

EATON VANCE LIMITED DURATION INCOME FUND
Form N-2/A
May 23, 2003

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933
PRE-EFFECTIVE AMENDMENT NO. 2 X
POST-EFFECTIVE AMENDMENT NO.

AND/OR

REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940
AMENDMENT NO. 2 X
(CHECK APPROPRIATE BOX OR BOXES)

EATON VANCE LIMITED DURATION INCOME FUND

(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

THE EATON VANCE BUILDING, 255 STATE STREET, BOSTON, MASSACHUSETTS 02109

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (617) 482-8260

ALAN R. DYNNER
THE EATON VANCE BUILDING, 255 STATE STREET, BOSTON, MASSACHUSETTS 02109

NAME AND ADDRESS (OF AGENT FOR SERVICE)

COPIES OF COMMUNICATIONS TO:

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BOSTON, MASSACHUSETTS 02109

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SKADDEN, ARPS, SLATE
MEAGHER & FLOM (ILLINOIS)
CHICAGO, ILLINOIS 60606

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING: As soon as practicable after
the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered
on a delayed or continuous basis in reliance on Rule 415 under the Securities
Act of 1933, other than securities offered in connection with a dividend
reinvestment plan, check the following box. []

It is proposed that this filing will become effective (check appropriate box):
[X] when declared effective pursuant to Section 8(c)

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CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

| TITLE OF SECURITIES BEING REGISTERED | AMOUNT BEING REGISTERED (1) | PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1) | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1) | AMOUNT OF REGISTRATION FEES (1) (2) (3) |
|--|-----------------------------|--|---|---|
| Common Shares of Beneficial Interest, \$0.01 par value | 95,000,000 | \$20.00 | \$1,900,000,000 | \$153,710 |

- (1) Estimated solely for purposes of calculating the registration fee, pursuant to Rule 457(o) under the Securities Act of 1933.
- (2) Includes Shares that may be offered to the Underwriters pursuant to an option to cover over-allotments.
- (3) A registration fee of \$80.90 was previously paid in connection with the initial filing.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION MAY 23, 2003

SHARES

EATON VANCE LIMITED DURATION
INCOME FUND

COMMON SHARES

[EATON VANCE LOGO]

INVESTMENT OBJECTIVES AND POLICIES. Eaton Vance Limited Duration Income Fund (the "Fund") is a newly organized, diversified, closed-end management investment

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company. The Fund's investment objective is to provide a high level of current income. The Fund may, as a secondary objective, also seek capital appreciation to the extent consistent with its primary goal of high current income.

Under normal market conditions, Eaton Vance Management, the Fund's investment adviser, expects the Fund to maintain a duration of between two and four years (including the effect of anticipated leverage). Initially, the Fund is expected to have a duration of approximately three years (including the effect of anticipated leverage). Under normal market conditions, the Fund expects to maintain a weighted average portfolio credit quality of investment grade (which is at least BBB- as determined by Standard & Poor's Ratings Group ("S&P") or Fitch Ratings ("Fitch"), Baa3 as determined by Moody's Investors Service, Inc. ("Moody's") or, if unrated, determined to be of comparable quality by Eaton Vance Management).

INVESTMENT ADVISER. The Fund's investment adviser is Eaton Vance Management ("Eaton Vance" or the "Adviser"). As of March 31, 2003, Eaton Vance and its subsidiaries managed approximately \$55 billion on behalf of funds, institutional clients and individuals.

PORTFOLIO CONTENTS. The Fund pursues its objectives by investing its assets primarily in three distinct investment categories: 1) mortgage-backed securities that are issued, backed or otherwise guaranteed by the U.S. Government or its agencies or instrumentalities or that are issued by private issuers ("MBS"); 2) senior, secured floating rate loans made to corporate and other business entities ("Senior Loans"); and 3) corporate bonds that are of below "investment grade" quality ("Non-Investment Grade Bonds"). Non-Investment Grade Bonds, commonly referred to as "junk bonds," are bonds that are rated below investment grade by each of the national rating agencies who cover the security, or, if unrated, are determined to be of comparable quality by the Adviser. S&P and Fitch consider securities rated below BBB- to be below investment grade and Moody's considers securities rated below Baa3 to be below investment grade. Senior Loans in which the Fund invests are also typically of below investment grade quality. There is no limitation on the percentage of the Fund's assets that may be allocated to each of these investment categories; provided that, under normal market conditions, the Fund will invest at least 25% of its total assets in each category. (continued on inside cover page)

INVESTING IN SHARES INVOLVES CERTAIN RISKS, INCLUDING THAT THE FUND MAY INVEST SUBSTANTIAL PORTIONS OF ITS ASSETS IN BELOW INVESTMENT GRADE QUALITY SECURITIES WITH SPECULATIVE CHARACTERISTICS. SEE "INVESTMENT OBJECTIVES, POLICIES AND RISKS" BEGINNING AT PAGE 11.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | PRICE TO PUBLIC | SALES LOAD | PROO |
|-----------|-----------------|------------|------|
| Per share | \$20.00 | \$0.90 | |
| Total | \$ | \$ | |

In addition to the sales load, the Fund will pay offering expenses of up to

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\$0.04 per share, estimated to total \$ _____, which will reduce the "Proceeds to Fund" (above). Eaton Vance or an affiliate has agreed to pay the amount by which the aggregate of all of the Fund's offering costs (other than the sales load) exceeds \$0.04 per share. Eaton Vance or an affiliate has agreed to reimburse all Fund organizational costs.

The underwriters are offering the shares subject to various conditions and expect to deliver the shares to purchasers on or about _____, 2003.

UBS WARBURG
A.G. EDWARDS & SONS, INC.
H&R BLOCK FINANCIAL ADVISORS, INC.
JANNEY MONTGOMERY SCOTT LLC

CITIGROUP
RBC CAPITAL MARKETS
FAHNESTOCK & CO. INC.
MCDONALD INVESTMENTS INC.

WELLS
J.J.B. HILLI

(continued from previous page)

EXCHANGE LISTING. The Fund has applied for the listing of its common shares on the American Stock Exchange under the symbol "EVV."

Because the Fund is newly organized, its common shares have no history of public trading. The shares of closed-end management investment companies frequently trade at a discount from their net asset value. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering.

The Fund's net asset value and distribution rate will vary and may be affected by several factors, including changes in the credit quality of issuers and interest rates and other market factors. Fluctuations in net asset value may be magnified as a result of the Fund's use of leverage, which is a speculative investment technique. An investment in the Fund may not be appropriate for all investors. There is no assurance that the Fund will achieve its investment objectives.

The Fund expects to use financial leverage through the issuance of preferred shares and/or through borrowings, initially equal to approximately 34% of its gross assets (including the amount obtained through leverage). The Adviser anticipates that the use of leverage will result in higher income to common shareholders over time. Use of financial leverage creates an opportunity for increased income but, at the same time, creates special risks. There can be no assurance that a leveraging strategy will be utilized or will be successful. SEE "INVESTMENT OBJECTIVES, POLICIES AND RISKS--USE OF LEVERAGE AND RELATED RISKS" AT PAGE 21 AND "DESCRIPTION OF CAPITAL STRUCTURE" AT PAGE 30.

This Prospectus sets forth concisely information you should know before investing in the shares of the Fund. Please read and retain this Prospectus for future reference. A Statement of Additional Information dated _____, 2003, has been filed with the Securities and Exchange Commission ("SEC") and can be obtained without charge by calling 1-800-225-6265 or by writing to the Fund. A table of contents to the Statement of Additional Information is located at page 38 of this Prospectus. This Prospectus incorporates by reference the entire Statement of Additional Information. The Statement of Additional Information is available along with other Fund-related materials: at the SEC's public reference room in Washington, DC (call 1-202-942-8090 for information on the operation of the reference room); the EDGAR database on the SEC's internet site (<http://www.sec.gov>); upon payment of copying fees by writing to the SEC's

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public reference section, Washington, DC 20549-0102; or by electronic mail at publicinfo@sec.gov. The Fund's address is The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109 and its telephone number is 1-800-225-6265.

The Fund's shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The underwriters named in the Prospectus may purchase up to _____ additional shares from the Fund under certain circumstances.

You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

Until _____, 2003 (25 days after the date of this Prospectus), all dealers that buy, sell or trade the shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Prospectus summary

This is only a summary. You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information.

THE FUND

Eaton Vance Limited Duration Income Fund (the "Fund") is a newly organized, diversified, closed-end management investment company. The Fund offers investors the opportunity to receive a high level of current income, through a professionally managed portfolio investing in a blend of three principal asset classes: mortgage-backed securities, senior, secured floating rate loans, and below investment grade corporate bonds. To the extent consistent with this objective, the Fund may also offer an opportunity for capital appreciation. Under normal market conditions, the Fund expects to limit the duration of its portfolio to between two and four years (including the effect of anticipated leverage) and is intended to have a relatively low level of interest rate risk compared to investment portfolios with longer durations. Investments are based on Eaton Vance Management's ("Eaton Vance" or the "Adviser") internal research and ongoing credit analysis, which is generally not available to individual investors. An investment in the Fund may not be appropriate for all investors. There is no assurance that the Fund will achieve its investment objectives.

THE OFFERING

The Fund is offering common shares of beneficial interest, par value \$0.01 per share (the "Shares"), through a group of underwriters (the "Underwriters") led by UBS Warburg LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The Underwriters have been granted an option to purchase up to additional Shares solely to cover over-allotments, if any. The initial public offering price is \$20.00 per share. The minimum purchase in this offering is 100 Shares (\$2,000). See "Underwriting." Eaton Vance or an affiliate has agreed to (i) reimburse all organizational costs and (ii) pay all offering costs (other than sales loads) that exceed \$0.04 per Share.

INVESTMENT OBJECTIVES AND POLICIES

The Fund's investment objective is to provide a high level of current income. The Fund may, as a secondary objective, also seek capital appreciation to the extent consistent with its investment objective of high current income. The Fund pursues its objectives by investing its assets primarily in three distinct investment categories: 1) mortgage-backed securities that are issued, backed or otherwise guaranteed by the U.S. Government or its agencies or instrumentalities or that are issued by private issuers ("MBS"); 2) senior, secured floating rate loans made to corporate and other business entities ("Senior Loans"); and 3) corporate bonds of below "investment grade" quality ("Non-Investment Grade Bonds"). Non-Investment Grade Bonds, commonly referred to as "junk bonds," are bonds that are rated below investment grade by each of the national rating agencies who cover the security, or, if unrated, are determined to be of comparable quality by the Adviser. Standard & Poor's Ratings Group ("S&P") and Fitch Ratings ("Fitch") consider securities rated below BBB- to be below investment grade and Moody's Investors Service, Inc. ("Moody's") considers securities rated below Baa3 to be below investment grade. Senior Loans in which the Fund invests are also typically of below investment grade quality. The Adviser has broad discretion to allocate the Fund's assets among the three principal asset classes; provided that, under normal market conditions, the Fund will invest at least 25% of its assets in each principal investment category.

