

FEDERAL AGRICULTURAL MORTGAGE CORP  
 Form 4  
 April 03, 2014

**FORM 4**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287  
 Expires: January 31, 2005  
 Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 McElroy James B.

2. Issuer Name and Ticker or Trading Symbol  
 FEDERAL AGRICULTURAL MORTGAGE CORP [AGM]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)  
 04/02/2014

Director  10% Owner  
 Officer (give title below)  Other (specify below)

C/O FARMER MAC, 1999 K STREET N.W., 4TH FLOOR

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

WASHINGTON, DC 20006

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
			Code	V	Amount		
Class C Non-Voting Common Stock	04/02/2014		A		1,475	A	\$ 0 (1) 3,560 D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Reporting Transaction (Instr. 6)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
McElroy James B. C/O FARMER MAC 1999 K STREET N.W., 4TH FLOOR WASHINGTON, DC 20006	X			

## Signatures

Anjali Desai, as attorney-in-fact for James B. McElroy  
Date: 04/03/2014

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Grant of shares of restricted stock under the Federal Agricultural Mortgage Corporation's ("Farmer Mac") 2008 Omnibus Incentive Plan (1) for no consideration. All of the shares of restricted stock will vest on March 31, 2015 if the Reporting Person remains a director of Farmer Mac on that date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. NT>1.05%

Acquiring Fund (MIY)

1.05%

The Ratings Spread will increase in the event the VRDP Shares are rated below Aaa/AAA by all of the rating agencies rating the VRDP Shares at the time such Ratings Spread is determined, up to a maximum of 4.00% in the event the VRDP Shares are either rated below Baa3/BBB1 by at least one of the rating agencies then rating the VRDP Shares or not rated by any rating agency.

In addition, if a Fund redeems its VRDP Shares on a date that is one year or more before the end of the Special Rate Period and the VRDP Shares of the Fund are rated above A1/A by Moody's and Fitch respectively, then such redemption is subject to a redemption premium payable to the Fund's VRDP Holders based on the time remaining in the Special Rate Period, subject to certain exceptions for redemptions that are required to maintain minimum asset coverage requirements.

Under each Fund's Fee Agreement with the liquidity provider, to the extent the liquidity provider together with certain affiliates individually or in the aggregate own at least 20% of the outstanding VRDP Shares and the Fund has not failed to pay dividends on the VRDP Shares for two years, the liquidity provider agreed to enter into and maintain a voting trust agreement and convey into the voting trust the right to vote all of its VRDP Shares owned by it or such affiliates, with respect to: (i) the election of the two members of the Board for which VRDP Holders are entitled to vote under the 1940 Act and all other rights given to VRDP Holders with respect to the election of the Board; (ii) the conversion of the Fund from a closed-end management investment company to an open-end fund, or to change the Fund's classification from diversified to non-diversified; (iii) the deviation from a policy in respect of concentration of investments in any particular industry or group of industries as recited in the Fund's registration statement; and (iv) borrowing money, issuing senior securities, underwriting securities issued by other persons, purchasing or selling real estate or commodities or making loans to other persons other than in accordance with the recitals of policy with respect thereto in the Fund's registration statement.

If the Special Rate Period is not extended, the VRDP Shares will revert back to remarketable securities and will be remarketed and available for purchase by qualified institutional investors. There is no assurance that the VRDP Shares will be remarketed or purchased by investors after the termination of the Special Rate Period. If the VRDP Shares are not remarketed or purchased, then a failed remarketing will occur. As described above, in the event of a failed remarketing, the dividend rate of the VRDP Shares will be reset to the maximum rate and the VRDP Shares that have not been remarketed are required to be purchased by the liquidity provider and subject to redemption by the Fund after six months of continuous, unsuccessful remarketing.

## FINANCIAL HIGHLIGHTS

BlackRock MuniYield Michigan Quality Fund II, Inc. (MYM)

The Financial Highlights table is intended to help you understand the Target Fund's financial performance for the periods shown. Certain information reflects the financial results for a single Common Share of the Target Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in the Target Fund (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six month period ended January 31, 2015 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, the Target Fund's independent registered public accounting firm. Financial statements for the fiscal year ended July 31, 2014 and the Report of the Independent Registered Public Accounting Firm thereon appear in the Target Fund's Annual Report for the fiscal year ended July 31, 2014, which is available upon request.

MuniYield Michigan Quality Fund II, Inc. Per Share Operating Performance	BlackRock MuniYield Michigan Quality Fund II, Inc. (MYM) Year Ended July 31,						
	Six Months Ended January 31, 2015 (unaudited)	2014	2013	2012	2011	2010	2009
Net asset value, beginning of period	\$ 14.26	\$ 13.28	\$ 15.14	\$ 13.53	\$ 13.82	\$ 12.87	\$ 13.24
Net investment income <sup>1</sup>	0.38	0.79	0.81	0.80	0.86	0.91	0.93
Net realized and unrealized gain (loss)	0.88	1.00	(1.84)	1.68	(0.26)	0.90	(0.49)
Distributions to AMPS shareholders from net investment income					(0.03)	(0.04)	(0.14)
Net increase (decrease) from investment operations	1.26	1.79	(1.03)	2.48	0.57	1.77	0.30
Distributions to Common Shareholders from net investment income <sup>2</sup>	(0.40)	(0.81)	(0.83)	(0.87)	(0.86)	(0.82)	(0.67)
Capital charges with respect to the issuance of Preferred Shares							
Total distributions to Common Shareholders	(0.40)	(0.81)	(0.83)	(0.87)	(0.86)	(0.82)	(0.67)
Net asset value, end of period	\$ 15.12	\$ 14.26	\$ 13.28	\$ 15.14	\$ 13.53	\$ 13.82	\$ 12.87
Market price, end of period	\$ 13.45	\$ 12.56	\$ 11.64	\$ 14.52	\$ 12.28	\$ 13.67	\$ 11.58
<b>Total Return Applicable to Common Shareholders<sup>3</sup></b>							
Based on net asset value	9.33% <sup>6</sup>	14.84%	(6.99)%	19.01%	4.74%	14.62%	3.81%
Based on market price	10.42% <sup>6</sup>	15.39%	(14.99)%	25.76%	(3.89)%	26.01%	6.34%

MuniYield Michigan Quality Fund II, Inc. Per Share Operating Performance	BlackRock MuniYield Michigan Quality Fund II, Inc. (MYM) Year Ended October 31,				
	Period November 1, 2007 to July 13, 2008	2007	2006	2005	2004
Net asset value, beginning of period	\$ 14.13	\$ 14.60	\$ 14.54	\$ 15.21	\$ 15.21
Net investment income <sup>1</sup>	0.70	0.97	0.97	0.99	1.00
Net realized and unrealized gain (loss)	(0.88)	(0.47)	0.13	(0.58)	(0.00) <sup>10</sup>
Distributions to AMPS shareholders from net investment income	(0.21)	(0.29)	(0.26)	(0.15)	(0.07)
Net increase (decrease) from investment operations	(0.39)	0.21	0.84	0.26	0.93
Distributions to Common Shareholders from net investment income <sup>2</sup>	(0.50)	(0.68)	(0.78)	(0.91)	(0.93)
Capital charges with respect to the issuance of Preferred Shares			0.00 <sup>9</sup>	(0.02)	
Total distributions to Common Shareholders	(0.50)	(0.68)	(0.78)	(0.93)	(0.93)
Net asset value, end of period	\$ 13.24	\$ 14.13	\$ 14.60	\$ 14.54	\$ 15.21
Market price, end of period	\$ 11.63	\$ 12.61	\$ 13.97	\$ 14.41	\$ 14.54
<b>Total Return Applicable to Common Shareholders<sup>3</sup></b>					
Based on net asset value	(2.48)% <sup>6</sup>	1.78%	6.09%	1.73%	6.78%
Based on market price	(4.01)% <sup>6</sup>	(5.07)%	2.42%	5.47%	12.91%

**BlackRock MuniYield Michigan Quality  
Fund II, Inc. (MYM)  
Year Ended July 31,**

<b>MuniYield Michigan Quality Fund II, Inc. Ratios to Average Net Assets Applicable to Common Shareholders</b>	<b>Six Months Ended January 31, 2015 (unaudited)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Total expenses	1.46% <sup>7</sup>	1.55%	1.54%	1.71%	1.32% <sup>5</sup>	1.08% <sup>5</sup>	1.28% <sup>5</sup>
Total expenses after fees waived	1.46% <sup>7</sup>	1.55%	1.54%	1.71%	1.31% <sup>5</sup>	1.07% <sup>5</sup>	1.26% <sup>5</sup>
Total expenses after fees waived and excluding interest expense, fees and amortization of offering costs <sup>4</sup>	0.92% <sup>7</sup>	0.96%	0.95%	1.37%	1.21% <sup>5</sup>	1.03% <sup>5</sup>	1.12% <sup>5</sup>
Net investment income	5.16% <sup>7</sup>	5.81%	5.41%	5.56%	6.46% <sup>5</sup>	6.74% <sup>5</sup>	7.43% <sup>5</sup>
Distributions to AMPS shareholders	7				0.23%	0.28%	1.15%
Net investment income to Common Shareholders	5.16% <sup>7</sup>	5.81%	5.41%	5.56%	6.23%	6.46%	6.28%
<b>Supplemental Data</b>							
Net assets applicable to Common Shareholders, end of period (000)	\$ 182,985	\$ 172,575	\$ 160,634	\$ 183,076	\$ 163,276	\$ 166,773	\$ 155,360
AMPS outstanding at \$25,000 liquidation preference, end of period (000)						\$ 87,350	\$ 87,350
Asset coverage per AMPS at \$25,000 liquidation preference, end of period						\$ 72,733	\$ 69,467
VRDP Shares outstanding at \$100,000 liquidation value, end of period (000)	\$ 87,300	\$ 87,300	\$ 87,300	\$ 87,300	\$ 87,300		
Asset coverage per VRDP Shares at \$100,000 liquidation value, end of period	\$ 309,605	\$ 297,681	\$ 284,002	\$ 309,709	\$ 287,029		
Borrowings outstanding, end of period (000)	\$ 13,493	\$ 13,492	\$ 19,344	\$ 16,718	\$ 9,030	\$ 9,030	\$ 9,030
Asset coverage, end of year per \$1,000 of borrowings	\$ 14,561	\$ 13,791	\$ 9,304	\$ 11,951	\$ 19,082	\$ 19,469	\$ 18,205
Portfolio turnover rate	11%	17%	14%	19%	18%	18%	9%

