General Partners. Transactions between a Fund and any General Partner (including Equitable Capital), any director, officer or employee of any of them, or any person or entity directly or indirectly controlling, controlled by or under common control with any of them, will generally require the approval of the SEC. Transactions between a Fund and persons who are otherwise affiliated with such Fund or any General Partner will generally require the approval of the Independent General Partners of the Fund. Moreover, Equitable Capital will be subject to a duty to each Fund in evaluating the capabilities, services and compensation of persons rendering services to such Fund.

2. *Conflicts with Respect to Investment Opportunities.* Equitable Affiliates, such as the Deal Flow Fund, will invest directly in investments that would be appropriate investments for the Funds. Affiliates of Equitable Capital may also serve as directors or officers or perform investment advisory services for other investment entities with investment objectives and policies similar to those of the Funds, such as other partnerships sponsored or managed by Equitable Capital.

In order to prevent or minimize conflicts of interest between the Funds, on the one hand, and Equitable Capital and the Equitable Affiliates, on the other hand, Equitable Capital has agreed that all Enhanced Yield Investments will be allocated among the Funds and the Equitable Affiliates according to the ratio of Available Capital which each such entity, including the Funds, has indicated is available for investment in Mezzanine, Other or Bridge Investments, as the case may be. Further, subject to the final terms of the SEC order authorizing coinvestment, the Funds together have the right to an allocation of at least 50% of any Enhanced Yield Investment that meets the Funds' investment objective, policies and restrictions and that is recommended by Equitable Capital to the Funds or any Equitable Affiliate for investment until the Funds each become 75% invested in Enhanced Yield Investments and the right to an allocation for 25% of any such investment after they each become so invested and prior to the time they each become fully invested. Equitable Capital may grant to Equitable Affiliates similar rights to allocation of Enhanced Yield Investments subject to the Funds' right to an allocation of at least 50% or 25%, as the case may be, of an investment and has granted a similar right to the Deal Flow Fund. See "Management—Equitable Deal Flow Fund, L.P." above. Equitable Capital may itself invest in or may offer to third parties the opportunity to invest in any Enhanced Yield Investment which does not meet the applicable Guidelines, provided such investment is first offered to the Funds but is rejected by the Independent General Partners. However, Equitable Capital may not consummate any such transactions with a third party (*i*) on terms materially more favorable than those offered to the Funds, or (*ii*) more than 120 days after the Funds' rejection of the investment without reoffering the investment to the Funds.

3. *Conflict between Holders of Different Levels of Securities.* Although the Funds and the Equitable Affiliates in making Enhanced Yield Investments in a Portfolio Company will invest in the same classes of securities in the same proportions, Equitable Affiliates may also invest in loan participations representing interests in senior bank debt issued by such company independent of the Funds' investment. Further, even without such an investment, subsequent events could result in a Fund and one or more Equitable Affiliates holding different proportions of debt and equity. An Equitable Affiliate may have held securities of a Portfolio Company prior to the issue by such company of an Enhanced Yield Investment. Investment objectives or the need for liquidity may cause either a Fund or an Equitable Affiliate to sell a portion of an Enhanced Yield Investment. Follow On Investments may also result in a Fund and the Equitable

Affiliates holding different proportions of securities. For example, in the event a Portfolio Company becomes financially troubled, the Funds and the Equitable Affiliates may be offered the opportunity to invest in senior debt of such company or an affiliate under circumstances in which either or both the Enhanced Yield Fund and the Enhanced Yield Retirement Fund has no capital available for investment. If a Fund's investment in a Portfolio Company contains a different proportion of senior debt, subordinated debt and equity interests than that held by an Equitable Affiliate and such Portfolio Company is unable to meet its interest or dividend payments to such Fund, the best interests of such Fund and such affiliate may diverge. For example, if such Fund's investment is largely equity and the Equitable Affiliate's investment is in debt, the best interests of such affiliate, but not such Fund, may be in enforcing such affiliate's rights as creditor. Such actions may extinguish or materially impair the equity investment of the Fund.

In order to mitigate conflicts of interest (*i*) Equitable Affiliates may not in the aggregate purchase loan participations in senior bank debt which evidence greater than 15% of the principal amount of any such class of senior bank debt unless the Funds also invest proportionally in such senior debt; (*ii*) the Guidelines require that an Equitable Affiliate must coinvest in any Enhanced Yield Investment issued by a Portfolio Company if, prior to the time of investment, Equitable Affiliates in the aggregate owned and still hold more than 10% of the aggregate principal amount of debt securities issued by such company or 10% of its equity securities or the Independent General Partners must specifically approve such investment; (*iii*) the Funds will have the right to participate proportionately in any sale of a security which is part of an Enhanced Yield Investment by an Equitable Affiliate (see "Investment Objectives and Policies—Liquidating Investments"); and (*iv*) neither Equitable Capital nor any Equitable Affiliate will invest in the senior debt of any troubled Portfolio Company unless each Fund holding securities issued by such company is given the opportunity to make a similar investment which is in the same proportion to the investment of the Equitable Affiliate as the proportion of the then outstanding investment in such company by the Funds and such affiliate.