Under normal market conditions, the Adviser expects to maintain a duration of between two and four years (including the effect of anticipated leverage).

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Initially, the Fund is expected to have a duration of approximately three years (including the effect of anticipated leverage). This duration policy may only be changed following provision of 60 days' prior notice to Shareholders. In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal

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amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

A team of Eaton Vance investment professionals is responsible for the overall management of the Fund's investments as well as allocations among the Fund's three principal investment categories. Individual members of this team with specialized experience are responsible for the day-to-day portfolio management within each of the Fund's three main asset classes. The Fund's investments are actively managed, and securities may be bought or sold on a daily basis. The Adviser attempts to manage yield through timely trading.

The Adviser's staff monitors the credit quality and price of securities held by the Fund, as well as other securities that are available to the Fund. Under normal market conditions, the Fund expects to maintain a weighted average portfolio credit quality of investment grade (which is at least BBB- as determined by S&P or Fitch, Baa3 as determined by Moody's or, if unrated, determined to be of comparable quality by the Adviser). For this purpose, when a security is rated by more than one of these rating agencies, the Adviser generally will use the highest rating. Within this general guideline, the Fund may invest in individual securities of any credit quality. Although the Adviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the rating services. In evaluating the quality of a particular security, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. The Adviser will attempt to reduce the risks of investing in lower rated or unrated debt instruments through active portfolio management, credit analysis and attention to current developments and trends in the economy and the financial markets. When purchasing and selling MBS, the Adviser focuses on the expected principal payments on an MBS as well as current and anticipated market conditions.

The Fund will only invest in U.S. dollar denominated securities. The Fund may invest up to 5% of its assets in U.S. dollar denominated securities of non-United States issuers. The Fund's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole.

The Fund may purchase or sell derivative instruments (which derive their value from another instrument, security or index) only for risk management purposes,

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such as hedging against fluctuations in securities prices or interest rates; diversification purposes; or changing the duration of the Fund. Transactions in derivative instruments may include the purchase or sale of futures contracts on securities, indices and other financial instruments, credit-linked notes, tranches of collateralized loan obligations, options on futures contracts, and exchange-traded and over-the-counter options on securities or indices, and interest rate, total return and credit default swaps. Guidelines of any rating organization that rates any preferred shares issued by the Fund may limit the Fund's ability to engage in such transactions.

LISTING

The Fund has applied for the listing of its common shares on the American Stock Exchange under the symbol "EVV."

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LEVERAGE

The Fund expects to use financial leverage through the issuance of preferred shares and/or through borrowings, including the issuance of debt securities. The Fund intends initially to use financial leverage of approximately 34% of its gross assets (including the amount obtained through leverage). The Fund generally will not use leverage if the Adviser anticipates that it would result in a lower return to holders of the Shares ("Shareholders") over time. Use of financial leverage creates an opportunity for increased income for Shareholders but, at the same time, creates special risks (including the likelihood of greater volatility of net asset value and market price of the Shares), and there can be no assurance that a leveraging strategy will be successful during any period in which it is employed. The Fund currently intends to issue preferred shares approximately one to three months after completion of this offering, subject to market conditions and to the Fund's receipt of a AAA credit rating on such preferred shares from a nationally recognized statistical rating organization ("Rating Agency") (typically, Moody's, S&P or Fitch). During periods in which the Fund is using leverage the fees paid to Eaton Vance for investment advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's gross assets, including proceeds from the issuance of preferred shares. See "Investment objectives, policies and risks--Use of leverage and related risks" and "Management of the Fund--The Adviser."

INVESTMENT ADVISER AND ADMINISTRATOR

Eaton Vance, an indirect wholly-owned subsidiary of Eaton Vance Corp., is the Fund's investment adviser and administrator. The Adviser and its subsidiaries manage approximately \$55 billion on behalf of funds, institutional clients and individuals as of March 31, 2003. Twenty-three of the funds are closed-end. See "Management of the Fund."

DISTRIBUTIONS

Commencing with the Fund's first dividend, the Fund intends to make regular monthly cash distributions to Shareholders of substantially all net investment income of the Fund. The amount of each monthly distribution will vary depending on a number of factors, including dividends payable on the preferred shares or other costs of financial leverage. As portfolio and market conditions change, the rate of dividends on the Shares and the Fund's dividend policy could change. Over time, the Fund will distribute all of its net investment income (after it pays accrued dividends on any outstanding preferred shares) or other costs of financial leverage. In addition, at least annually, the Fund intends to distribute any net short-term capital gain and any net capital gain (which is

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the excess of net long-term capital gain over short-term capital loss). The initial distribution is expected to be declared approximately 45 days and paid approximately 60 to 90 days after the completion of this offering, depending on market conditions. Shareholders may elect to automatically reinvest some or all of their distributions in additional Shares under the Fund's dividend reinvestment plan. See "Distributions and taxes" and "Dividend reinvestment plan."

DIVIDEND REINVESTMENT PLAN

The Fund has established a dividend reinvestment plan (the "Plan"). Under the Plan, a Shareholder may elect to have all dividend and capital gain distributions automatically reinvested in additional Shares either purchased in the open market, or newly issued by the Fund if the Shares are trading at or above their net asset value. Shareholders may elect to participate in the Plan by completing the dividend reinvestment plan application form. Shareholders who do not elect to participate in the Plan will receive all distributions in cash paid by check mailed directly to them by PFPC Inc., as dividend paying agent. Shareholders who intend to hold their Shares through a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan. See "Dividend reinvestment plan."

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CLOSED-END STRUCTURE

Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. By comparison, mutual funds issue securities redeemable at net asset value at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities. However, shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of the possibility that the Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Shareholders, the Fund's Board of Trustees (the "Board"), in consultation with Eaton Vance, from time to time may review possible actions to reduce any such discount. The Board might consider open market repurchases or tender offers for Shares at net asset value. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in the Shares trading at a price equal to or close to net asset value per Share. The Board might also consider the conversion of the Fund to an open-end mutual fund. The Board believes, however, that the closed-end structure is desirable, given the Fund's investment objectives and policies. Investors should assume, therefore, that it is highly unlikely that the Board would vote to convert the Fund to an open-end investment company. Investors should note that the anticipated issuance of preferred shares to provide investment leverage could make a conversion to open-end form more difficult because of the voting rights of preferred shareholders, the costs of redeeming preferred shares and other factors. See "Description of capital structure."

SPECIAL RISK CONSIDERATIONS

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NO OPERATING HISTORY

The Fund is a closed-end investment company with no history of operations and is designed for long-term investors and not as a trading vehicle.

INCOME RISK

The income investors receive from the Fund is based primarily on the interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, investors' income from the Fund over time could drop as well. The Fund's income could also be affected adversely when prevailing short-term interest rates increase and the Fund is utilizing leverage, although this risk is mitigated by the Fund's investment in Senior Loans.

CREDIT RISK

Credit risk is the risk that one or more debt obligations in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the obligation experiences a decline in its financial status. Credit risk involves two types: delinquency and default. Delinquency refers to interruptions in the payment of interest and principal. Default refers to the potential for unrecoverable principal loss from the sale of foreclosed collateral or the Fund's inherent right to forgive principal or modify a debt instrument. For MBS, factors contributing to these risks include the effects of general and local economic conditions on home values, the financial conditions of homeowners, and other market factors. This risk is mitigated by a U.S. government agency's or instrumentality's guarantee of the underlying debt obligation.

PREPAYMENT RISK

During periods of declining interest rates or for other purposes, the borrowers may exercise their option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding

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securities. This is known as call or prepayment risk. Non-Investment Grade Bonds frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price only if certain prescribed conditions are met ("call protection"). An issuer may redeem a Non-Investment Grade Bond if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans and MBS typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Fund, prepayment risk may be enhanced.

ISSUER RISK

The value of corporate income-producing securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

MORTGAGE-BACKED SECURITIES RISK

The value of Fund shares may be adversely affected by fluctuations in interest rates and the prepayment of the mortgage loans underlying the MBS held by the Fund. Mortgage loans are most likely to be prepaid in a declining interest rate environment. Prepayment may reduce the Fund's coupon distributions because the proceeds of a prepayment may be invested in lower-yielding securities. The Adviser has historically attempted to minimize prepayment risk by acquiring MBS with seasoned underlying mortgage loans that have had a history of refinancing opportunities. In a rising interest rate environment, a declining prepayment rate will extend the average life of many MBS which in turn would lengthen the duration of the Fund's portfolio. This possibility is often referred to as extension risk. Extending the average life of an MBS increases the risk of

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depreciation due to future increases in market interest rates. The value of Fund Shares can also be adversely affected by the existence of premiums on the price of MBS it acquires.

Certain government agencies or instrumentalities, such as the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC"), provide a guarantee as to timely payment of principal and interest for MBS each entity issues, backs or otherwise guarantees. Guarantees may or may not be backed by the full faith and credit of the U.S. government.

SENIOR LOANS RISK

The risks associated with Senior Loans are similar to the risks of Non-Investment Grade Bonds, although Senior Loans are typically senior and secured in contrast to Non-Investment Grade Bonds, which are often subordinated and unsecured. Senior Loans' higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization. In addition, because their interest rates are adjusted for changes in short-term interest rates, Senior Loans generally have less interest rate risk than Non-Investment Grade Bonds, which are typically fixed rate. The Fund's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. Such companies are more likely to default on their payments of interest and principal owed to the Fund, and such defaults could reduce the Fund's net asset value and income distributions. An economic downturn generally leads to a higher non-payment rate, and a debt obligation may lose significant value before a default occurs. Moreover, any specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value.

Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Fund's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted.

Loans and other debt securities are also subject to the risk of price declines and to increases in prevailing interest rates, although floating-rate debt instruments are substantially less exposed to this risk than fixed-rate debt instruments. Interest rate changes may also increase prepayments of debt

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obligations and require the Fund to invest assets at lower yields. No active trading market may exist for certain loans, which may impair the ability of the Fund to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded loans.