MuniYield Michigan Quality Fund II, Inc. Ratios to Average Net Assets Applicable to Common Shareholders	BlackRock MuniYield Michigan Quality Fund II, Inc. (MYM) Year Ended October 31,				
	Period November 1, 2007 to July 13, 2008	2007	2006	2005	2004
Total expenses	1.48% <sup>5,7</sup>	1.69% <sup>5</sup>	1.65% <sup>5</sup>	1.47% <sup>5</sup>	1.28% <sup>5</sup>
Total expenses after fees waived	1.45% <sup>5,7</sup>	1.68% <sup>5</sup>	1.64% <sup>5</sup>	1.46% <sup>5</sup>	1.26% <sup>5</sup>
Total expenses after fees waived and excluding interest expense, fees and amortization of offering costs <sup>4</sup>	1.14% <sup>5,7</sup>	1.14% <sup>5</sup>	1.13% <sup>5</sup>	1.07% <sup>5</sup>	1.05% <sup>5</sup>
Net investment income	6.61% <sup>5,7</sup>	6.77% <sup>5</sup>	6.72% <sup>5</sup>	6.57% <sup>5</sup>	6.61% <sup>5</sup>
Distributions to AMPS shareholders	1.98% <sup>7</sup>	2.05%	1.78%	0.97%	0.47%
Net investment income to Common Shareholders	4.63% <sup>7</sup>	4.72%	4.94%	5.60%	6.14%
<b>Supplemental Data</b>					
Net assets applicable to Common Shareholders, end of period (000)	\$ 159,759	\$ 170,559	\$ 176,216	\$ 175,264	\$ 183,224
AMPS outstanding at \$25,000 liquidation preference, end of period (000)	\$ 87,350	\$ 99,000	\$ 99,000	\$ 99,000	\$ 89,000
Asset coverage per AMPS at \$25,000 liquidation preference, end of period	\$ 70,730 <sup>11</sup>	\$ 68,076 <sup>11</sup>	\$ 69,507 <sup>11</sup>	\$ 69,269 <sup>11</sup>	\$ 76,471 <sup>11</sup>
VRDP Shares outstanding at \$100,000 liquidation value, end of period (000)					
Asset coverage per VRDP Shares at \$100,000 liquidation value, end of period					
Borrowings outstanding, end of period (000)	\$ 26,729	\$ 20,996	\$ 23,684	\$	\$
Asset coverage, end of year per \$1,000 of borrowings	\$ 2,829	\$ 2,723	\$ 2,780	\$ 2,770	\$ 3,059
Portfolio turnover rate	20%	10%	14%	19%	35%

<sup>1</sup> Based on average Common Shares outstanding.

<sup>2</sup> Distributions for annual periods determined in accordance with federal income tax regulations.

<sup>3</sup> Total returns based on market price, which can be significantly greater or less than the net asset value, may result in substantially different returns. Where applicable, excludes the effects of any sales charges and assumes the reinvestment of distributions.

<sup>4</sup> Interest expense, fees and amortization of offering costs related to TOBs and/or VRDP Shares.

<sup>5</sup> Does not reflect the effect of distributions to AMPS shareholders.

<sup>6</sup> Aggregate total investment return.

<sup>7</sup> Annualized.

<sup>8</sup> For the year ended July 31, 2012, the total expense ratio after fees waived and excluding interest expense, fees, amortization of offering costs, liquidity and remarketing fees was 0.98%

<sup>9</sup> Amount is less than \$0.005 per share.

<sup>10</sup> Amount is less than \$(0.005) per share.

<sup>11</sup> Amounts have been recalculated to conform with current presentation.





**BlackRock MuniYield Michigan Quality Fund, Inc. (MIY)**

The Financial Highlights table is intended to help you understand the Acquiring Fund's financial performance for the periods shown. Certain information reflects the financial results for a single Common Share of the Acquiring Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in the Acquiring Fund (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the six month period ended January 31, 2015 is unaudited. The information for the remaining periods shown has been audited by Deloitte & Touche LLP, the Target Fund's independent registered public accounting firm. Financial statements for the fiscal year ended July 31, 2014 and the Report of the Independent Registered Public Accounting Firm thereon appear in the Target Fund's Annual Report for the fiscal year ended July 31, 2014, which is available upon request.

MuniYield Michigan Quality Fund, Inc. Per Share Operating Performance	BlackRock MuniYield Michigan Quality Fund, Inc. (MIY) Year Ended July 31,						
	Six Months Ended January 31, 2015 (unaudited)	2014	2013	2012	2011	2010	2009
Net asset value, beginning of period	\$ 15.24	\$ 14.16	\$ 16.18	\$ 14.63	\$ 14.92	\$ 13.93	\$ 14.16
Net investment income <sup>1</sup>	0.42	0.86	0.90	0.87	0.93	0.98	1.00
Net realized and unrealized gain (loss)	0.96	1.12	(2.00)	1.61	(0.26)	0.94	(0.40)
Distributions to AMPS shareholders from net investment income					(0.04)	(0.05)	(0.16)
Net increase (decrease) from investment operations	1.38	1.98	(1.10)	2.48	0.63	1.87	0.44
Distributions to Common Shareholders from net investment income <sup>2</sup>	(0.43)	(0.90)	(0.92)	(0.93)	(0.92)	(0.88)	(0.67)
Capital charges with respect to the issuance of Preferred Shares							
Total distributions to Common Shareholders	(0.43)	(0.90)	(0.92)	(0.93)	(0.92)	(0.88)	(0.67)
Net asset value, end of period	\$ 16.19	\$ 15.24	\$ 14.16	\$ 16.18	\$ 14.63	\$ 14.92	\$ 13.93
Market price, end of period	\$ 14.51	\$ 13.47	\$ 12.57	\$ 16.05	\$ 13.39	\$ 14.55	\$ 12.25
<b>Total Return Applicable to Common Shareholders<sup>3</sup></b>							
Based on net asset value	9.58% <sup>6</sup>	15.24%	(7.09)%	17.60%	4.78%	14.31	4.66%
Based on market price	11.12% <sup>6</sup>	14.74%	(16.86)%	27.46%	(1.67)%	26.76	5.95%

MuniYield Michigan Quality Fund, Inc. Per Share Operating Performance	BlackRock MuniYield Michigan Quality Fund, Inc. (MIY) Year Ended October 31,				
	Period November 1, 2007 to July 13, 2008	2007	2006	2005	2004
Net asset value, beginning of period	\$ 15.03	\$ 15.45	\$ 15.32	\$ 15.96	\$ 15.94
Net investment income <sup>1</sup>	0.70	1.06	1.04	1.08	1.06
Net realized and unrealized gain (loss)	(0.82)	(0.45)	0.22	(0.54)	0.03
Distributions to AMPS shareholders from net investment income	(0.23)	(0.32)	(0.29)	(0.18)	(0.07)
Net increase (decrease) from investment operations	(0.35)	0.29	0.97	0.36	1.02
Distributions to Common Shareholders from net investment income <sup>2</sup>	(0.52)	(0.71)	(0.84)	(0.98)	(1.00)
Capital charges with respect to the issuance of Preferred Shares				(0.02)	
Total distributions to Common Shareholders	(0.52)	(0.71)	(0.84)	(1.00)	(1.00)
Net asset value, end of period	\$ 14.16	\$ 15.03	\$ 15.45	\$ 15.32	\$ 15.96
Market price, end of period	\$ 12.30	\$ 13.40	\$ 14.67	\$ 15.31	\$ 15.37
<b>Total Return Applicable to Common Shareholders<sup>3</sup></b>					
Based on net asset value	(2.02)% <sup>6</sup>	2.30%	6.64%	2.24%	7.04%
Based on market price	(4.54)% <sup>6</sup>	(3.95)%	1.32%	6.10%	11.85%