Equitable Capital may in the future seek an order from the SEC permitting the officers and employees of Equitable Capital to invest in the equity securities of Portfolio Companies in which the Funds have made or propose to make an Enhanced Yield Investment. If such an order were issued, of which event there can be no assurance, a conflict of interest might arise from the fact that the Funds' investment in the Portfolio Company would largely be comprised of debt while the investment of the officers and employees of the Funds' managing general partner and investment adviser would be in equity securities. In order to mitigate this conflict of interest, such officers and employees, in addition to such restrictions, if any, imposed by the SEC, will not purchase more than 1% of any class of equity security issued by a Portfolio Company.

4. *Allocation of Management Time and Services.* The Funds will not have independent management or employees and will rely upon Equitable Capital and the Administrator and their affiliates for management and administration of the Funds and their assets. The requirement that each Fund, as a business development company under the 1940 Act, make available significant managerial assistance to Portfolio Companies the securities of which constitute 70% of the assets of the Fund will impose an additional burden on Equitable Capital as investment adviser to the Fund. Equitable Capital and the Administrator believe that they and their affiliates have or can attract sufficient personnel to discharge all their responsibilities to the Funds. Conflicts of interest may arise in allocating management time, services or functions between the Funds and other entities for which Equitable Capital and the Administrator and their affiliates provide services. The officers, directors and employees of Equitable Capital and the Administrator and their affiliates will devote such time to the affairs of the Funds as they, in their sole discretion, determine to be necessary for the conduct of the business of the Funds.

5. *Timing of Disposition of the Funds' Investments.* Equitable Capital has an interest in the profits and losses of each of the Funds as set forth under "Distributions and Allocations". Equitable Capital's interests may in some cases be inconsistent with the interests of the Limited Partners with respect to the timing of disposition of the Funds' investments.

6. *Timing of Repayment of Debt Financing.* Equitable Capital has an interest in the timing of repayments of the Enhanced Yield Fund's debt financing. Although high interest rates and low yield on

investments might otherwise motivate the Enhanced Yield Fund to prepay debt, to the extent that available cash of the Enhanced Yield Fund would be used to prepay debt, less cash would be available for making any Incentive Distribution to Equitable Capital in a given period.

7. *Incentive Allocation.* The fact that Equitable Capital's Incentive Distribution with respect to each Fund is based on the performance of such Fund may create an incentive for Equitable Capital to make investments that are more speculative than would be the case in the absence of an incentive allocation, a factor that will be somewhat tempered because losses will reduce such Fund's performance and Equitable Capital's Incentive Distribution.

8. *Other Relations with Portfolio Companies.* Equitable Capital or its affiliates may have other relationships on an ongoing basis with Portfolio Companies. Such relationships could influence Equitable Capital to take actions, or forbear from taking actions, which an Independent General Partner might not take or forbear from taking.

9. *Lack of Separate Representation.* The Funds and Equitable Capital will, from time to time, be represented by the same legal counsel which counsel may represent the Funds and/or Equitable Capital and Equitable Affiliates with respect to the acquisition and management of Enhanced Yield Investments.

## DISTRIBUTIONS AND ALLOCATIONS

### General

Distributions of each Fund's cash from current return on investments and capital transactions, and allocations of taxable income and gains ("Profits") and loss ("Loss") are governed by Article Four of its Partnership Agreement. Such provisions are complex and should be reviewed with care in their entirety by prospective investors. The summary set forth below is qualified in its entirety by the detailed provisions of the Partnership Agreement, including definitions contained therein, to which reference is hereby made and the form of which appears as Exhibit A to this Prospectus.

All cash distributions to Limited Partners whose subscriptions were solicited by MLPF&S or a Selected Dealer whose accounts are cleared through Broadcort Capital Corporation will be credited to such Limited Partners' customer securities accounts maintained with MLPF&S or such Selected Dealer. Other Limited Partners and Limited Partners who choose not to have their distributions credited to their accounts will be given the opportunity to so instruct the Administrator.