NON-INVESTMENT GRADE BONDS RISK

The Fund's investments in Non-Investment Grade Bonds are predominantly speculative because of the credit risk of their issuers. While offering a greater potential opportunity for capital appreciation and higher yields, Non-Investment Grade Bonds typically entail greater potential price volatility and may be less liquid than higher-rated securities. Issuers of Non-Investment Grade Bonds are more likely to default on their payments of interest and principal owed to the Fund, and such defaults will reduce the Fund's net asset value and income distributions. The prices of these lower rated obligations are more sensitive to negative developments than higher rated securities. Adverse business conditions, such as a decline in the issuer's revenues or an economic downturn, generally lead to a higher non-payment rate. In addition, a security may lose significant value before a default occurs as the market adjusts to

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expected higher non-payment rates.

DERIVATIVES

Derivative transactions (such as futures contracts and options thereon, options, swaps and short sales) subject the Fund to increased risk of principal loss due to imperfect correlation or unexpected price or interest rate movements. The Fund also will be subject to credit risk with respect to the counterparties to the derivatives contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

EFFECTS OF LEVERAGE

There can be no assurance that a leveraging strategy will be utilized by the Fund or that, if utilized, it will be successful during any period in which it is employed. Leverage creates risks for Shareholders, including the likelihood of greater volatility of net asset value and market price of the Shares and the risk that fluctuations in dividend rates on any preferred shares may affect the return to Shareholders. To the extent the income derived from securities purchased with proceeds received from leverage exceeds the cost of leverage, the Fund's distributions will be greater than if leverage had not been used. Conversely, if the income from the securities purchased with such proceeds is not sufficient to cover the cost of leverage, the amount available for distribution to Shareholders as dividends and other distributions will be less than if leverage had not been used. In the latter case, Eaton Vance in its best judgment may nevertheless determine to maintain the Fund's leveraged position if it deems such action to be appropriate. The costs of an offering of preferred shares and/or borrowing program will be borne by common Shareholders and consequently will result in a reduction of the net asset value of Shares.

As discussed under "Management of the Fund," the fee paid to Eaton Vance will be calculated on the basis of the Fund's gross assets, including proceeds from the issuance of preferred shares and/or borrowings, so the fees will be higher when leverage is utilized. See "Investment objectives, policies and risks--Use of leverage and related risks."

The Fund currently intends to seek a AAA credit rating on any preferred shares from a Rating Agency. The Fund may be subject to investment restrictions of the Rating Agency as a result. These restrictions may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the Investment Company Act of 1940, as amended (the "Investment Company Act" or "1940 Act"). It is not anticipated that these covenants or guidelines will impede

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Eaton Vance in managing the Fund's portfolio in accordance with its investment objectives and policies. See "Description of capital structure--Preferred shares."

Financial leverage may also be achieved through the purchase of certain derivative instruments. The Fund's use of derivative instruments exposes the Fund to special risks. See "Investment objectives, policies and risks--Additional investment practices" and "--Additional risk considerations."

INTEREST RATE RISK

The value of Fund shares will usually change in response to interest rate

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fluctuations. When interest rates decline, the value of fixed-rate securities already held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of existing fixed-rate portfolio securities can be expected to decline. Because market interest rates are currently near their lowest levels in many years, there is a greater than normal risk that the Fund's portfolio will decline in value due to rising interest rates. Fluctuations in the value of fixed-rate securities will not affect interest income on existing securities but will be reflected in the Fund's net asset value. Fixed-rate securities with longer durations tend to be more sensitive to changes in interest rates than securities with shorter durations, usually making them more volatile. Because the Fund will normally have a dollar-weighted average duration of between two and four years (including the effects of anticipated leverage), the Shares' net asset value and market price per Share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities and less than if the Fund invested mainly in longer-term debt securities. The Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk, although there is no assurance that it will do so or that such strategies will be successful. The Fund is intended to have a relatively low level of interest rate risk.

LIQUIDITY RISK

The Fund may invest in securities for which there is no readily available trading market or which are otherwise illiquid. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell such securities if they were more widely traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the debt securities, thereby adversely affecting the Fund's net asset value and ability to make dividend distributions.

REINVESTMENT RISK

Income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations into lower yielding instruments. A decline in income could affect the Shares' distribution rate and their overall return.

INFLATION RISK

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of preferred shares would likely increase, which would tend to further reduce returns to Shareholders. This risk is mitigated to some degree by the Fund's investments in Senior Loans.

MARKET PRICE OF SHARES

The shares of closed-end management investment companies often trade at a discount from their net asset value, and the Fund's Shares may likewise trade at a discount from net asset value. The trading price of the Fund's Shares may be less than the public offering price. This risk may be greater for investors who sell their Shares in a relatively short period after completion of the public offering.

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MANAGEMENT RISK

The Fund is subject to management risk because it is an actively managed portfolio. Eaton Vance and the individual portfolio managers will apply

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investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

MARKET DISRUPTION

The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets. The Fund cannot predict the effects of similar events in the future on the U.S. economy. These terrorist attacks and related events, including the war in Iraq, have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Shares. In particular, Non-Investment Grade Bonds and Senior Loans tend to be more volatile than higher rated fixed income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility on Non-Investment Grade Bonds and Senior Loans than on higher rated fixed income securities.

ANTI-TAKEOVER PROVISIONS

The Fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Fund or to change the composition of its Board. See "Description of capital structure--Anti-takeover provisions in the Declaration of Trust."

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Summary of Fund expenses

The purpose of the table below is to help you understand all fees and expenses that you, as a Shareholder, would bear directly or indirectly. The following table assumes the issuance of preferred shares in an amount equal to 34% of the Fund's total assets (after issuance), and shows Fund expenses as a percentage of net assets attributable to common shares.

Shareholder transaction expenses

| | |
|---|---------------|
| Sales load paid by you (as a percentage of offering price)..... | 4.50% |
| Expenses borne by the Fund..... | 0.20% (1) (2) |
| Dividend reinvestment plan fees..... | None (3) |

PERCENTAGE OF NET ASSETS
ATTRIBUTABLE
TO COMMON SHARES
(ASSUMING THE ISSUANCE
OF PREFERRED SHARES) (4)

Annual expenses

| | |
|---|--------------|
| Investment advisory fee..... | 1.14% |
| Other expenses..... | 0.28% |
| ----- | |
| Total annual expenses..... | 1.42% |
| Fee and expense reimbursements (years 1-5)..... | (0.30) % (5) |
| ----- | |
| Net annual expenses (years 1-5)..... | 1.12% (5) |
| ----- | |

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- (1) Eaton Vance or an affiliate has agreed to reimburse all organizational costs and pay all offering costs (other than sales load) that exceed \$0.04 per Share.
 - (2) If the Fund offers preferred shares, costs of that offering, estimated to be slightly more than 1.25% of the total amount of the preferred share offering, will effectively be borne by common shareholders and result in the reduction of the net asset value of the common shares. Assuming the issuance of preferred shares in an amount equal to 34% of the Fund's total assets (after issuance), those offering costs are estimated to be not more than approximately \$2,585,000 or \$0.13 per common share (0.65% of the offering price).
 - (3) You will be charged a \$5.00 service charge and pay brokerage charges if you direct the plan agent to sell your Shares held in a dividend reinvestment account.
 - (4) Stated as percentages of net assets attributable to common shares assuming no issuance of preferred shares or borrowings, the Fund's expenses would be estimated to be as follows:

PERCENTAGE OF NET ASSETS
ATTRIBUTABLE
TO COMMON SHARES
(ASSUMING NO PREFERRED SHARES
ARE ISSUED OR OUTSTANDING)

| | |
|--|---------|
| Annual expenses | |
| Investment advisory fee..... | 0.75% |
| Other expenses..... | 0.13% |
| | ----- |
| Total annual expenses..... | 0.88% |
| Fees and expense reimbursements (years 1-5)..... | (0.20)% |
| | ----- |
| Net annual expenses (years 1-5)..... | 0.68% |
| | ----- |

- (5) Eaton Vance has contractually agreed to reimburse the Fund for fees and other expenses in the amount of 0.20% of average weekly total assets of the Fund for the first 5 full years of the Fund's operations, 0.15% of average weekly total assets of the Fund in year 6, 0.10% in year 7 and 0.05% in year 8. For this purpose, total assets (and gross assets in "Management of the Fund--The Adviser") shall be calculated by deducting accrued liabilities of the Fund not including the amount of any preferred shares outstanding or the principal amount of any indebtedness for money borrowed. Without the reimbursement, Total net annual expenses would be estimated to be 1.42% of average weekly net assets (or, assuming no issuance of preferred shares or borrowings, 0.88% of average weekly net assets) attributable to common shares. Eaton

Vance may voluntarily reimburse additional fees and expenses but is under no obligation to do so. Any such voluntary reimbursements may be terminated

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at any time.

The expenses shown in the table are based on estimated amounts for the Fund's first year of operations and assume that the Fund issues approximately 20,000,000 common shares. See "Management of the Fund" and "Dividend reinvestment plan."

The following example illustrates the expenses that you would pay on a \$1,000 investment in common shares (including the sales load of \$45, estimated offering expenses of this offering of \$2 and the estimated preferred share offering costs assuming preferred shares are issued representing 34% of the Fund's total assets (after issuance) of \$6.50), assuming (1) total net annual expenses of 1.12% of net assets attributable to common shares in years 1 through 5, increasing to 1.42% in years 9 and 10 and (2) a 5% annual return(1):

| 1 YEAR | 3 YEARS | 5 YEARS | 10 YEARS (2) |
|--------|---------|---------|--------------|
| \$64 | \$87 | \$112 | \$196 |

THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES. ACTUAL EXPENSES MAY BE HIGHER OR LOWER.

- (1) The example assumes that the estimated Other expenses set forth in the Annual expenses table are accurate, that fees and expenses increase as described in note 2 below and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.
- (2) Assumes reimbursement of fees and expenses of 0.15% of average weekly total assets of the Fund in year 6, 0.10% in year 7 and 0.05% in year 8 and no reimbursement of fees or expenses in years 9 and 10. Eaton Vance has not agreed to reimburse the Fund for any portion of its fees and expenses beyond 2011.

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The Fund

The Fund is a newly organized, diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on March 12, 2003 pursuant to a Declaration of Trust governed by the laws of The Commonwealth of Massachusetts and has no operating history. The Fund's principal office is located at The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109 and its telephone number is 1-800-225-6265.

This Prospectus relates to the initial public offering of the Fund's common shares of beneficial interest, \$0.01 par value (the "Shares"). See "Underwriting."

Use of proceeds

The net proceeds of this offering of Shares will be approximately \$ (or \$ assuming exercise of the Underwriters' over-allotment option in

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full), which, after payment of the estimated offering expenses, will be invested in accordance with the Fund's investment objectives and policies as soon as practicable, but, in no event, under normal market conditions, later than three months after the receipt thereof. Pending such investment, the proceeds may be invested in high-quality, short-term debt securities. Eaton Vance or an affiliate has agreed to (i) reimburse all organizational costs and (ii) pay all offering costs of the Fund (other than sales loads) that exceed \$0.04 per Share.