**BlackRock MuniYield Michigan Quality  
Fund, Inc. (MIY)  
Year Ended July 31,**

	<b>Six Months Ended January 31, 2015 (unaudited)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>MuniYield Michigan Quality Fund, Inc. Ratios to Average Net Assets Applicable to Common Shareholders</b>							
Total expenses	1.46% <sup>7</sup>	1.54%	1.50%	1.72%	1.37% <sup>5</sup>	1.07% <sup>5</sup>	1.27% <sup>5</sup>
Total expenses after fees waived	1.46% <sup>7</sup>	1.54%	1.50%	1.72%	1.36% <sup>5</sup>	1.07% <sup>5</sup>	1.25% <sup>5</sup>
Total expenses after fees waived and excluding interest expense, fees and amortization of offering costs <sup>4</sup>	0.91% <sup>7</sup>	0.93%	0.89%	1.38% <sup>8</sup>	1.23% <sup>5</sup>	1.03% <sup>5</sup>	1.09% <sup>5</sup>
Net investment income	5.27% <sup>7</sup>	5.94%	5.62%	5.65%	6.48% <sup>5</sup>	6.72% <sup>5</sup>	7.37% <sup>5</sup>
Distributions to AMPS shareholders	7				0.25%	0.31%	1.19%
Net investment income to Common Shareholders	5.27% <sup>7</sup>	5.94%	5.62%	5.65%	6.23%	6.41%	6.18%
<b>Supplemental Data</b>							
Net assets applicable to Common Shareholders, end of period (000)	\$ 295,466	\$ 278,143	\$ 258,341	\$ 294,804	\$ 266,326	\$ 271,609	\$ 253,630
AMPS outstanding at \$25,000 liquidation preference, end of period (000)						\$ 144,650	\$ 144,650
Asset coverage per AMPS at \$25,000 liquidation preference, end of period						\$ 71,945	\$ 68,838
VRDP Shares outstanding at \$100,000 liquidation value, end of period (000)	\$ 144,600	\$ 144,600	\$ 144,600	\$ 144,600	\$ 144,600		
Asset coverage per VRDP Shares at \$100,000 liquidation value, end of period	\$ 304,333	\$ 292,354	\$ 278,659	\$ 303,876	\$ 284,181		
Borrowings outstanding, end of period (000)	\$ 23,487	\$ 23,487	\$ 34,876	\$ 29,568	\$ 16,190	\$ 16,190	\$ 16,190
Asset coverage, end of year per \$1,000 of borrowings	\$ 13,580	\$ 12,842	\$ 8,407	\$ 10,970	\$ 17,450	\$ 17,776	\$ 2,753
Portfolio turnover rate	9%	22%	17%	19%	16%	15%	9%

MuniYield Michigan Quality Fund, Inc. Ratios to Average Net Assets Applicable to Common Shareholders	BlackRock MuniYield Michigan Quality Fund, Inc. (MIY) Year Ended October 31,				
	Period November 1, 2007 to July 13, 2008	2007	2006	2005	2004
Total expenses	1.42% <sup>5,7</sup>	1.55% <sup>5</sup>	1.62% <sup>5</sup>	1.42% <sup>5</sup>	1.22% <sup>5</sup>
Total expenses after fees waived	1.40% <sup>5,7</sup>	1.55% <sup>5</sup>	1.61% <sup>5</sup>	1.42% <sup>5</sup>	1.19% <sup>5</sup>
Total expenses after fees waived and excluding interest expense, fees and amortization of offering costs <sup>4</sup>	1.13% <sup>5,7</sup>	1.12% <sup>5</sup>	1.11% <sup>5</sup>	1.10% <sup>5</sup>	1.00% <sup>5</sup>
Net investment income	6.19% <sup>5,7</sup>	6.95% <sup>5</sup>	6.84% <sup>5</sup>	6.84% <sup>5</sup>	6.69% <sup>5</sup>
Distributions to AMPS shareholders	2.05% <sup>7</sup>	2.12%	1.87%	1.13%	0.46%
Net investment income to Common Shareholders	4.14% <sup>7</sup>	4.83%	4.97%	5.71%	6.23%
<b>Supplemental Data</b>					
Net assets applicable to Common Shareholders, end of period (000)	\$ 257,806	\$ 273,593	\$ 281,350	\$ 278,250	\$ 289,695
AMPS outstanding at \$25,000 liquidation preference, end of period (000)	\$ 144,650	\$ 165,000	\$ 165,000	\$ 165,000	\$ 140,000
Asset coverage per AMPS at \$25,000 liquidation preference, end of period	\$ 69,563	\$ 66,461	\$ 67,638		
VRDP Shares outstanding at \$100,000 liquidation value, end of period (000)					
Asset coverage per VRDP Shares at \$100,000 liquidation value, end of period					
Borrowings outstanding, end of period (000)	\$ 42,956	\$ 28,818	\$ 37,988	\$	\$
Asset coverage, end of year per \$1,000 of borrowings	\$ 2,782	\$ 2,658	\$ 2,705	\$ 2,686	\$ 3,069
Portfolio turnover rate	21%	10%	15%	25%	32%

<sup>1</sup> Based on average Common Shares outstanding.

<sup>2</sup> Distributions for annual periods determined in accordance with federal income tax regulations.

<sup>3</sup> Total returns based on market price, which can be significantly greater or less than the net asset value, may result in substantially different returns. Where applicable, excludes the effects of any sales charges and assumes the reinvestment of distributions.

<sup>4</sup> Interest expense, fees and amortization of offering costs related to TOBs and/or VRDP Shares.

<sup>5</sup> Does not reflect the effect of distributions to AMPS shareholders.

<sup>6</sup> Aggregate total investment return.

<sup>7</sup> Annualized.

<sup>8</sup> For the year ended July 31, 2012, the total expense ratio after fees waived and excluding interest expense, fees, amortization of offering costs, liquidity and remarketing fees was 0.98%.

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**DIVIDENDS AND DISTRIBUTIONS****General**

The Acquiring Fund's dividend and distribution policy with respect to Common Shares will be the Combined Fund's dividend and distribution policy with respect to Common Shares. The Target Fund's dividend and distribution policy with respect to Common Shares is substantially the same as that of the Acquiring Fund. The Acquiring Fund intends to make regular monthly cash distributions of all or a portion of its net investment income, after payment of dividends on the Acquiring Fund's preferred shares outstanding, to holders of the Acquiring Fund's Common Shares, except as described below in Undistributed Net Investment Income. The Acquiring Fund's net investment income consists of all interest income accrued on portfolio assets less all expenses of the Acquiring Fund. The Acquiring Fund is required to allocate net capital gains and other taxable income, if any, received by the Acquiring Fund among its common shareholders on a pro rata basis in the year for which such capital gains and other income is realized.

Various factors will affect the level of the Acquiring Fund's net investment income, such as its asset mix, portfolio turnover level, performance of its investments, level of retained earnings, the amount of leverage utilized by the Acquiring Fund and the effects thereof, the costs of such leverage, the movement of interest rates and general market conditions. These factors, among others, may result in the Combined Fund's level of net investment income being different from the level of net investment income for any of the individual Funds if the Reorganization was not completed. To permit the Acquiring Fund to maintain more stable monthly distributions and to the extent consistent with the distribution requirements imposed on regulated investment companies by the Code, the Acquiring Fund may from time to time distribute less than the entire amount earned in a particular period. The income would be available to supplement future distributions. As a result, the distributions paid by the Acquiring Fund for any particular month may be more or less than the amount actually earned by the Acquiring Fund during that month. The amount of undistributed income paid by the Acquiring Fund for any particular month may vary from time to time. The portion of a Combined Fund's monthly distribution that consists of undistributed income may be greater than any individual Fund prior to the Reorganization for any particular month. Undistributed earnings will increase the Acquiring Fund's NAV and, correspondingly, distributions from undistributed earnings and from capital, if any, will reduce the Acquiring Fund's NAV.

Acquiring Fund common shareholders will automatically have all dividends and distributions reinvested in Common Shares issued by the Acquiring Fund or Acquiring Fund Common Shares purchased in the open market in accordance with the Acquiring Fund's Automatic Dividend Reinvestment Plan, unless an election is made to receive cash. For information concerning the manner in which dividends and distributions to holders of the Acquiring Fund Common Shares may be reinvested automatically in the Acquiring Fund Common Shares, see Automatic Dividend Reinvestment Plan.

**Undistributed Net Investment Income**

If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund's common shareholders prior to the Closing Date (the Pre-Reorganization Declared UNII Distributions). The declaration date, ex-dividend date (the Ex-Dividend Date) and record date of the Pre-Reorganization Declared UNII Distributions will occur prior to the Closing Date. However, all or a significant portion of the Pre-Reorganization Declared UNII Distributions may be paid in one or more distributions to common shareholders of the Funds entitled to such Pre-Reorganization Declared UNII Distributions after the Closing Date. Former Target Fund shareholders entitled to such Pre-Reorganization Declared UNII Distributions paid after the Closing Date will receive such distributions in cash.

BlackRock MuniYield Michigan Quality Fund, Inc. (MIY), as the Combined Fund following the Reorganization, does not currently expect to declare any distributions during the first month following the Closing Date. Accordingly, persons who purchase Common Shares of any of the Funds on or after the

Ex-Dividend Date for the Pre-Reorganization Declared UNII Distributions should not expect to receive any distributions from any Fund until distributions, if any, are declared by the Board of the Combined Fund and paid to shareholders entitled to any such distributions. No such distributions are expected to be paid by the Combined Fund until at least approximately two months following the Closing Date.

The Combined Fund's earnings and distribution rate on NAV will change over time, and depending on market conditions, may be higher or lower than each Fund's earnings and distribution rate on NAV prior to the Reorganization. The Combined Fund is anticipated to retain a lower UNII balance after the Reorganization than the Acquiring Fund prior to the Reorganization; however, the Combined Fund is anticipated to benefit from a lower expense ratio and other benefits of economies of scale as discussed herein. Each Fund reserves the right to change its distribution policy with respect to common share distributions and the basis for establishing the rate of its distributions for the Common Shares at any time and may do so without prior notice to common shareholders. The payment of any distributions by any Fund is subject to, and will only be made when, as and if, declared by the Board of such Fund. There is no assurance the Board of any Fund will declare any distributions for such Fund.

To the extent any Pre-Reorganization Declared UNII Distributions is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. Federal income tax purposes.