### Distributable Cash from Investments

Cash receipts of a Fund (other than certain extraordinary receipts, such as Capital Contributions, proceeds of any loan, disposition of investments (other than the interest component thereof), Compensatory Payments (defined below) or returns of capital on investments) are applied, together with any funds withdrawn from reserves, (*a*) to pay the cash expenses of obtaining such cash receipts, (*b*) to pay principal of and interest on loans to such Fund, (*c*) to pay other costs and expenses incident to the holding and managing of such investments or the operation and management of such Fund, (*d*) to pay the Fund Administration Fee, (*e*) to pay the Investment Advisory Fee, and (*f*) to pay, or allocate to reserves established to pay, taxes, insurance, debt service, management fees, and other expenditures of such Fund of the type described in (*a*) through (*e*) above. Such cash receipts and amounts withdrawn from reserves remaining after the applications provided for in clauses (*a*) through (*f*) are defined in detail in the Partnership Agreement as "Available Cash from Investments". Available Cash from Investments in excess of the Federal Tax Allowance (as defined in the Partnership Agreement) may, in the discretion of Equitable Capital, as the Managing General Partner, and subject to review by the Independent General Partners, be applied to pay or to reserve for Follow On Investments within the limitations set forth above under "Investment Objective and Policies—Ongoing Management Support; Follow On Investments". Available Cash from Investments not applied to Follow On Investments or reserves therefor together with the Compensatory Payments (as defined below) made by Equitable Capital, as Managing General Partner, is defined as "Distributable Cash from Investments", and will be distributed quarterly by such Fund, within 45 days after the end of the calendar quarter, to its Partners, as described below. To the extent the Enhanced Yield Fund has incurred indebtedness, the Investment Company Act prohibits distributions to its Partners unless the ratio of its assets to such indebtedness and the principal amount of any guarantee by the Enhanced Yield Fund of obligations of third parties is at least 2:1 at the time of the distribution. Further, all of the deductions from cash receipts described in (*a*) through (*f*) above, the amount of Federal Tax Allowance and the amounts applied to Follow On Investments will be allocated to the sources set forth in (a) and (b) below:

(a) From Enhanced Yield Investments:

(1) *first,* to the Partners of such Fund, 99% to the Limited Partners, as a class, and 1% to Equitable Capital as the Managing General Partner of such Fund, until the Limited Partners, as a class, have received from distributions then or theretofore made by such Fund of Distributable Cash from Enhanced Yield Investments and Distributable Capital Proceeds from Enhanced Yield Investments (as defined below) (other than from a return of capital), an amount equal to the sum of (*a*) the aggregate annual (cumulative but not compounded) return of 10% per annum on the average daily amount of the Gross Capital Contributions represented by Enhanced Yield Investments (as defined below) (the "Priority Return") and (*b*) any outstanding Compensatory Payment;

(2) *second;* 70% to the Limited Partners of such Fund, as a class, and 30% to Equitable Capital (29% being an "Incentive Distribution") until Equitable Capital has received, from all distributions then or therefore made by such Fund of Distributable Cash from Enhanced Yield Investments and Distributable Capital Proceeds from Enhanced Yield Investments (other than from a return of capital), 20% of all such distributions, except that if there are any outstanding Deferred Distribution Amounts (as defined below), such distribution will first be made solely to Equitable Capital until such amounts are distributed to it; and

(3) *third,* thereafter 80% to the Limited Partners of such Fund, as a class, and 20% to Equitable Capital (19% being an Incentive Distribution).

(b) From all other sources (other than from a return of capital) including

(i) Temporary Investments;

(ii) Compensatory Payments (defined below) made by Equitable Capital; and

(iii) Other sources not included in (a) above:

99% to the Limited Partners of such Fund, as a class, and 1% to Equitable Capital.

"Compensatory Payments" consist of the following amounts to be paid by Equitable Capital to a Fund: the cumulative amount by which the cumulative net proceeds received from Capital Transactions related to Enhanced Yield Investments made by such Fund are less than such Fund's cost of such Investments, but only to the extent of the excess of cumulative Incentive Distributions previously received by Equitable Capital from such Fund over Compensatory Payments previously made.

The amount of "Net Capital Contributions represented by Enhanced Yield Investments" with respect to a Fund is calculated to be the portion of the total cost of such Fund's outstanding Enhanced Yield Investments provided by the Capital Contributions of the Partners. With respect to the Enhanced Yield Retirement Fund, which may not borrow to fund investments, this portion generally will equal 100% of such total cost reduced by the portion of such cost, if any, paid from reinvested income or gains of the Fund. Such amount is calculated assuming that, with respect to the Enhanced Yield Fund, (*i*) outstanding leverage, if any, and (*ii*) selling commissions, marketing and sales expenses and organization and offering expenses incurred or otherwise paid by the Fund are each allocated proportionately to all such investments. The amount of "Gross Capital Contributions represented by Enhanced Yield Investments" with respect to a Fund is generally the Net Capital Contributions represented by Enhanced Yield Investments for such Fund, grossed up for the related selling commissions and the full amount of any discount on selling commissions, marketing and sales expenses and organization and offering expenses to such Fund. The Priority Return of each Fund will be computed from the date of such Fund's initial