Investment objectives, policies and risks

INVESTMENT OBJECTIVES

The Fund's investment objective is to provide a high level of current income. The Fund may, as a secondary objective, also seek capital appreciation to the extent consistent with its investment objective of high current income. The Fund pursues its objectives by investing its assets primarily in three distinct investment categories: 1) mortgage backed securities that are issued, backed or otherwise guaranteed by the U.S. Government or its agencies or instrumentalities or that are issued by private issuers ("MBS"); 2) senior, secured floating rate loans made to corporate and other business entities ("Senior Loans"); and 3) corporate bonds of below "investment grade" quality ("Non-Investment Grade Bonds"). Non-Investment Grade Bonds, commonly referred to as "junk bonds," are bonds that are rated below investment grade by each of the national rating agencies who cover the security, or, if unrated, are determined to be of comparable quality by the Adviser. Standard & Poor's Ratings Group ("S&P") and Fitch Ratings ("Fitch") consider securities rated below BBB- to be below investment grade and Moody's Investors Service, Inc. ("Moody's") considers securities rated below Baa3 to be below investment grade. Senior Loans in which the Fund invests are also typically of below investment grade quality. Many Senior Loans in which the Fund may invest are also of below investment grade quality. The Adviser has broad discretion to allocate the Fund's assets among the three principal asset classes; provided that, under normal market conditions, the Fund will invest at least 25% of its assets in each principal investment category.

PRIMARY INVESTMENT POLICIES

GENERAL COMPOSITION OF THE FUND

A team of Eaton Vance investment professionals is responsible for the overall management of the Fund's investments as well as allocations among the Fund's three principal investment categories. Individual members of this team with specialized expertise are responsible for the day-to-day portfolio management within each of the Fund's three main asset classes. The Fund's investments are actively

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

managed, and securities may be bought or sold on a daily basis. The Adviser attempts to manage yield through timely trading.

Under normal market conditions, the Adviser expects to maintain a duration of between two and four years (including the effect of anticipated leverage). Initially, the Fund is expected to have a duration of approximately three years (including the effect of anticipated leverage). This duration policy may only be changed following provision of 60 days' prior notice to Shareholders. In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of

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the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments and its principal payments in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

The Adviser's staff monitors the credit quality and the price of securities held by the Fund, as well as other securities that are available to the Fund. Under normal market conditions, the Fund will invest at least 25% of its portfolio in MBS that are expected to be of the highest quality (generally AAA as determined by S&P or Fitch, Aaa as determined by Moody's, or, if unrated determined to be of comparable quality by the Adviser) and at least 25% of its portfolio in each of Non-Investment Grade Bonds and Senior Loans (many of which are of below investment grade quality). Under normal market conditions, the Fund will structure and seek to maintain its portfolio of high quality MBS and lower quality Non-Investment Grade Bond and Senior Loans in such a manner so that the Fund has an average dollar weighted portfolio quality of investment grade (which is BBB- as determined by S&P or Fitch, Baa as determined by Moody's, or, if unrated determined to be of comparable quality by the Adviser). Within this general guideline, the Fund may invest in securities of any credit quality. In order to maintain compliance with this policy, the Fund's holdings of Non-Investment Grade Bonds and Senior Loans of below investment grade quality generally will be offset by investments in MBS of the highest quality. The extremely high credit quality of the MBS will substantially raise the average portfolio credit quality on a dollar-weighted basis. In addition, to the extent necessary to maintain compliance with this weighted average portfolio credit policy, the Fund will focus its investments in Non-Investment Grade Bonds and Senior Loans on such issues that are rated in the higher tiers of the non-investment grade range (including in the category just below investment grade, which is in the BB range as determined by S&P or Fitch, Ba as determined by Moody's, or if unrated determined to be of comparable quality by the Adviser). Finally, although the Fund may invest in securities of any quality, to the extent necessary to comply with its weighted average portfolio credit policy, the Fund will avoid investing significant portions of its assets in the lower tiers of the non-investment grade category. For purposes of the Fund's policy on credit quality, when a security is rated by more than one of these rating agencies, the Adviser generally will use the highest rating. The Fund will monitor and adjust its portfolio on an ongoing basis in order to remain in compliance with this credit quality policy.

A "barbell" portfolio such as the Fund that achieves a weighted average investment grade credit quality by investing substantially in below investment grade securities and very high quality securities involves certain risk characteristics that differ from fixed income securities with credit ratings equivalent to the portfolio average or from a portfolio of similar average quality consisting mostly of securities of a quality near this average. Most notably, the Fund's portfolio will contain a higher percentage of assets of lower quality that each individually involve a higher degree of credit risk and may be considered to be speculative in nature. For a description of these risk characteristics, see

INVESTMENT OBJECTIVES, POLICIES AND RISKS

"Investment objectives, policies and risks -- "Primary Investment Policies -- Non-investment Grade Bonds.

Although the Adviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the rating services. In evaluating the quality of a particular security, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. The Adviser will attempt to reduce the risks of investing in lower rated or unrated debt instruments through active portfolio management, credit analysis and attention to current developments and trends in the economy and the financial markets. When purchasing and selling MBS, the Adviser focuses on the expected principal payments on an MBS as well as current and anticipated market conditions.

Subject to its obligation on a portfolio wide basis to remain in ongoing compliance with the weighted average portfolio credit policy discussed above, the Fund is not required to dispose of a security in the event that a Rating Agency downgrades its assessment of the credit characteristics of a particular issue or withdraws its assessment, including in the event of a default. In determining whether to retain or sell such a security, Eaton Vance may consider such factors as Eaton Vance's assessment of the credit quality of the issuers of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other Rating Agencies.

The Fund will only invest in U.S. dollar denominated securities. The Fund may invest up to 5% of its assets in U.S. dollar denominated securities of non-United States issuers. The Fund's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole.

MORTGAGE-BACKED SECURITIES

The Fund invests only in MBS that are backed by a guarantee of the U.S. Government (or one of its agencies or instrumentalities), although certain of these instruments may be privately issued. MBS represent participation interests in pools of fixed-rate and adjustable-rate mortgage loans. Unlike conventional debt obligations, MBS provide monthly payments derived from the monthly interest and principal payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans. The Adviser currently expects to invest primarily in MBS that include mortgage loans that have had a history of refinancing opportunities (so called "seasoned MBS"). The Adviser, typically, considers MBS with mortgages which have been outstanding for ten years or more to be seasoned MBS. Seasoned MBS tend to have a higher collateral to debt ratio than other MBS because a greater percentage of the underlying debt has been repaid and the collateral property may have appreciated in value. The Adviser may discontinue the practice of focusing on seasoned MBS at any time. The Adviser expects that under current market conditions many of the MBS held by the Fund will be premium bonds acquired at prices that exceed their par or principal value.

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The mortgage loans underlying MBS are generally subject to a greater rate of principal prepayments in a declining interest rate environment and to a lesser rate of principal prepayments in an increasing interest rate environment, although the Fund's investment in seasoned MBS mitigates this risk. Under certain interest and prepayment rate scenarios, the Fund may fail to recover the full amount of its investment in MBS, notwithstanding any direct or indirect governmental or agency guarantee. Because faster than expected prepayments must usually be invested in lower yielding securities, MBS are less effective than conventional bonds in "locking in" a specified interest rate. Additionally, the value of Fund Shares may be adversely affected by fluctuations in interest rates underlying the MBS held by the Fund. In a rising interest rate environment, a declining prepayment rate will extend the average life of

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

many MBS, which in turn would lengthen the duration of the Fund's portfolio. This possibility is often referred to as extension risk. Extending the average life of a mortgage-backed security increases the risk of depreciation due to future increases in market interest rates, although investing in seasoned MBS helps mitigate this extension risk. MBS that are purchased at a premium generate current income that exceeds market rates for comparable investments but tend to decrease in value as they mature, which may cause a resulting decrease in the Fund's net asset value.

The Fund may also invest in classes of collateralized mortgage obligations ("CMOs") and various other MBS. In choosing among CMO classes, the Adviser will evaluate the total income potential of each class and other factors. See "Additional investment practices--Securitized interests."

Certain government agencies or instrumentalities, such as GNMA, FNMA and FHLMC provide a guarantee as to timely payment of principal and interest for MBS each entity issues but may or may not be backed by the full faith and credit of the U.S. Government.

SENIOR LOANS

Senior Loans hold the most senior position in the capital structure of a business entity (the "Borrower"), are typically secured with specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by subordinated debt holders and stockholders of the Borrower. The proceeds of Senior Loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancings and to finance internal growth and for other corporate purposes. Senior Loans typically have rates of interest which are redetermined either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. These base lending rates are primarily the London-Interbank Offered Rate ("LIBOR"), and secondarily the prime rate offered by one or more major United States banks (the "Prime Rate") and the certificate of deposit ("CD") rate or other base lending rates used by commercial lenders. The Senior Loans held by the Fund will have a dollar-weighted average period until the next interest rate adjustment of approximately 90 days or less. In the experience of the Adviser over the last decade, because of prepayments the average life of Senior Loans has been two to four years.

The Fund may also purchase unsecured loans, other floating rate debt securities such as notes, bonds and asset-backed securities (such as special purpose trusts investing in bank loans), credit-linked notes, tranches of collateralized loan obligations, investment grade fixed income debt obligations and money market instruments, such as commercial paper.

Senior Loans and other floating-rate debt instruments are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Fund, a reduction in the value of the investment and a potential decrease in the net asset value of the Fund. There can be no assurance that the liquidation of any collateral securing a loan would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated. In the event of bankruptcy of a Borrower, the Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. The collateral securing a Senior Loan may lose all or substantially all of its value in the event of bankruptcy of a Borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate such Senior Loans to presently existing or future indebtedness of the Borrower or take other action detrimental to the holders of Senior Loans including, in certain circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. If interest were required to be refunded, it could negatively affect the Fund's performance.

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

Many Senior Loans in which the Fund will invest may not be rated by a Rating Agency, will not be registered with the Securities and Exchange Commission or any state securities commission and will not be listed on any national securities exchange. The amount of public information available with respect to Senior Loans will generally be less extensive than that available for registered or exchange listed securities. In evaluating the creditworthiness of Borrowers, the Adviser will consider, and may rely in part, on analyses performed by others. Borrowers may have outstanding debt obligations that are rated below investment grade by a Rating Agency. Many of the Senior Loans in the Fund have been assigned ratings below investment grade by independent rating agencies. In the event Senior Loans are not rated, they are likely to be the equivalent of below investment grade quality. Because of the protective features of Senior Loans, the Adviser believes that Senior Loans tend to have more favorable loss recovery rates as compared to more junior types of below investment grade debt obligations. The Adviser does not view ratings as the determinative factor in its investment decisions and relies more upon its credit analysis abilities than upon ratings.