### **Restrictions on Distributions to Common Shares**

While there are any preferred shares of the Acquiring Fund outstanding, the Acquiring Fund may not declare any cash dividend or other distribution on its Common Shares, unless at the time of such declaration, (i) all accrued preferred shares dividends have been paid and (ii) the value of the Acquiring Fund's total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Acquiring Fund, is at least 200% (as required by the 1940 Act) of the liquidation preference of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus any accrued and unpaid dividends thereon, whether or not earned or declared on a cumulative basis). In addition to the requirements of the 1940 Act, the Acquiring Fund may be required to comply with other asset coverage requirements as a condition of the Acquiring Fund obtaining a rating of its preferred shares from a nationally recognized rating service. These requirements may include an asset coverage test more stringent than that under the 1940 Act. This limitation on the Acquiring Fund's ability to make distributions on its Common Shares could in certain circumstances impair the ability of the Acquiring Fund to maintain its qualification for taxation as a regulated investment company under the Code. The Acquiring Fund intends, however, to the extent possible, to purchase or redeem preferred shares from time to time to maintain compliance with such asset coverage requirements and may pay special dividends to the holders of the preferred shares in certain circumstances in connection with any such impairment of the Acquiring Fund's status as a regulated investment company under the Code.

### **Tax Treatment of Distributions**

The tax treatment and characterization of the Acquiring Fund's distributions may vary significantly from time to time because of the varied nature of the Acquiring Fund's investments. The Acquiring Fund will indicate the proportion of its capital gains distributions that constitute long-term and short-term gains annually.

The final tax characterization of distributions is determined after the end of the Acquiring Fund's fiscal year and is reported to shareholders on Form 1099. Distributions will be characterized as tax-exempt interest income, ordinary income, capital gains and/or return of capital. The Acquiring Fund's net investment income or net realized capital gains may not be sufficient to support the level of distributions paid. To the extent that distributions exceed the Acquiring Fund's current and accumulated earnings and profits in the current fiscal year, the excess may be treated as a return of capital. A return of capital distribution does not necessarily reflect the Acquiring Fund's investment performance and should not be confused with yield or income. A return of

capital is a return of a portion of an investor's original investment. A return of capital is generally not taxable, but it reduces a shareholder's tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent disposition by the shareholder of his or her shares. It is possible that a substantial portion of the distributions paid during a calendar year may ultimately be classified as return of capital for income tax purposes when the final determination of the source and character of the distributions is made.

As described above, the portion of distributions that exceeds the Acquiring Fund's current and accumulated earnings and profits, which are calculated under tax principles, will constitute a non-taxable return of capital. Although capital loss carryforwards from prior years can offset realized net capital gains, capital loss carryforwards will offset current earnings and profits only if they were generated in the Acquiring Fund's 2012 taxable year or thereafter. If distributions in any tax year are less than the Acquiring Fund's current earnings and profits but are in excess of net investment income and net realized capital gains (which would occur, for example, if the Acquiring Fund utilizes pre-2012 capital loss carryforwards to offset capital gains in that tax year), such excess is not treated as a non-taxable return of capital but rather may be taxable to shareholders at ordinary income rates even though it may economically represent a return of capital. Under certain circumstances, such taxable excess distributions could be significant.

#### **AUTOMATIC DIVIDEND REINVESTMENT PLAN**

Unless the registered owner of Acquiring Fund Common Shares elects to receive cash by contacting the Reinvestment Plan Agent, Computershare Trust Company, N.A., all dividends or other distributions (together, a dividend) declared for your Acquiring Fund Common Shares will be automatically reinvested by the Reinvestment Plan Agent, as agent for shareholders in administering the Acquiring Fund's dividend reinvestment plan (the Reinvestment Plan), in additional Acquiring Fund Common Shares.

Shareholders who elect not to participate in the Reinvestment Plan will receive all dividends in cash paid by check mailed directly to the shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by Computershare Trust Company, N.A., as dividend disbursing agent. You may elect not to participate in the Reinvestment Plan and to receive all dividends in cash by contacting Computershare Trust Company, N.A., as Reinvestment Plan Agent at the address provided on the following page. Participation in the Reinvestment Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received and processed by the Reinvestment Plan Agent prior to the dividend record date. Additionally, the Reinvestment Plan Agent seeks to process notices received after the record date but prior to the payable date and such notices often will become effective by the payable date. Where late notices are not processed by the applicable payable date, such termination or resumption will be effective with respect to any subsequently declared dividend.

Some brokers may automatically elect to receive cash on your behalf and may re-invest that cash in additional Acquiring Fund Common Shares for you. If you wish for all dividends declared on your Acquiring Fund Common Shares to be automatically reinvested pursuant to the Reinvestment Plan, please contact your broker.

The Reinvestment Plan Agent will open an account for each Acquiring Fund common shareholder under the Reinvestment Plan in the same name in which such common shareholder's Acquiring Fund Common Shares are registered. Whenever the Acquiring Fund declares a dividend payable in cash, non-participants in the Reinvestment Plan will receive cash and participants in the Reinvestment Plan will receive the equivalent in Acquiring Fund Common Shares. The Acquiring Fund Common Shares will be acquired by the Reinvestment Plan Agent for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Acquiring Fund Common Shares from the Acquiring Fund (newly issued Acquiring Fund Common Shares) or (ii) by purchase of outstanding Acquiring Fund Common Shares on the open market (open-market purchases). If, on the dividend payment date, the NAV per share is equal to or

less than the market price per share plus estimated brokerage commissions (such condition often referred to as a market premium), the Reinvestment Plan Agent will invest the dividend amount in newly issued Acquiring Fund Common Shares on behalf of the participants. The number of newly issued Acquiring Fund Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the NAV on the dividend payment date. However, if the NAV is less than 95% of the market price on the dividend payment date, the dollar amount of the dividend will be divided by 95% of the market price on the dividend payment date. If, on the dividend payment date, the NAV is greater than the market price per share plus estimated brokerage commissions (such condition often referred to as a market discount), the Reinvestment Plan Agent will invest the dividend amount in Acquiring Fund Common Shares acquired on behalf of the participants in open-market purchases. In the event of a market discount on the dividend payment date, the Reinvestment Plan Agent will have until the last business day before the next date on which the Acquiring Fund Common Shares trade on an ex-dividend basis or 30 days after the dividend payment date, whichever is sooner (the last purchase date), to invest the dividend amount in Acquiring Fund Common Shares acquired in open-market purchases. If, before the Reinvestment Plan Agent has completed its open-market purchases, the market price per Acquiring Fund Common Share exceeds the NAV per Acquiring Fund Common Share, the average per Acquiring Fund Common Share purchase price paid by the Reinvestment Plan Agent may exceed the NAV of the Acquiring Fund Common Shares, resulting in the acquisition of fewer Acquiring Fund Common Shares than if the dividend had been paid in newly issued Acquiring Fund Common Shares on the dividend payment date. Because of the foregoing difficulty with respect to open-market purchases, the Reinvestment Plan provides that if the Reinvestment Plan Agent is unable to invest the full dividend amount in open-market purchases, or if the market discount shifts to a market premium during the purchase period, the Reinvestment Plan Agent may cease making open-market purchases and may invest any uninvested portion in newly issued Acquiring Fund Common Shares. Investments in newly issued Acquiring Fund Common Shares made in this manner would be made pursuant to the same process described above and the date of issue for such newly issued Acquiring Fund Common Shares will substitute for the dividend payment date.

The Reinvestment Plan Agent maintains all shareholders' accounts in the Reinvestment Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Acquiring Fund Common shares in the account of each participant will be held by the Reinvestment Plan Agent on behalf of such participant, and each shareholder proxy will include those Acquiring Fund Common Shares purchased or received pursuant to the Reinvestment Plan. The Reinvestment Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held under the Reinvestment Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees, which hold shares for others who are the beneficial owners, the Reinvestment Plan Agent will administer the Reinvestment Plan on the basis of the number of Acquiring Fund Common Shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Reinvestment Plan.

The Reinvestment Plan Agent's fees for the handling of the reinvestment of dividends will be paid by the Acquiring Fund; however, each participant will pay a \$0.02 per share fee incurred in connection with open-market purchases of Acquiring Fund Common Shares pursuant to the Reinvestment Plan, which will be deducted from the value of the dividend. The automatic reinvestment of dividends pursuant to the Reinvestment Plan will not relieve participants of any U.S. federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Participants that request a sale of Acquiring Fund Common Shares are subject to a \$0.02 per share sold brokerage commission.

The Acquiring Fund reserves the right to amend or terminate the Reinvestment Plan. There is no direct service charge to participants with regard to purchases in the Reinvestment Plan; however, the Acquiring Fund reserves the right to amend the Reinvestment Plan to include a service charge payable by the participants. Notice of amendments to the Reinvestment Plan will be sent to participants.



All correspondence concerning the Reinvestment Plan, including any questions about the Reinvestment Plan, should be directed to the Reinvestment Plan Agent at Computershare Trust Company, N.A., through the internet at [www.computershare.com/blackrock](http://www.computershare.com/blackrock), by calling 1-800-699-1236 or in writing to Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170.

All overnight correspondence should be directed to the Reinvestment Plan Agent at Computershare, 211 Quality Circle, Suite 210, College Station, TX 77845.

#### **CERTAIN PROVISIONS OF THE CHARTERS AND BYLAWS**

Each Fund's charter includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board. This could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control over the Fund. Such attempts could have the effect of increasing the expenses of the Fund and disrupting the normal operation of the Fund. At each annual meeting, shareholders of each Fund elect all 11 director nominees for one year terms. A Board Member elected by the shareholders may be removed (with or without cause), but only by action taken by the shareholders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares of capital stock then entitled to vote in an election to fill that directorship.

Holders of a Fund's outstanding preferred shares, including the VRDP Shares, voting together as a class, to the exclusion of the holders of all other securities and classes of stock of the Fund, are entitled to elect two directors of the Fund at all times.

In addition, each Fund's charter requires the favorable vote of the holders of at least 66 2/3% of the Fund's outstanding shares to approve, adopt or authorize the following:

a merger or consolidation or statutory share exchange of the Fund with any other corporation;

a sale of all or substantially all of the Fund's assets (other than in the regular course of the Fund's investment activities); or

a liquidation or dissolution of the Fund;

unless such action has been approved, adopted or authorized by the affirmative vote of at least two-thirds of the total number of Board Members fixed in accordance with the bylaws, in which case the affirmative vote of the holders of a majority of the Fund's outstanding shares of common stock entitled to vote thereon is required.