No active trading market may exist for some loans and some loans may be subject to restrictions on resale. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value and thus cause a material decline in the Fund's net asset value. During periods of limited supply and liquidity of Senior Loans, the Fund's yield may be lower.

When interest rates decline, the value of a fund invested in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a fund invested in fixed-rate obligations can be expected to decline. Although changes in prevailing interest rates can be expected to cause some fluctuations in the value of Senior Loans (due to the fact that floating rates on Senior Loans only reset periodically), the value of Senior Loans is substantially less sensitive to changes in market interest rates than fixed-rate instruments. As a result, the Adviser expects the Fund's policy of investing a portion of its assets in floating-rate Senior Loans will make the Fund less volatile and less sensitive to changes in market interest rates than if the Fund invested exclusively in fixed-rate obligations. Similarly, a sudden and

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significant increase in market interest rates may cause a decline in the value of these investments and in the Fund's net asset value. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can reduce the value of Senior Loans and other debt obligations, impairing the Fund's net asset value.

The Fund may purchase and retain in its portfolio a Senior Loan where the Borrower has experienced, or may be perceived to be likely to experience, credit problems, including involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. Such investments may provide opportunities for enhanced income as well as capital appreciation. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Fund may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan.

Senior Loan assignments and participations. The Fund expects to primarily purchase Senior Loans by assignment from a participant in the original syndicate of lenders or from subsequent assignees of such interests. The Fund may also purchase participations in the original syndicate making Senior Loans. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participations in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, the Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Fund intends to invest

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

may not be rated by any nationally recognized rating service. Given the current structure of the markets for loan participations and assignments, the Fund expects to treat these securities as illiquid.

Senior Loan valuation. The Adviser uses an independent pricing service to value most loans and other debt securities at their market value. The Adviser may use the fair value method to value loans or other securities if market quotations for them are not readily available or are deemed unreliable, or if events occurring after the close of a securities market and before the Fund values its assets would materially affect net asset value. Because foreign securities trade on days when the Shares are not priced, net asset value can change at time when Shares cannot be redeemed.

NON-INVESTMENT GRADE BONDS

As indicated above, Non-Investment Grade Bonds are those rated lower than investment grade (i.e., bonds rated lower than Baa3 by Moody's and lower than BBB- by S&P and Fitch) or are unrated and of comparable quality as determined by the Adviser. Non-Investment Grade Bonds rated BB and Ba have speculative characteristics, while lower rated Non-Investment Grade Bonds are predominantly speculative.

The Fund may hold securities that are unrated or in the lowest rating categories (rated C by Moody's or D by S&P or Fitch). Bonds rated C by Moody's are regarded as having extremely poor prospects of ever attaining any real investment

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standing. Bonds rated D by S&P or Fitch are in payment default or a bankruptcy petition has been filed and debt service payments are jeopardized. In order to enforce its rights with defaulted securities, the Fund may be required to retain legal counsel and/or a financial adviser. This may increase the Fund's operating expenses and adversely affect net asset value.

The credit quality of most securities held by the Fund reflects a greater than average possibility that adverse changes in the financial condition of an issuer, or in general economic conditions, or both, may impair the ability of the issuer to make payments of interest and principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of securities held by the Fund more volatile and could limit the Fund's ability to sell its securities at favorable prices. In the absence of a liquid trading market for securities held by it, the Fund may have difficulties determining the fair market value of such securities.

Although the Adviser considers security ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the rating services. In evaluating the quality of a particular security, whether rated or unrated, the Adviser will normally take into consideration, among other things, the issuer's financial resources and operating history, its sensitivity to economic conditions and trends, the ability of its management, its debt maturity schedules and borrowing requirements, and relative values based on anticipated cash flow, interest and asset coverage, and earnings prospects. Because of the greater number of investment considerations involved in investing in high yield, high risk bonds, the achievement of the Fund's objectives depends more on the Adviser's judgment and analytical abilities than would be the case if the Fund invested primarily in securities in the higher rating categories. While the Adviser will attempt to reduce the risks of investing in lower rated or unrated securities through active Fund management, diversification, credit analysis and attention to current developments and trends in the economy and the financial markets, there can be no assurance that a broadly diversified Fund of such securities would substantially lessen the risks of defaults brought about by an economic downturn or recession. In recent years, issuances of Non-Investment Grade Bonds by companies in various sectors has increased. Accordingly, the Fund's investments may have significant exposure to certain sectors of the economy and thus may react differently to political or economic developments than the market as a whole.

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

The Fund's high yield securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, and payment in kind features.

ADDITIONAL INVESTMENT PRACTICES

OTHER GOVERNMENT SECURITIES

U.S. Government securities include (1) U.S. Treasury obligations, which differ in their interest rates, maturities and times of issuance: U.S. Treasury bills (maturities of one year or less), U.S. Treasury notes (maturities of one year to ten years) and U.S. Treasury bonds (generally maturities of greater than ten years) and (2) obligations issued or guaranteed by U.S. Government agencies and instrumentalities which are supported by any of the following: (a) the full faith and credit of the U.S. Treasury, (b) the right of the issuer to borrow an amount limited to a specific line of credit from the U.S. Treasury, (c)

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discretionary authority of the U.S. Government to purchase certain obligations of the U.S. Government agency or instrumentality or (d) the credit of the agency or instrumentality. The Fund may also invest in any other security or agreement collateralized or otherwise secured by U.S. Government securities. Agencies and instrumentalities of the U.S. Government include but are not limited to: Federal Land Banks, Federal Financing Banks, Banks for Cooperatives, Federal Intermediate Credit Banks, Farm Credit Banks, Federal Home Loan Banks, FHLMC, FNMA, GNMA, Student Loan Marketing Association, United States Postal Service, Small Business Administration, Tennessee Valley Authority and any other enterprise established or sponsored by the U.S. Government. Because the U.S. Government generally is not obligated to provide support to its instrumentalities, the Fund will invest in obligations issued by these instrumentalities only if the Adviser determines that the credit risk with respect to such obligations is minimal.

The principal of and/or interest on certain U.S. Government securities which may be purchased by the Fund could be (a) payable in foreign currencies rather than U.S. dollars or (b) increased or diminished as a result of changes in the value of the U.S. dollar relative to the value of foreign currencies. The value of such portfolio securities denominated in foreign currencies may be affected favorably by changes in the exchange rate between foreign currencies and the U.S. dollar.

SECURITIZED INTERESTS

The Fund may invest in certain asset-backed securities as discussed below. Asset-backed securities are payment claims that are securitized in the form of negotiable paper that is issued by a financing company (generically called a Special Purpose Vehicle or "SPV"). These securitized payment claims are, as a rule, corporate financial assets brought into a pool according to specific diversification rules. The SPV is a company founded solely for the purpose of securitizing these claims and its only asset is the risk arising out of this diversified asset pool. On this basis, marketable securities are issued which, due to the diversification of the underlying risk, generally represent a lower level of risk than the original assets. The redemption of the securities issued by the SPV takes place at maturity out of the cash flow generated by the collected claims. Asset-backed securities may be issued by the U.S. government, its agencies or instrumentalities, or by non-governmental issuers.

CMOs. The CMO classes in which the Fund may invest include sequential and parallel pay CMOs, including planned amortization class and target amortization class securities. CMOs are debt securities issued by either the U.S. government (or one of its agencies or instrumentalities) or private issuers. The key feature of the CMO structure is the prioritization of the cash flows from a pool of mortgages among the several classes of CMO holders, thereby creating a series of obligations with varying rates and maturities appealing to a wide range of investors. CMOs generally are secured by an assignment to a trustee under the indenture pursuant to which the bonds are issued of collateral consisting of a pool of mortgages. Payments with respect to the underlying mortgages generally are made to the trustee under the indenture. CMOs are issued in two or more classes or series with varying maturities

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and stated rates of interest determined by the issuer. Senior CMO classes will typically have priority over residual CMO classes as to the receipt of principal and/or interest payments on the underlying mortgages. Because the interest and principal payments on the underlying mortgages are not passed through to holders of CMOs, CMOs of varying maturities may be secured by the same pool of

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mortgages, the payments on which are used to pay interest to each class and to retire successive maturities in sequence. CMOs are designed to be retired as the underlying mortgages are repaid. In the event of sufficient early prepayments on such mortgages, the class or series of CMO first to mature generally will be retired prior to maturity. Therefore, although in most cases the issuer of CMOs will not supply additional collateral in the event of such prepayments, there will be sufficient collateral to secure CMOs that remain outstanding. Currently, the Adviser will consider privately issued CMOs or other mortgage-backed securities as possible investments for the Fund only when the mortgage collateral is insured, guaranteed or otherwise backed by the U.S. Government or one or more of its agencies or instrumentalities (e.g., insured by the Federal Housing Administration or Farmers Home Administration or guaranteed by the Administrator of Veterans Affairs or consisting in whole or in part of U.S. Government securities).

Collateralized debt obligations ("CDOs"). The Fund may invest in CDOs. A CDO is a structured credit security issued by a special purpose entity that was created to reapportion the risk and return characteristics of a pool of assets. The assets, typically non-investment grade bonds, leveraged loans, and other asset-backed obligations, are used as collateral supporting the various debt and equity tranches issued by the special purpose entity. CDOs operate similarly to CMOs and CLOs and are subject to the same inherent risks.

Collateralized loan obligations ("CLOs"). A CLO is a type of CDO that invests primarily in leveraged loans as collateral underlying the obligations of the special purpose entity. CLOs operate similarly to CMOs and are subject to the same inherent risks.

MORTGAGE ROLLS

The Fund may enter into mortgage "dollar rolls" in which the Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon and maturity) securities on a specified future date. During the roll period, the Fund forgoes principal and interest paid on the mortgage-backed securities. The Fund is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the "drop") as well as by the interest earned on the cash proceeds of the initial sales. A "covered roll" is a specific type of dollar roll for which there is an offsetting cash position or a cash equivalent security position which matures on or before the forward settlement date of the dollar roll transaction. The Fund will only enter into covered rolls. Covered rolls are not treated as a borrowing or other senior security and will be excluded from the calculation of the Fund's borrowings and other senior securities.

CREDIT-LINKED NOTES

The Fund may invest in credit-linked notes ("CLN"). A CLN is a derivative instrument. It is a synthetic obligation between two or more parties where the payment of principal and/or interest is based on the performance of some obligation (a reference obligation). In addition to credit risk of the reference obligation and interest rate risk, the buyer/seller of the CLN is subject to counterparty risk.