If any plan of reorganization (as such term is used under the 1940 Act) adversely affects a Fund's preferred shares, including the Fund's VRDP Shares, then such plan of reorganization will require the approval of a 1940 Act Majority of the holders of such preferred shares, including the Fund's VRDP Holders.

Subtitle 8 of Title 3 of the Maryland General Corporation Law permits a Maryland corporation with a class of equity securities registered under the Securities and Exchange Act of 1934 and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to a provision requiring that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred. Pursuant to Subtitle 8 and by amendment to the bylaws, the Board of each Fund elected to provide that vacancies on the Board be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred.

The Board of each Fund has determined that the voting requirements described above, are in the best interests of shareholders generally. Reference should be made to the charter of each Fund on file with the SEC for the full text of these provisions.

### GOVERNING LAW

Each Fund is organized as a Maryland corporation pursuant to its charter governed by the laws of the State of Maryland. The Target Fund was incorporated on December 17, 1991 and commenced operations on February 28, 1992. The Acquiring Fund was incorporated under the laws of the State of Maryland on July 1, 1992 and commenced operations on October 30, 1992.

### CONVERSION TO OPEN-END FUND

To convert each Fund to an open-end investment company, such Fund's charter requires an amendment to the Fund's charter. The amendment requires (i) the affirmative vote of the holders of at least 66 2/3% of such Fund's outstanding Common Shares and VRDP Shares entitled to be voted on the matter, voting as a single class (or a majority of such shares if the amendment was previously approved, adopted or authorized by the affirmative vote of at least two-thirds of the total number of directors fixed in accordance with the bylaws), and (ii) the affirmative vote of a 1940 Act Majority of the outstanding VRDP Shares, voting as a separate class.

The foregoing votes would satisfy a separate requirement in the 1940 Act that any conversion of a Fund to an open-end investment company be approved by the shareholders. If approved in the foregoing manners, we anticipate conversion of a Fund to an open-end investment company might not occur until 90 days after the shareholders' meeting at which such conversion was approved and would also require at least 10 days prior notice to all shareholders. Following any such conversion, it is possible that certain of the Fund's investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In the event of conversion, the Fund's Common Shares would cease to be listed on the NYSE. Shareholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the 1940 Act, at their NAV, less such redemption charge, if any, as might be in effect at the time of redemption. An open-end investment company expects to pay all such redemption requests in cash, but reserves the right to pay redemption requests in a combination of cash and securities. If such partial payment in securities were made, investors may incur brokerage costs in converting such securities to cash. If a Fund were converted to an open-end investment company, it is likely that new shares would be sold at NAV plus a sales load. Each Board believes, however, that its Fund's closed-end structure is desirable in light of its Fund's investment objective and policies. Therefore, shareholders should assume that it is not likely that any Board would vote to convert its Fund to an open-end fund.

### CAPITALIZATION

The Board of each Fund may authorize separate classes of shares together with such designation of preferences, rights, voting powers, restrictions, limitations, qualifications or terms as may be determined from time to time by the Board of such Fund. The tables below set forth (i) the capitalization of the Funds as of January 31, 2015 and (ii) the *pro forma* capitalization of the Combined Fund assuming the proposed Reorganization had occurred on January 31, 2015.

**Capitalization as of January 31, 2015 (unaudited)**

	<b>Target Fund (MYM)</b>	<b>Acquiring Fund (MIY)</b>	<b>Adjustments</b>	<b>Pro Forma Combined Fund (MIY)</b>
<b>Net Assets Attributable to:</b>				
Common Shares(1)	\$182,985,207	\$295,465,788	\$(447,000)(2)	\$478,003,995
VRDP Shares	\$87,300,000	\$144,600,000		\$231,900,000
<b>Shares Outstanding</b>				
Common Shares	12,098,420	18,248,909	(801,182)(3)	29,546,147
VRDP Shares	873	1,446		2,319(4)
<b>NAV per Common Share</b>	<b>\$15.12</b>	<b>\$16.19</b>		<b>\$16.18</b>
<b>Liquidation Preference per VRDP Share</b>	<b>\$100,000</b>	<b>\$100,000</b>		<b>\$100,000</b>

- (1) Based on the number of outstanding Common Shares as of January 31, 2015.
- (2) Reflects non-recurring aggregate estimated reorganization expenses of \$447,000, of which \$216,000 was attributable to the Target Fund and \$231,000 was attributable to the Acquiring Fund. The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.
- (3) Reflects adjustments due to differences in per Common Share NAV.
- (4) Assumes no Target Fund VRDP Holders exercise their appraisal rights.

**VOTING RIGHTS**

Voting rights are identical for the holders of each Fund's Common Shares. Holders of each Fund's Common Shares are entitled to one vote for each Common Share held by them. Holders of each Fund's VRDP Shares are entitled to one vote for each VRDP Share held by them. Each Fund's Common Shares and VRDP Shares do not have cumulative voting rights.

**APPRAISAL RIGHTS**

Common shareholders of each Fund do not have appraisal rights because under Maryland law, shareholders of an investment company whose shares are traded publicly on a national securities exchange are not entitled to demand the fair value of their shares in connection with a reorganization. The Target Fund's VRDP Shares are not traded publicly on a national securities exchange and the Target Fund is selling substantially all of its assets to the Acquiring Fund in the Reorganization, therefore, the holders of Target Fund VRDP Shares will be entitled under Maryland law to demand and receive payment of the fair value of such Target Fund VRDP Shares upon the consummation of the Reorganization.

**CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE REORGANIZATION**

The following is a summary of certain U.S. federal income tax consequences of the Reorganization. The discussion is based upon the Code, Treasury regulations, court decisions, published positions of the IRS and other applicable authorities, all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). The discussion is limited to U.S. persons who hold Common Shares or VRDP Shares of the Target Fund as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This summary does not address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder or to shareholders who may be subject to special treatment under U.S. federal income tax laws. No ruling has been or will be obtained from the IRS regarding any matter relating to the Reorganization. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects described below. This summary of U.S. federal income tax consequences is for general information only. The Funds' shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganization, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax law.

It is a condition to the closing of the Reorganization that each Fund receives an opinion from Skadden Arps, dated as of the Closing Date, regarding the characterization of the Reorganization as a reorganization within the meaning of Section 368(a) of the Code. The opinion of Skadden Arps will be based on U.S. federal income tax law in effect on the Closing Date. In rendering its opinion, Skadden Arps will also rely upon certain representations of the management of each Fund and assume, among other things, that the Reorganization will be consummated in accordance with the Reorganization Agreement and other operative documents and as described herein. An opinion of counsel is not binding on the IRS or any court.

As a reorganization, the U.S. federal income tax consequences of the Reorganization can be summarized as follows:

No gain or loss will be recognized by a Fund by reason of the Reorganization.

No gain or loss will be recognized by a shareholder of the Target Fund who exchanges, as the case may be, all of its Target Fund Common Shares solely for Acquiring Fund Common Shares or all of its Target Fund VRDP Shares solely for Acquiring Fund VRDP Shares pursuant to the Reorganization (except with respect to cash received in lieu of a fractional Acquiring Fund Common Share, as discussed below).

The aggregate tax basis of Acquiring Fund Shares received by a shareholder of the Target Fund pursuant to the Reorganization will be the same as the aggregate tax basis of the shareholder's Target Fund Shares surrendered in exchange therefor (reduced by any amount of tax basis allocable to a fractional Acquiring Fund Common Share for which cash is received).

The holding period of Acquiring Fund Shares received by a shareholder of the Target Fund pursuant to the Reorganization will include the holding period of the shareholder's Target Fund Shares surrendered in exchange therefor.

A shareholder of the Target Fund that receives cash in lieu of a fractional Acquiring Fund Common Share in connection with the Reorganization will be treated as having received cash in redemption of such fractional Acquiring Fund Common Share. A Target Fund shareholder that receives cash in lieu of a fractional Acquiring Fund Common Share will recognize capital gain or loss equal to the difference between the amount of cash deemed received for the fractional Acquiring Fund Common Share and Target Fund shareholder's tax basis in Target Fund Common Shares allocable to the fractional Acquiring Fund Common Share. The capital gain or loss will be a long-term capital gain or loss if a Target Fund shareholder's holding period for Target Fund Common Shares is more than one year as of the date the Reorganization is consummated.

The Acquiring Fund's tax basis in the Target Fund's assets received by the Acquiring Fund pursuant to the Reorganization will, in each instance, equal the tax basis of such assets in the hands of the Target Fund immediately prior to the Closing Date, and the Acquiring Fund's holding period for such assets will, in each instance, include the period during which the assets were held by the Target Fund.

Target Fund VRDP Holders are entitled to appraisal rights in connection with the Reorganization, subject to proper adherence to the procedures for exercising such rights as set forth in the Maryland General Corporation Law. A Target Fund VRDP Holder that receives cash pursuant to the exercise of appraisal rights will be treated as having received cash from the Target Fund in redemption of its Target Fund VRDP Shares. Each such Target Fund VRDP Holder will recognize capital gain or loss, measured by the difference between the amount of cash received and such VRDP Holder's tax basis in such Target Fund VRDP Shares. The capital gain or loss will be a long-term capital gain or loss if the Target Fund VRDP Holder's holding period for such Target Fund VRDP Shares is more than one year as of the date the Reorganization is consummated. A Target Fund VRDP Holder that exercises appraisal rights should consult its own tax advisor.

The Acquiring Fund intends to continue to be taxed under the rules applicable to regulated investment companies as defined in Section 851 of the Code, which are the same rules currently applicable to each Fund and its shareholders.

None of the Funds intend to sell any assets in connection with the Reorganization other than in the ordinary course of business. If, however, assets of the Target Fund were to be sold in connection with the Reorganization, or if such assets were required to be marked to market as a result of the termination of the Target Fund's taxable year or as a result of the transfer of certain assets in the Reorganization, the tax impact of any such sales (or deemed sales) would depend on the difference between the price at which such portfolio assets are sold and the Target Fund's basis in such assets. Any capital gains recognized in these sales (or deemed sales) on a net basis will be distributed to Target Fund shareholders as capital gain dividends (to the extent of net realized long-term capital gains) and/or ordinary dividends (to the extent of net realized short-term capital gains) during or with respect to the year of sale (or deemed sale) and prior to or after the date of the Reorganization, and such distributions will be taxable to Target Fund shareholders.

Prior to the Closing Date, each Fund will declare a distribution to its shareholders, which together with all previous distributions, will have the effect of distributing to the shareholders of such Fund all of the Fund's investment company income (computed without regard to the deduction for dividends paid), if any, through the Closing Date, net capital gains, if any, through the Closing Date, and all of its net tax-exempt interest income, if any, through Closing Date. To the extent that such a distribution is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. federal income tax purposes.

The Acquiring Fund will succeed to capital loss carryforwards (and certain unrealized built-in losses, if any) of the Target Fund, which are expected to be subject to tax loss limitation rules because the Target Fund will undergo an ownership change for U.S. federal income tax purposes. Because the Target Fund will undergo an ownership change, the Code will generally limit the amount of pre-ownership change losses of the Target Fund that may be used to offset post-ownership change gains to a specific annual loss limitation amount (generally the product of (i) the fair market value of the stock of the Target Fund, with certain adjustments, immediately prior to the Reorganization and (ii) a rate established by the IRS). Subject to certain limitations, any unused portion of these losses may be available in subsequent years, subject to the remaining portion of any applicable capital loss carryforward limit, as measured from the date of recognition.

Although the capital loss carryforwards of the Combined Fund attributable to the Target Fund may be subject to tax loss limitation rules to the extent outlined above, it is currently expected that such tax loss limitation rules should not have a material adverse effect on the Combined Fund's utilization of the Target Fund's capital loss carryforward as compared with what each Fund's utilization of its own capital loss carryforward would be without the Reorganization. The ability of each Fund (and the Combined Fund) to utilize any capital loss carryforwards now or in the future depends on many variables and assumptions, including but not limited to, projected performance of a Fund, the unrealized gain/loss position of a Fund, the types of securities held by a Fund, the current and future market environment (including the level of interest rates), portfolio turnover and applicable law (including the requirement that capital loss carryforwards without expiration dates be utilized before capital loss carryforwards that have expiration dates), and is, therefore, highly uncertain. The Funds' capital loss carryforwards as of the Closing Date are estimated to be approximately as follows (rounded to the nearest thousand and subject to change based on actual operating results after the date hereof):

**Capital Loss Amount**

<b>Expiration</b>	<b>Target Fund (MYM)</b>	<b>Acquiring Fund (MIY)</b>
2015	\$715	\$0
2016	\$254	\$1,402
2017	\$0	\$2,031
No expiration date	\$4,572	\$5,793

Due to the operation of these tax loss limitation rules, it is possible that shareholders of the Target Fund or the Acquiring Fund would receive taxable distributions of short-term and long-term capital gains earlier than they would have in the absence of the Reorganization. Such taxable distributions will be treated either as ordinary income (and not as favorably taxed qualified dividend income) if such capital gains are short term or as favorably taxed capital gain dividends if such capital gains are long term. The actual financial effect of the loss limitation rules on a shareholder of the Target Fund whose losses are subject to the loss limitation rules would depend on many variables, including the Target Fund's expected growth rate if the relevant Reorganization were not to occur (i.e., whether, in the absence of the Reorganization, the Target Fund would generate sufficient capital gains against which to utilize its capital loss carryforwards prior to their expiration (and certain realized built-in losses), in excess of what would have been the annual loss limitation amount had the relevant Reorganization occurred), the timing and amount of future capital gains recognized by the Combined Fund if the Reorganization were to occur, and the timing of a historic Fund shareholder's disposition of its Shares (the tax basis of which might, depending on the facts, reflect that shareholder's share of such Fund's capital losses). Shareholders of all of the Funds should consult their own tax advisors in this regard.

For five years beginning on the Closing Date of the Reorganization, the Combined Fund will not be allowed to offset certain pre-Reorganization built-in gains attributable to a Fund that is a gain corporation with capital loss carryforwards (and certain built-in losses) attributable to another Fund.

### VOTING INFORMATION AND REQUIREMENTS

#### Record Date

The Funds have fixed the close of business on June 8, 2015 as the record date (the Record Date) for the determination of shareholders entitled to notice of, and to vote at, the Special Meeting or any adjournment or postponement thereof. Shareholders on the Record Date will be entitled to one vote for each Share held, with no Shares having cumulative voting rights.

As of the Record Date, the Funds had the following number of Common Shares and VRDP Shares outstanding:

Title of Class	Target Fund (MYM)	Acquiring Fund (MIY)
Common Shares	12,098,420	18,248,909
VRDP Shares	873	1,446

#### Proxies

Shareholders may vote by appearing in person at the Special Meeting, by returning the enclosed proxy card or by casting their vote via telephone or the Internet using the instructions provided on the enclosed proxy card (described in greater detail below). Shareholders of each Fund have the opportunity to submit their voting instructions via the Internet or by touch-tone telephone voting. The giving of such a proxy will not affect your right to vote in person should you decide to attend the Special Meeting. To use the Internet, please access the Internet address found on your proxy card. To record your voting instructions by automated telephone, please call the toll-free number listed on your proxy card. The Internet and automated telephone voting instructions are designed to authenticate shareholder identities, to allow shareholders to give their voting instructions, and to confirm that shareholders' instructions have been recorded properly. Shareholders submitting their voting instructions via the Internet should understand that there may be costs associated with Internet access, such as usage charges from Internet access providers and telephone companies that must be borne by the shareholders. Any person giving a proxy may revoke it at any time prior to its exercise by giving written notice of the revocation to the Secretary of the Fund at 40 East 52nd Street, New York, New York 10022, by delivering a duly executed proxy bearing a later date, by recording later-dated voting instructions via the Internet or automated

telephone or by attending the Special Meeting and voting in person. The giving of a proxy will not affect your right to vote in person if you attend the Special Meeting and wish to do so.

Votes cast by proxy or in person at the Special Meeting will be tabulated by the inspectors of election appointed for the Special Meeting. For each Fund, the presence in person or by proxy of the holders of shares entitled to cast one-third of the votes entitled to be cast shall constitute a quorum to conduct business at the Special Meeting, except with respect to any matter which requires approval by a separate vote of one or more classes or series of shares, in which case the presence in person or by proxy of the holders of shares entitled to cast one-third of the votes entitled to be cast by each class or series entitled to vote as a separate class or series shall constitute a quorum to conduct business at the Special Meeting. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the chair of the Special Meeting shall have power to adjourn the meeting from time to time, in the manner provided in the Fund's bylaws, until a quorum shall be present or represented.

The inspectors of election, who may be employees of BlackRock, will determine whether or not a quorum is present at the Special Meeting. The inspectors of election will generally treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which proxies have been returned but (a) instructions have not been received from the beneficial owners or persons entitled to vote and (b) the broker or nominee does not have discretionary voting power or elects not to exercise discretion on a particular matter) as present for purposes of determining a quorum, subject to any applicable rules of the stock exchange on which a Fund's shares are listed.

If you hold your shares directly (not through a broker-dealer, bank or other financial institution) and if you return a properly executed proxy card that does not specify how you wish to vote on a proposal, your shares will be voted FOR each Proposal on which you are entitled to vote.

Broker-dealer firms holding shares of a Fund in street name for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on Proposals 1-2 before the Special Meeting. Proposals 1-2 are not routine matters and shareholder instructions are required for broker-dealers to vote a beneficial owner's shares.

If you hold shares of a Fund through a bank or other financial institution or intermediary (called a service agent) that has entered into a service agreement with the Fund or a distributor of the Fund, the service agent may be the record holder of your shares. At the Special Meeting, a service agent will vote shares for which it receives instructions from its customers in accordance with those instructions. A properly executed proxy card or other authorization by a shareholder that does not specify how the shareholder's shares should be voted on a proposal may be deemed to authorize a service provider to vote such shares in favor of the proposal. Depending on its policies, applicable law or contractual or other restrictions, a service agent may be permitted to vote shares with respect to which it has not received specific voting instructions from its customers. In those cases, the service agent may, but may not be required to, vote such shares in the same proportion as those shares for which the service agent has received voting instructions. This practice is commonly referred to as echo voting.

All properly executed proxies received prior to the Special Meeting will be voted in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted FOR the approval of each proposal. Abstentions and broker non-votes are not treated as votes FOR a proposal.

Common shareholders of the Target Fund are being asked to consider Proposal 1(A) below. With respect to Proposal 1(A) abstentions and broker non-votes will be counted as shares present and will therefore have the same effect as votes AGAINST the proposals.

Common shareholders of the Acquiring Fund are being asked to consider Proposal 2 below. With respect to Proposal 2, abstentions will be counted as votes cast and will therefore have the same effect as votes AGAINST the proposal and broker non-votes will not have any effect on the result of the vote.

**Voting Requirement for Proposal 1: The Reorganization of the Funds**

**Proposals**

*Proposal 1(A):* The common shareholders and VRDP Holders of the Target Fund are being asked to vote as a single class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund's registration under the 1940 Act and the Target Fund's dissolution in accordance with its charter and Maryland law.