COMMERCIAL PAPER

Commercial paper represents short-term unsecured promissory notes issued in bearer form by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

WHEN-ISSUED SECURITIES AND FORWARD COMMITMENTS

Securities may be purchased on a "forward commitment" or "when-issued" basis (meaning securities are purchased or sold with payment and delivery taking place in the future) in order to secure what is considered to be an advantageous price and yield at the time of entering into the transaction. However, the yield on a comparable security when the transaction is consummated may vary from the yield on the security at the time that the forward commitment or when-issued transaction was made. From the time of entering into the transaction until delivery and payment is made at a later date, the securities that are the subject of the transaction are subject to market fluctuations. In forward commitment or when-issued transactions, if the seller or buyer, as the case may be, fails to consummate the transaction the counterparty may miss the opportunity of obtaining a price or yield considered to be advantageous. Forward commitment or when-issued transactions may be expected to occur a month or more before delivery is due. However, no payment or delivery is made until payment is received or delivery is made from the other party to the transaction. Forward commitment or when-issued transactions are not entered into for the purpose of investment leverage.

ILLIQUID SECURITIES

The Fund may invest in securities for which there is no readily available trading market or are otherwise illiquid. Illiquid securities include securities legally restricted as to resale, such as commercial paper issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, and securities eligible for resale pursuant to Rule 144A thereunder. Section 4(2) and Rule 144A securities may, however, be treated as liquid by the Adviser pursuant to procedures adopted by the Board, which require consideration of factors such as trading activity, availability of market quotations and number of dealers willing to purchase the security. If the Fund invests in Rule 144A securities, the level of portfolio illiquidity may be increased to the extent that eligible buyers become uninterested in purchasing such securities.

It may be difficult to sell such securities at a price representing the fair value until such time as such securities may be sold publicly. Where registration is required, a considerable period may elapse between a decision to sell the securities and the time when it would be permitted to sell. Thus, the Fund may not be able to obtain as favorable a price as that prevailing at the time of the decision to sell. The Fund may also acquire securities through private placements under which it may agree to contractual restrictions on the resale of such securities. Such restrictions might prevent their sale at a time when such sale would otherwise be desirable.

SWAPS

Swap contracts may be purchased or sold to hedge against fluctuations in securities prices, interest rates or market conditions, to change the duration of the overall portfolio, or to mitigate default risk. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) to be exchanged or "swapped" between the parties, which returns are calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate or in a "basket" of securities representing a particular index.

Interest Rate Swaps. The Fund will enter into interest rate and total return swaps only on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest (e.g., an exchange of fixed rate payments for floating rate payments). The Fund will only enter into interest rate swaps on a net basis (i.e., the two payment streams are

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netted out with the Fund receiving or paying, as the case may be, only the net amount of the two payments). If the other party to an interest rate swap defaults, the Fund's risk of loss consists of the net amount of payments that the Fund is contractually entitled to receive. The net amount of the excess, if any, of the Fund's obligations over its entitlements will be

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maintained in a segregated account by the Fund's custodian. The Fund will not enter into any interest rate swap unless the claims-paying ability of the other party thereto is considered to be investment grade by the Adviser. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction. These instruments are traded in the over-the-counter market.

The Fund may use interest rate swaps for risk management purposes only and not as a speculative investment and would typically use interest rate swaps to shorten the average interest rate reset time of the Fund's holdings. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interests (e.g., an exchange of fixed rate payments for floating rate payments). The use of interest rate swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Adviser is incorrect in its forecasts of market values, interest rates and other applicable factors, the investment performance of the Fund would be unfavorably affected.

Total Return Swaps. As stated above, the Fund will enter into total return swaps only on a net basis. Total return swaps are contracts in which one party agrees to make payments of the total return from the underlying asset(s) which may include securities, baskets of securities, or securities indices during the specified period, in return for payments equal to a fixed or floating rate of interest or the total return from other underlying asset(s).

Credit Default Swaps. The Fund may enter into credit default swap contracts for risk management purposes, including diversification. When the Fund is the buyer of a credit default swap contract, the Fund is entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign corporate issuer, on the debt obligation. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation. As the seller, the Fund would effectively add leverage to its portfolio because, in addition to its total net assets, the Fund would be subject to investment exposure on the notional amount of the swap. The Fund will segregate assets in the form of cash and cash equivalents in an amount equal to the aggregate market value of the credit default swaps of which it is the seller, marked to market on a daily basis. These transactions involve certain risks, including the risk that the seller may be unable to fulfill the transaction.

FUTURES AND OPTIONS ON FUTURES

The fund may purchase and sell various kinds of financial futures contracts and options thereon to seek to hedge against changes in interest rates or for other risk management purposes. Futures contracts may be based on various debt

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securities and securities indices (such as the Municipal Bond Index traded on the Chicago Board of Trade). Such transactions involve a risk of loss or depreciation due to unanticipated adverse changes in securities prices, which may exceed the fund's initial investment in these contracts. The Fund will only purchase or sell futures contracts or related options in compliance with the rules of the Commodity Futures Trading Commission. These transactions involve transaction costs. There can be no assurance that Eaton Vance's use of futures will be advantageous to the Fund. Rating Agency guidelines on any preferred shares issued by the Fund may limit use of these transactions.

SECURITIES LENDING

The Fund may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. As with other extensions of credit, there are risks of delay in recovery or even

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loss of rights in the securities loaned if the borrower of the securities fails financially. In the judgment of the Adviser, the loans will be made only to organizations whose credit quality or claims paying ability is considered to be at least investment grade and when the expected returns, net of administrative expenses and any finders' fees, justifies the attendant risk. Securities loans currently are required to be secured continuously by collateral in cash, cash equivalents (such as money market instruments) or other liquid securities held by the custodian and maintained in an amount at least equal to the market value of the securities loaned. The financial condition of the borrower will be monitored by the Adviser on an ongoing basis.

BORROWINGS

The Fund may borrow money to the extent permitted under the 1940 Act as interpreted, modified or otherwise permitted by regulatory authority having jurisdiction, from time to time. The Fund may from time to time borrow money to add leverage to the portfolio. The Fund may also borrow money for temporary administrative purposes.

REVERSE REPURCHASE AGREEMENTS

The Fund may enter into reverse repurchase agreements. Under a reverse repurchase agreement, the Fund temporarily transfers possession of a portfolio instrument to another party, such as a bank or broker-dealer, in return for cash. At the same time, the Fund agrees to repurchase the instrument at an agreed upon time (normally within seven days) and price, which reflects an interest payment. The Fund may enter into such agreements when it is able to invest the cash acquired at a rate higher than the cost of the agreement, which would increase earned income.

When the Fund enters into a reverse repurchase agreement, any fluctuations in the market value of either the securities transferred to another party or the securities in which the proceeds may be invested would affect the market value of the Fund's assets. As a result, such transactions may increase fluctuations in the market value of the Fund's assets. While there is a risk that large fluctuations in the market value of the Fund's assets could affect net asset value, this risk is not significantly increased by entering into reverse repurchase agreements, in the opinion of the Adviser. Because reverse repurchase agreements may be considered to be the practical equivalent of borrowing funds, they constitute a form of leverage. Such agreements will be treated as subject to investment restrictions regarding "borrowings." If the Fund reinvests the proceeds of a reverse repurchase agreement at a rate lower than the cost of the agreement, entering into the agreement will lower the Fund's yield.

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PORTFOLIO TURNOVER

The Fund cannot accurately predict its portfolio turnover rate, but the annual turnover rate may exceed 100% (excluding turnover of securities having a maturity of one year or less). A high turnover rate (100% or more) necessarily involves greater expenses to the Fund and may result in a realization of net short-term capital gains. The Fund may engage in active short-term trading to benefit from yield disparities among different issues of securities or among the markets for fixed income securities of different countries, to seek short-term profits during periods of fluctuating interest rates, or for other reasons. Such trading will increase the Fund's rate of turnover and may increase the incidence of net short-term capital gains which, upon distribution by the Fund, are taxable to Fund Shareholders as ordinary income.

USE OF LEVERAGE AND RELATED RISKS

The Fund expects to use leverage through the issuance of preferred shares, and/or through borrowings, including the issuance of debt securities. The Fund initially intends to use leverage of approximately 34% of its gross assets (including the amount obtained from leverage). The Fund generally will not use leverage if the Adviser anticipates that it would result in a lower return to Shareholders for any

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significant amount of time. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

Leverage creates risks for holders of the Shares, including the likelihood of greater volatility of net asset value and market price of the Shares. There is a risk that fluctuations in the dividend rates on any preferred shares may adversely affect the return to the holders of the Shares. If the income from the securities purchased with such funds is not sufficient to cover the cost of leverage, the return on the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to Shareholders as dividends and other distributions will be reduced. The Adviser in its best judgment nevertheless may determine to maintain the Fund's leveraged position if it deems such action to be appropriate in the circumstances. During periods in which the Fund is using leverage the fees paid to Eaton Vance for investment advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's gross assets, including proceeds from the issuance of preferred shares. As discussed under "Description of capital structure," the Fund's issuance of preferred shares may alter the voting power of common shareholders.

Capital raised through leverage will be subject to dividend payments, which may exceed the income and appreciation on the assets purchased. The issuance of preferred shares involves offering expenses and other costs and may limit the Fund's freedom to pay dividends on Shares or to engage in other activities. The issuance of a class of preferred shares having priority over the Fund's Shares creates an opportunity for greater return per Share, but at the same time such leveraging is a speculative technique in that it will increase the Fund's exposure to capital risk. Unless the income and appreciation, if any, on assets acquired with offering proceeds exceed the cost of issuing additional classes of securities (and other Fund expenses), the use of leverage will diminish the investment performance of the Fund's Shares compared with what it would have

been without leverage.

The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more Rating Agencies that may issue ratings for any preferred shares issued by the Fund. These guidelines may impose asset coverage or Fund composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will impede the Adviser from managing the Fund's portfolio in accordance with the Fund's investment objectives and policies.

Under the Investment Company Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the total asset value of the Fund's portfolio is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the Fund's total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Shares unless, at the time of such declaration, the net asset value of the Fund's portfolio (determined after deducting the amount of such dividend or other distribution) is at least 200% of such liquidation value. If preferred shares are issued, the Fund intends, to the extent possible, to purchase or redeem preferred shares, from time to time, to maintain coverage of any preferred shares of at least 200%. If the Fund issues preferred shares amounting to 34% leverage, there will be an asset coverage of 294%. Normally, holders of the Shares will elect five of the Trustees of the Fund and holders of any preferred shares will elect two. In the event the Fund failed to pay dividends on its preferred shares for two years, preferred shareholders would be entitled to elect a majority of the Trustees until the dividends are paid.