**Required Approval of Shareholders**

Majority of  
Outstanding Shares  
Entitled to Vote

**Voting Requirement for Proposal 2: The Issuance of Acquiring Fund Common Shares**

**Proposals**

*Proposal 2:* The common shareholders and VRDP Holders of the Acquiring Fund are being asked to vote as a single class on a proposal to approve the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization.

**Required Approval of Shareholders**

Majority of the Votes Cast

**SHAREHOLDER INFORMATION**

Unless otherwise indicated, the information set forth below is as of May 31, 2015. To each Fund's knowledge, no person beneficially owned more than 5% of the Fund's respective outstanding Common Shares, except as set forth below.

Fund	Investor	Address	Common Shares Held	Common Shares % Held	Preferred Shares Held	Preferred Shares % Held
Target Fund (MYM)	First Trust Portfolio L.P. <sup>(1)</sup>	120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	840,422	6.95%		
		120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187				
	The Charger Corporation <sup>(1)</sup>	120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187				
		399 Park Avenue New York, New York 10022			873	100%
	Citicorp <sup>(2)</sup>	399 Park Avenue New York, New York 10022				
	Citigroup Inc. <sup>(2)</sup>	399 Park Avenue				



New York, New York  
10022

Fund	Investor	Address	Common Shares Held	Common Shares % Held	Preferred Shares Held	Preferred Shares % Held
Acquiring Fund (MIY)	First Trust Portfolio L.P. <sup>(1)</sup>	120 East Liberty Drive,  Suite 400  Wheaton, Illinois 60187	2,113,780	11.58%		
	First Trust Advisors L.P. <sup>(1)</sup>	120 East Liberty Drive,  Suite 400  Wheaton, Illinois 60187				
	The Charger Corporation <sup>(1)</sup>	120 East Liberty Drive,  Suite 400  Wheaton, Illinois 60187				
	Citibank, N.A. <sup>(2)</sup>	399 Park Avenue  New York, New York 10022			1,446	100%
	Citicorp <sup>(2)</sup>	399 Park Avenue  New York, New York 10022				
	Citigroup Inc. <sup>(2)</sup>	399 Park Avenue  New York, New York 10022				

The information contained in this table is based on Schedule 13D/13G filings made on or before May 31, 2015.

(1) First Trust Portfolios, L.P., First Trust Advisors L.P. and The Charger Corporation filed their Schedule 13G jointly and did not differentiate their holdings as to each entity.

(2) Citibank, N.A., Citicorp and Citigroup Inc. filed their Schedule 13G jointly. Citibank, N.A. holds 100% of the VRDP shares.

As of May 31, 2015 the officers and Board Members of each Fund, as a group, beneficially owned less than 1% of the outstanding Common Shares of each such Fund and none of the VRDP Shares of such Fund.

### SHAREHOLDER PROPOSALS

To be considered for presentation at a shareholder's meeting, rules promulgated by the SEC generally require that, among other things, a shareholder's proposal must be received at the offices of the relevant Fund a reasonable time before solicitation is made. In addition, each Fund's bylaws provide for advance notice provisions, which require shareholders to give timely notice in proper written form to the Secretary of the Fund. Shareholders should review each Fund's bylaws for additional information regarding the Funds' advance notice provisions. The bylaws of each Fund were filed with the SEC on September 21, 2010 on Form 8-K. Shareholders may obtain copies of such documents as described on pages iii-iv of this Joint Proxy Statement/Prospectus.

The timely submission of a proposal does not necessarily mean that such proposal will be included. Any shareholder who wishes to submit a proposal for consideration at a meeting of such shareholder's Fund should send such proposal to the relevant Fund at Park Avenue Plaza, 40 East 52nd Street, New York, New York 10022, Attention: Janey Ahn.



### **SOLICITATION OF PROXIES**

Solicitation of proxies is being made primarily by the mailing of this Notice and Joint Proxy Statement/Prospectus with its enclosures on or about June 26, 2015. Shareholders of the Funds whose shares are held by nominees such as brokers can vote their proxies by contacting their respective nominee. In addition to the solicitation of proxies by mail, employees of the Investment Advisor and their affiliates as well as dealers or their representatives may solicit proxies in person or by mail, telephone, fax or the internet. The Funds and the Investment Advisor have retained Georgeson Inc. ( "Georgeson" ), 480 Washington Blvd., 26th Floor, Jersey City, New Jersey 07310, a proxy solicitation firm, to assist with the distribution of proxy materials and the solicitation and tabulation of proxies. The cost of Georgeson's services in connection with the proxy is anticipated to be approximately \$19,900 and \$25,000 for the Target Fund and the Acquiring Fund, respectively.

### **LEGAL MATTERS**

Certain legal matters concerning the U.S. federal income tax consequences of the Reorganization will be passed upon by Skadden, Arps, Slate, Meagher & Flom LLP, which serves as special counsel to the Funds.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The independent registered public accounting firm for the Funds performs an annual audit of each Fund's financial statements. Each Fund's Board has appointed Deloitte & Touche LLP to be each Fund's independent registered public accounting firm. Deloitte & Touche LLP is located at 200 Berkeley Street Boston, MA 02116-5022.

### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Funds' Board Members, executive officers, persons who own more than ten percent of a registered class of a Fund's equity securities, the Investment Advisor and certain officers of the Investment Advisor (the "Section 16 insiders"), including in some cases former Section 16 insiders for a period of up to 6 months, to file reports on holdings of, and transactions in, Fund shares with the SEC and to furnish the Funds with copies of all such reports. Based solely on a review of copies of such reports furnished to the relevant Funds and representations from these reporting persons, each Fund believes that its Board Members, executive officers, ten percent holders, the Investment Advisor and certain officers of the Investment Advisor met all such applicable SEC filing requirement for the Funds most recently concluded fiscal year, except for any late filings disclosed in previous proxy statements.

### **OTHER MATTERS WITH RESPECT TO THE MEETING**

Shareholders who want to communicate with the Board or any individual director should write the Fund to the attention of the Secretary, 40 East 52nd Street, New York, New York 10022. Shareholders may communicate with the Board electronically by sending an email to [closedendfundsbod@blackrock.com](mailto:closedendfundsbod@blackrock.com). The communication should indicate that you are a Fund shareholder. If the communication is intended for a specific director and so indicates, it will be sent only to that director. If a communication does not indicate a specific director, it will be sent to the Chair of the Governance and Nominating Committee and the outside counsel to the Independent Board Members for further distribution as deemed appropriate by such persons.

Additionally, shareholders with complaints or concerns regarding accounting matters may address letters to the Fund's Chief Compliance Officer, 100 Bellevue Parkway, Wilmington, Delaware 19809. Shareholders who

are uncomfortable submitting complaints to the Chief Compliance Officer may address letters directly to the Chair of the Audit Committee of the Board. Such letters may be submitted on an anonymous basis.

#### **ADJOURNMENTS AND POSTPONEMENTS**

Failure of a quorum to be present at the Special Meeting may necessitate adjournment. The Board of each Fund, prior to the Special Meeting being convened, may postpone such meeting from time to time to a date not more than 120 days after the original record date. The chair of the Special Meeting may also adjourn the Special Meeting from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place, if any, thereof and the means of remote communications, if any, by which shareholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. The chair of the Special Meeting may adjourn the Special Meeting to permit further solicitation of proxies with respect to a proposal if they determine that adjournment and further solicitation is reasonable and in the best interests of shareholders. At the adjourned meeting, the Fund may transact any business which might have been transacted at the original meeting. Any adjourned meeting may be held as adjourned one or more times without further notice not later than one hundred and twenty (120) days after the record date.

#### **PRIVACY PRINCIPLES OF THE FUNDS**

The Funds are committed to maintaining the privacy of their current and former shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Funds collect, how the Funds protect that information and why, in certain cases, the Funds may share such information with select parties.

The Funds obtain or verify personal non-public information from and about you from different sources, including the following: (i) information the Funds receive from you or, if applicable, your financial intermediary, on applications, forms or other documents; (ii) information about your transactions with the Funds, their affiliates or others; (iii) information the Funds receive from a consumer reporting agency; and (iv) information the Funds receive from visits to the Funds or their affiliates websites.

The Funds do not sell or disclose to non-affiliated third parties any non-public personal information about their current and former shareholders, except as permitted by law or as is necessary to respond to regulatory requests or to service shareholder accounts. These non-affiliated third parties are required to protect the confidentiality and security of this information and to use it only for its intended purpose.

The Funds may share information with their affiliates to service your account or to provide you with information about other BlackRock products or services that may be of interest to you. In addition, the Funds restrict access to non-public personal information about their current and former shareholders to those BlackRock employees with a legitimate business need for the information. The Funds maintain physical, electronic and procedural safeguards that are designed to protect the non-public personal information of their current and former shareholders, including procedures relating to the proper storage and disposal of such information.

If you are located in a jurisdiction where specific laws, rules or regulations require a Fund to provide you with additional or different privacy-related rights beyond what is set forth above, then the Fund will comply with those specific laws, rules or regulations.

**OTHER INFORMATION**

BlackRock is independent in ownership and governance, with no single majority stockholder and a majority of independent directors. The PNC Financial Services Group, Inc. ( PNC ) is BlackRock s largest stockholder and is an affiliate of BlackRock for 1940 Act purposes.

If you cannot be present in person at the Special Meeting, please fill in, sign and return the enclosed proxy card or please record your voting instructions by telephone or via the Internet promptly. No postage is necessary if the enclosed proxy card is mailed in the United States.

John M. Perlowski

*President and Chief Executive Officer*

BlackRock MuniYield Michigan Quality Fund, Inc.

BlackRock MuniYield Michigan Quality Fund II, Inc.