To qualify for federal income taxation as a "regulated investment company," the Fund must distribute in each taxable year at least 90% of its net investment income (including net interest income and net short-term gain). The Fund also will be required to distribute annually substantially all of its income and capital gain, if any, to avoid imposition of a nondeductible 4% federal excise tax. If the Fund is

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

precluded from making distributions on the Shares because of any applicable asset coverage requirements, the terms of the preferred shares may provide that any amounts so precluded from being distributed, but required to be distributed for the Fund to meet the distribution requirements for qualification as a regulated investment company, will be paid to the holders of the preferred shares as a special dividend. This dividend can be expected to decrease the amount that holders of preferred shares would be entitled to receive upon redemption or liquidation of the shares.

The Fund's willingness to issue new securities for investment purposes, and the amount the Fund will issue, will depend on many factors, the most important of which are market conditions and interest rates. Successful use of a leveraging strategy may depend on the Adviser's ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

Assuming the utilization of leverage in the amount of 34% of the Fund's gross assets and an annual dividend rate on preferred shares of 1.35% payable on such leverage based on market rates as of the date of this Prospectus, the additional income that the Fund must earn (net of expenses) in order to cover such dividend payments is 0.70%. The Fund's actual cost of leverage will be based on market

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rates at the time the Fund undertakes a leveraging strategy, and such actual cost of leverage may be higher or lower than that assumed in the previous example.

The following table is designed to illustrate the effect on the return to a holder of the Fund's Shares of leverage in the amount of approximately 34% of the Fund's gross assets, assuming hypothetical annual returns of the Fund's portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to Shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

| | | | | | |
|--|----------|---------|---------|-------|--------|
| Assumed portfolio return (net of expenses)..... | (10)% | (5)% | 0% | 5% | 10% |
| Corresponding Share return assuming 34% leverage..... | (15.85)% | (8.27)% | (0.70)% | 6.88% | 14.46% |

Until the Fund issues preferred shares, the Shares will not be leveraged, and the risks and special considerations related to leverage described in this Prospectus will not apply. Such leveraging of the Shares cannot be achieved until the proceeds resulting from the use of leverage have been invested in accordance with the Fund's investment objectives and policies.

ADDITIONAL RISK CONSIDERATIONS

NO OPERATING HISTORY

The Fund is a closed-end management investment company with no history of operations and is designed for long-term investors and not as a trading vehicle.

INCOME RISK

The income investors receive from the Fund is based primarily on the interest it earns from its investments, which can vary widely over the short and long-term. If prevailing market interest rates drop, investors' income from the Fund over time could drop as well. The Fund's income could also be affected already when prevailing short-term interest rates increase and the Fund is utilizing leverage, although this risk is mitigated by the Fund's investment in Senior Loans.

CREDIT RISK

Credit risk is the risk that one or more debt obligations in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the obligation experiences a decline in its financial status. Credit risk involves two types: delinquency and default. Delinquency refers to

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interruptions in the payment of interest and principal. Default refers to the potential for unrecoverable principal loss from the sale of foreclosed collateral or the Fund's inherent right to forgive principal or modify a debt instrument. For MBS, factors contributing to these risks include the effects of general and local economic conditions on home values, the financial conditions of homeowners, and other market factors. This risk is mitigated by a U.S. government agency's or instrumentality's guarantee of the underlying debt

obligation.

PREPAYMENT RISK

During periods of declining interest rates or for other purposes, the borrowers may exercise their option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Non-Investment Grade Bonds frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price only if certain prescribed conditions are met ("call protection"). An issuer may redeem a high yield obligation if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans and MBS typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Fund, prepayment risk may be enhanced.

ISSUER RISK

The value of corporate income-producing securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods and services.

DERIVATIVES RISK

Derivative transactions (such as futures contracts and options thereon, options, swaps and short sales) subject the Fund to increased risk of principal loss due to imperfect correlation or unexpected price or interest rate movements. The Fund also will be subject to credit risk with respect to the counterparties to the derivatives contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

MANAGEMENT RISK

The Fund is subject to management risk because it is an actively managed portfolio. Eaton Vance and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

LIQUIDITY RISK

The Fund may invest in securities for which there is no readily available trading market or which are otherwise illiquid. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell such securities if they were more widely traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the debt securities, thereby adversely affecting the Fund's net asset value and ability to make dividend distributions.

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REINVESTMENT RISK

Income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations into lower yielding instruments. A decline in income could affect the Shares' distribution rate and their overall return.

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INFLATION RISK

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of preferred shares would likely increase, which would tend to further reduce returns to Shareholders. This risk is mitigated to some degree by the Fund's investments in Senior Loans.

MARKET PRICE OF SHARES

The shares of closed-end management investment companies often trade at a discount from their net asset value, and the Fund's Shares may likewise trade at a discount from net asset value. The trading price of the Fund's Shares may be less than the public offering price. This risk may be greater for investors who sell their Shares in a relatively short period after completion of the public offering.

INTEREST RATE RISK

The value of Fund shares will usually change in response to interest rate fluctuations. When interest rates decline, the value of fixed-rate securities already held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of existing fixed-rate portfolio securities can be expected to decline. Because market interest rates are currently near their lowest levels in many years, there is a greater than normal risk that the Fund's portfolio will decline in value due to rising interest rates. Fluctuations in the value of fixed-rate securities will not affect interest income on existing securities but will be reflected in the Fund's net asset value. Fixed-rate securities with longer durations tend to be more sensitive to changes in interest rates than securities with shorter durations, usually making them more volatile. Because the Fund will normally have a dollar-weighted average duration of between two and four years (including the effects of anticipated leverage), the Shares' net asset value and market price per Share will tend to fluctuate more in response to changes in market interest rates than if the Fund invested mainly in short-term debt securities and less than if the Fund invested mainly in longer-term debt securities. The Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of the portfolio and decreasing the Fund's exposure to interest rate risk, although there is no assurance that it will do so or that such strategies will be successful. The Fund is intended to have a relatively low level of interest rate risk.

MARKET DISRUPTION

The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the securities markets. The Fund cannot predict the effects of similar events in the future on the U.S. economy. These terrorist attacks and related events, including the war in Iraq, have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. A similar disruption of the financial markets could impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Shares. In particular, Non-Investment Grade Bonds and Senior Loans tend to be more volatile than higher rated fixed income securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility on Non-Investment Grade Bonds and Senior Loans than on higher rated fixed income securities.

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INVESTMENT OBJECTIVES, POLICIES AND RISKS

ANTI-TAKEOVER PROVISIONS

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The Fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other persons or entities to acquire control of the Fund or to change the composition of its Board. See "Description of capital structure--Anti-takeover provisions in the Declaration of Trust."

Management of the Fund

BOARD OF TRUSTEES

The management of the Fund, including general supervision of the duties performed by the Adviser under the Advisory Agreement (as defined below), is the responsibility of the Fund's Board under the laws of The Commonwealth of Massachusetts and the 1940 Act.

THE ADVISER

Eaton Vance acts as the Fund's investment adviser under an Investment Advisory Agreement (the "Advisory Agreement"). The Adviser's principal office is located at The Eaton Vance Building, 255 State Street, Boston, MA 02109. Eaton Vance, its affiliates and predecessor companies have been managing assets of individuals and institutions since 1924 and of investment companies since 1931. Eaton Vance (or its affiliates) currently serves as the investment adviser to investment companies and various individual and institutional clients with combined assets under management of approximately \$55 billion as of March 31, 2003. Eaton Vance is an indirect, wholly-owned subsidiary of Eaton Vance Corp., a publicly-held holding company, which through its subsidiaries and affiliates engages primarily in investment management, administration and marketing activities.

Under the general supervision of the Fund's Board, the Adviser will carry out the investment and reinvestment of the assets of the Fund, will furnish continuously an investment program with respect to the Fund, will determine which securities should be purchased, sold or exchanged, and will implement such determinations. The Adviser will furnish to the Fund investment advice and office facilities, equipment and personnel for servicing the investments of the Fund. The Adviser will compensate all Trustees and officers of the Fund who are members of the Adviser's organization and who render investment services to the Fund, and will also compensate all other Adviser personnel who provide research and investment services to the Fund. In return for these services, facilities and payments, the Fund has agreed to pay the Adviser as compensation under the Advisory Agreement a fee in the amount of 0.75% of the average weekly gross assets of the Fund. Gross assets of the Fund shall be calculated by deducting accrued liabilities of the Fund not including the amount of any preferred shares outstanding or the principal amount of any indebtedness for money borrowed. During periods in which the Fund is using leverage, the fees paid to Eaton Vance for investment advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's gross assets, including proceeds from any borrowings and from the issuance of preferred shares.

Thomas E. Faust, Jr. (Executive Vice President and Chief Investment Officer of Eaton Vance), Susan Schiff, Scott H. Page, Payson F. Swaffield, Michael Weilheimer and other Eaton Vance investment professionals comprise the investment team responsible for the overall management of the Fund's investments as well as allocations among the Fund's three principal investment categories. The

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MANAGEMENT OF THE FUND

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following individual members of this team are responsible for the day-to-day management with each of the Fund's three main asset classes:

MBS. Ms. Schiff is responsible for the day-to-day management of the Fund's MBS strategy. Ms. Schiff, has been an Eaton Vance portfolio manager since 1991, and is a Vice President of Eaton Vance. Among other portfolios, she currently manages Eaton Vance Government Obligations Fund, a registered open-end fund, which employs an investment strategy primarily focused on MBS. As of March 31, 2003, this fund had assets of \$1.8 billion.

Senior Loans. Mr. Page and Mr. Swaffield are responsible for the day-to-day management of the Fund's Senior Loan strategy. Among other portfolios, Mr. Page and Mr. Swaffield have each been Eaton Vance portfolio managers since 1996, and are Vice Presidents of Eaton Vance. They currently co-manage Eaton Vance Prime Rate Reserves, a registered closed-end interval fund, Eaton Vance Classic Senior Floating-Rate Fund, a registered closed-end interval fund, Eaton Vance Floating-Rate Fund, a registered open-end fund, Eaton Vance Floating-Rate High Income Fund, a registered open-end fund, and Eaton Vance Senior Income Trust, a registered closed-end fund listed on the New York Stock Exchange, all of which employ investment strategies primarily focused on Senior Loans. As of March 31, 2003, these funds had combined assets of \$3.2 billion. See "Additional investment information and restrictions -- Litigation involving Eaton Vance" in the SAI for further information.

Non-Investment Grade Bonds. Mr. Weilheimer is responsible for the day-to-day management of the Fund's Non-Investment Grade Bond strategy. Mr. Weilheimer has been an Eaton Vance portfolio manager since 1996, and is a Vice President of Eaton Vance. Among other portfolios, he currently co-manages Eaton Vance High Income Fund, a registered open-end fund, and Eaton Vance Income Fund of Boston, a registered open-end fund, both of which employ investment strategies primarily focused on Non-Investment Grade Bonds. As of March 31, 2003, these funds had combined assets of \$1.8 billion.

The Fund and the Adviser have adopted a Code of Ethics relating to personal securities transactions. The Code permits Adviser personnel to invest in securities (including securities that may be purchased or held by the Fund) for their own accounts, subject to certain pre-clearance, reporting and other restrictions and procedures contained in such Code.

Eaton Vance serves as administrator of the Fund but currently receives no compensation for providing administrative services to the Fund. Under an Administration Agreement with the Fund ("Administration Agreement"), Eaton Vance is responsible for managing the business affairs of the Fund, subject to the supervision of the Fund's Board. Eaton Vance will furnish to the Fund all office facilities, equipment and personnel for administering the affairs of the Fund. Eaton Vance's administrative services include recordkeeping, preparation and filing of documents required to comply with federal and state securities laws, supervising the activities of the Fund's custodian and transfer agent, providing assistance in connection with the Trustees' and shareholders' meetings, providing service in connection with any repurchase offers and other administrative services necessary to conduct the Fund's business.

Distributions

The Fund intends to make monthly distributions of net investment income, after payment of interest on any outstanding borrowings or dividends on any outstanding preferred shares. The Fund will distribute annually any net short-term capital gain and any net capital gain (which is the excess of net long-term capital gain over short-term capital loss). Distributions to Shareholders cannot be assured, and the amount of each monthly distribution is likely to vary. Initial distributions to Shareholders are expected to be

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declared approximately 45 days and paid approximately 60 to 90 days after the

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DISTRIBUTIONS

completion of this offering depending on market conditions. While there are any borrowings or preferred shares outstanding, the Fund may not be permitted to declare any cash dividend or other distribution on its Shares in certain circumstances. See "Description of capital structure."

FEDERAL INCOME TAX MATTERS

The following discussion of federal income tax matters is based on the advice of Kirkpatrick & Lockhart LLP, counsel to the Fund.

The Fund intends to make monthly distributions of net investment income after payment of dividends on any outstanding preferred shares or interest on any outstanding borrowings. The Fund will distribute annually any net short-term capital gain (which are taxable as ordinary income) and any net capital gain. Distributions of the Fund's net capital gains ("capital gain dividends"), if any, are taxable to Shareholders as long-term capital gains, regardless of the length of time Shares have been held by Shareholders. Distributions, if any, in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's Shares and, after that basis has been reduced to zero, will constitute capital gains to the Shareholder (assuming the Shares are held as a capital asset). See below for a summary of the maximum tax rates applicable to capital gains (including capital gain dividends). Dividends will not qualify for a dividends received deduction generally available to corporate Shareholders.

The Fund will inform Shareholders of the source and tax status of all distributions promptly after the close of each calendar year.

Selling Shareholders will generally recognize gain or loss in an amount equal to the difference between the Shareholder's adjusted tax basis in the Shares sold and the amount received. If the Shares are held as a capital asset, the gain or loss will be a capital gain or loss. The maximum tax rate applicable to net
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Other surplus reserves

37,632

50,878

37,632

50,878

Total shareholders equity

38,166

51,600

38,166

51,600

Total capitalization

124,064

167,734

125,174

169,234

- (1) For your convenience, we have translated euro amounts into U.S. dollars at the Noon Buying Rate on June 29, 2007, of \$1.3520 to EUR 1.00.
- (2) Short-term debt and long-term debt include savings accounts, time deposits and other customer credit balances, certificates of deposit, debentures and other non-subordinated debt securities, securities sold subject to repurchase agreements, non-subordinated interbank debt and other borrowings.
- (3) As adjusted columns include the Securities offered hereby.
- (4) We have also authorized 1,000,000,000 B Preference shares (nominal value EUR 0.24) and 900,000,000 Cumulative Preference Shares (nominal value EUR 1.20), of which there were none outstanding as of June 30, 2007.

USE OF PROCEEDS

The net proceeds to ING Groep N.V. from the sale of the Securities offered pursuant to this prospectus supplement (after deducting the underwriting discount and estimated offering expenses) are expected to be approximately \$1,452,450,000. We will use the net proceeds of the issue and sale of the Securities for general corporate purposes and to further strengthen our capital base.

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DESCRIPTION OF THE ING PERPETUAL HYBRID CAPITAL SECURITIES

*The following description is only a summary and does not describe every aspect of the Securities or the Indenture. Therefore, it may not contain all of the information that is important to you as a potential purchaser of the Securities. If you purchase the Securities, your rights will be determined by the Securities, the Indenture and the Trust Indenture Act of 1939. In light of this, you should read the Indenture and the form of the Securities filed with the Securities and Exchange Commission before making an investment decision. You can read the Indenture and the form of Securities at the locations listed under *Where You Can Find More Information* in this prospectus supplement.*

General

The following summary description of the material terms and provisions of the Securities supplements the description of certain terms and provisions of the debt securities of any series set forth in the accompanying prospectus under *Description of Debt Securities We May Offer*. Together with the terms of the debt securities contained in the accompanying prospectus, the terms described herein constitute a description of the material terms of the Securities. In cases of inconsistency between the terms described herein and the relevant terms described in the prospectus, the terms presented herein will apply and replace those described in the accompanying prospectus.

The Securities will be issued under our subordinated debt indenture, dated as of July 18, 2002, between us and The Bank of New York, as trustee, which we refer to as the Subordinated Indenture, and a seventh supplemental indenture, to be dated as of the date of delivery of the Securities, between us and The Bank of New York, as trustee, which we refer to as the Supplemental Indenture. We refer to the Subordinated Indenture and the Supplemental Indenture collectively as the Indenture. The Securities will be treated as a separate series of our subordinated debt securities. We will file a copy of the Supplemental Indenture relating to the Securities and the form of the Securities with the SEC. In accordance with the terms of the Subordinated Indenture, we are permitted to issue additional Securities that would be considered part of the same series of Securities we are offering pursuant to this prospectus supplement. None of the defeasance provisions contained in Section 1302 of the Subordinated Indenture will apply to the Securities and those provisions will not be considered part of the Indenture with respect to the Securities.

Form and Denomination

We will issue the Securities only in fully registered form, without coupons, in the form of beneficial interests in one or more global securities. The Securities will be issued in denominations of US\$25 and integral multiples thereof. We will issue the Securities as global securities registered in the name of Cede & Co., as nominee for DTC. Please read *Book-entry System; Delivery and Form* for more information about the form of the Securities and their clearance and settlement.

Interest

Subject to our right to defer interest payments as described under *Deferral of Interest*, accrued and unpaid interest on the Securities for each Interest Period will be payable on the immediately following interest payment date to holders on the regular record date for that interest payment date. The regular record dates for each interest payment date will be January 1, April 1, July 1 and October 1, respectively, whether or not a business day.

If any interest payment date is not a business day, interest otherwise payable on that date shall be payable on the next following day that is a business day and no additional interest, penalty or other amount shall be due or payable by us in respect of that delay.

Interest on the Securities will accrue on the principal amount thereof at the rate of 7.375% per annum from the issue date, computed on the basis of a 360-day year of twelve 30-day months.

Payments

Method of Payment

Payments of any amounts in respect of any Securities represented by global securities will be made by the trustee to DTC. Any such payments of interest and certain other payments on or in respect of the Securities will be in U.S. dollars and will be calculated by the trustee or such other agent as we may appoint.

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Except on our Winding Up, all interest payments on the Securities other than certain payments required to be made as described under *Mandatory Interest Payment Mandatory Payment Event* will be conditional upon no Required Deferral Condition existing at the time of payment.

Payments Subject to Fiscal Laws

All payments made in respect of the Securities will be subject, in all cases, to any fiscal or other laws and regulations applicable thereto in the place of payment, but such laws or regulations will not affect our obligation to pay Additional Amounts.

Deferral of Interest

Interest payments with respect to the Securities will be subject to deferral in the following circumstances.

Optional Deferral of Interest

Subject to the payment restrictions described below and unless mandatorily deferred as described below, we may defer all or part of any accrued interest otherwise due on an interest payment date by giving a notice (a *Deferral Notice*) to the trustee (who shall in turn notify the holders of the Securities) not less than 16 business days prior to the interest payment date on which that accrued interest or part thereof would otherwise have been due and payable.

Any interest or part thereof that we have deferred as described above shall bear interest at the rate of % per annum from and including the interest payment date on which that interest or part thereof would otherwise have been due and payable to but excluding the date on which that interest or part thereof and accrued and unpaid interest thereon have been paid in full, except that interest shall not accrue on any such deferred interest payment or part thereof for any period during which a Required Deferral Condition exists.

Mandatory Deferral of Interest

Subject to the payment restrictions described below, if, on the 20th business day preceding the interest payment date on which accrued interest or part thereof would otherwise be due on an interest payment date, a Required Deferral Condition exists, then, unless that accrued interest or part thereof has been deferred at our option as described above, we will be required to defer that accrued interest or part thereof to the extent necessary by giving a *Deferral Notice* to the trustee (who shall in turn notify the holders of the Securities) not less than 16 business days prior to the interest payment date on which that accrued interest or part thereof would otherwise have been due and payable.

Any interest that we have mandatorily deferred as described above will not bear interest prior to the *Accruing Interest Date* for that interest. The *Accruing Interest Date* for any interest that has been mandatorily deferred as described above will be the next succeeding interest payment date with respect to which we determine, on the 20th business day preceding such interest payment date, that no Required Deferral Condition exists. From and including the *Accruing Interest Date* for any mandatorily deferred interest, that interest will bear interest at the rate of 7.375% per annum to but excluding the date on which that deferred interest and accrued and unpaid interest thereon shall have been paid in full, except that interest shall not accrue on any such deferred interest payment or part thereof for any period during which a Required Deferral Condition exists.

We will provide a notice of the *Accruing Interest Date*, if any, with respect to interest that has been mandatorily deferred as described above to the trustee (who shall in turn notify the holders of the Securities) not less than 16 business days prior to the *Accruing Interest Date*.

Upon our Winding Up, holders of the Securities will be deemed to have waived the right to receive any accrued and unpaid deferred interest that shall have been mandatorily deferred as described above and any accrued and unpaid interest thereon. We shall have no obligation to pay such deferred interest or any accrued and unpaid interest thereon.