June 16, 2015

**THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT A PROSPECTUS.**

SUBJECT TO COMPLETION, DATED JUNE 16, 2015

**STATEMENT OF ADDITIONAL INFORMATION**

RELATING TO THE REORGANIZATION OF

BLACKROCK MUNIYIELD MICHIGAN QUALITY FUND, INC.

BLACKROCK MUNIYIELD MICHIGAN QUALITY FUND II, INC.

**Dated June 16, 2015**

This Statement of Additional Information is available to the common shareholders of BlackRock MuniYield Michigan Quality Fund II, Inc. (NYSE: MYM) ( MYM or the Target Fund ) in connection with the proposed reorganization (the Reorganization ) of the Target Fund into BlackRock MuniYield Michigan Quality Fund, Inc. (NYSE: MIY) ( MIY or the Acquiring Fund, and together with the Target Fund, the Funds ), whereby the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for newly issued shares of the Acquiring Fund's common stock, par value \$0.10 per share ( Common Shares ) and Variable Rate Demand Preferred Shares, par value \$0.10 per share and with a liquidation preference of \$100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the effective date of the Reorganization if such dividends have not been paid prior to such effective date) ( VRDP Shares and together with the Common Shares, the Shares ), in the form of book entry interests. The Acquiring Fund will list the newly issued Common Shares on the New York Stock Exchange ( NYSE ). The Target Fund will then distribute the newly issued Acquiring Fund Common Shares and Acquiring Fund VRDP Shares to the Target Fund's common shareholders (although cash may be distributed in lieu of fractional Common Shares) and holders of VRDP Shares ( VRDP Holders ) of the Target Fund, respectively, and then terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act ), and liquidate, dissolve and terminate in accordance with its charter and Maryland law. The Acquiring Fund will continue to operate after the Reorganization as a registered, non-diversified, closed-end management investment company with the investment objective, investment policies and investment restrictions described in the Joint Proxy Statement/Prospectus.

The aggregate net asset value ( NAV ) (not the market value) of the Acquiring Fund Common Shares received by the common shareholders of the Target Fund in the Reorganization will equal the aggregate NAV (not the market value) of the Target Fund Common Shares held by such common shareholders immediately prior to the Closing Date, less the costs of the Reorganization (although Target Fund common shareholders may receive cash for their fractional Common Shares). The value of each Fund's net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding VRDP Shares of such Fund. Each outstanding VRDP Share of the Target Fund will, without any action on the part of the holder thereof, be exchanged for one newly issued VRDP Share of the Acquiring Fund, which will have terms that are substantially similar to the terms of the Target Fund's outstanding VRDP Shares. The terms of the outstanding Target Fund VRDP Shares are substantially similar to the terms of the outstanding Acquiring Fund VRDP Shares. The only significant difference between the terms of the two Funds' VRDP Shares is that the Target Fund VRDP Shares have a mandatory redemption date of June 1, 2041 and the Acquiring Fund VRDP Shares have a mandatory redemption date of May 1, 2041. The terms of the Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Acquiring Fund's outstanding VRDP Shares and will rank on a parity with the Acquiring Fund's existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any

changes to the terms of the Acquiring Fund's VRDP Shares currently outstanding. A copy of a form of the Agreement and Plan of Reorganization between the Target Fund and the Acquiring Fund is attached hereto as Appendix A. Unless otherwise defined herein, capitalized terms have the meanings given to them in the Joint Proxy Statement/Prospectus.

This Statement of Additional Information is not a prospectus and should be read in conjunction with the Joint Proxy Statement/Prospectus dated June 16, 2015 relating to the proposed Reorganization. A copy of the Joint Proxy Statement/Prospectus may be obtained, without charge, by writing to the Funds at 1 University Square Drive, Princeton, New Jersey 08540-6455, or by calling (800) 882-0052.

The Acquiring Fund will provide, without charge, upon the written or oral request of any person to whom this Statement of Additional Information is delivered, a copy of any and all documents that have been incorporated by reference in the registration statement of which this Statement of Additional Information is a part.



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**ADDITIONAL RISK FACTORS AND SPECIAL CONSIDERATIONS**

The following information supplements the discussion of the Acquiring Fund's risk factors that are described in the Joint Proxy Statement/Prospectus.

*Risk Factors and Special Considerations Relating to Michigan Municipal Bonds.* Please see Appendix B for additional information about risks associated with Michigan municipal obligations.

*Risk Factors in Strategic Transactions and Derivatives.* The Acquiring Fund's use of derivatives may reduce its returns and/or increase volatility. Volatility is defined as the characteristic of a security, an index or a market to fluctuate significantly in price within a short time period. A risk of the Acquiring Fund's use of derivatives is that the fluctuations in their values may not correlate perfectly with the overall securities markets. Derivatives are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. In addition, some derivatives are more sensitive to interest rate changes and market price fluctuations than other securities. The possible lack of a liquid secondary market for derivatives and the resulting inability of the Acquiring Fund to sell or otherwise close a derivatives position could expose the Acquiring Fund to losses and could make derivatives more difficult for the Acquiring Fund to value accurately. The Acquiring Fund could also suffer losses related to its derivative positions as a result of unanticipated market movements, which losses are potentially unlimited. Finally, the Investment Advisor may not be able to predict correctly the direction of securities prices, interest rates and other economic factors, which could cause the Acquiring Fund's derivatives positions to lose value. When a derivative is used as a hedge against a position that the Acquiring Fund holds, any loss generated by the derivative generally should be substantially offset by gains on the hedged investment, and vice versa. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Hedges are sometimes subject to imperfect matching between the derivative and the underlying security, and there can be no assurance that the Acquiring Fund's hedging transactions will be effective. The income from certain derivatives may be subject to federal income tax. Swap agreements involve the risk that the party with whom the Acquiring Fund has entered into the swap will default on its obligation to pay the Acquiring Fund and the risk that the Acquiring Fund will not be able to meet its obligations to pay the other party to the agreement. Credit default swaps involve special risks in addition to those mentioned above because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty).

*Credit Risk* the risk that the counterparty in a derivative transaction will be unable to honor its financial obligation to the Acquiring Fund, or the risk that the reference entity in a credit default swap or similar derivative will not be able to honor its financial obligations.

*Leverage Risk* the risk associated with certain types of investments or trading strategies (such as, for example, borrowing money to increase the amount of investments) that relatively small market movements may result in large changes in the value of an investment. Certain investments or trading strategies that involve leverage can result in losses that greatly exceed the amount originally invested.

*Liquidity Risk* the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth.

*Correlation Risk* the risk that changes in the value of a derivative will not match the changes in the value of the portfolio holdings that are being hedged or of the particular market or security to which the Acquiring Fund seeks exposure.

*Index Risk* If the derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Acquiring Fund could receive lower interest payments or experience a reduction in the value of the derivative to below what that Fund paid. Certain indexed

securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

There can be no assurance that, at any specific time, either a liquid secondary market will exist for a derivative or the Acquiring Fund will otherwise be able to sell such instrument at an acceptable price. It may, therefore, not be possible to close a position in a derivative without incurring substantial losses, if at all. Certain transactions in derivatives (such as futures transactions or sales of put options) involve substantial leverage risk and may expose the Acquiring Fund to potential losses that exceed the amount originally invested by the Acquiring Fund. When the Acquiring Fund engages in such a transaction, the Acquiring Fund will deposit in a segregated account liquid assets with a value at least equal to the Acquiring Fund's exposure, on a mark-to-market basis, to the transaction (as calculated pursuant to requirements of the Securities and Exchange Commission). Such segregation will ensure that the Acquiring Fund has assets available to satisfy its obligations with respect to the transaction, but will not limit the Acquiring Fund's exposure to loss.

*Risk Factors in Futures Transactions and Options Thereon.* Investment in futures contracts involves the risk of imperfect correlation between movements in the price of the futures contract and the price of the security being hedged. The hedge will not be fully effective when there is imperfect correlation between the movements in the prices of two financial instruments. For example, if the price of the futures contract moves more or less than the price of the hedged security, the Acquiring Fund will experience either a loss or gain on the futures contract which is not completely offset by movements in the price of the hedged securities. To compensate for imperfect correlations, the Acquiring Fund may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the futures contracts. Conversely, the Acquiring Fund may purchase or sell fewer futures contracts if the volatility of the price of the hedged securities is historically less than that of the futures contracts.

The correlation between futures contracts on U.S. Government securities and the Municipal Bonds held by the Acquiring Fund may be adversely affected by disparities in the average maturity, ratings, geographical mix or structure of the Acquiring Fund's investments as compared to the U.S. Government securities underlying the futures contract and general economic and political factors. The trading of futures contracts also is subject to certain market risks, such as inadequate trading activity, which could at times make it difficult or impossible to liquidate existing positions.

There can be no assurance that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close out a futures position. In the event of adverse price movements, the Acquiring Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Acquiring Fund has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close out futures positions also could have an adverse impact on the Acquiring Fund's ability to hedge effectively its investments in Municipal Bonds. The liquidity of a secondary market in a futures contract may be adversely affected by daily price fluctuation limits established by commodity exchanges which limit the amount of fluctuation in a futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days.

The successful use of transactions in futures and related options also depends on the ability of the Investment Advisor to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent interest rates remain stable during the period in which a futures contract or option is held by the Acquiring Fund or such rates move in a direction opposite to that anticipated, the Acquiring Fund may realize a loss on the hedging transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Acquiring Fund's total return for such period may be less than if it had not engaged in the hedging transaction.

Because of low initial margin deposits made upon the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contracts can result in substantial unrealized gains or losses. There is also the risk of loss by the Acquiring Fund of margin deposits in the event of bankruptcy of a broker with whom the Acquiring Fund has an open position in a financial futures contract. Because the Acquiring Fund will engage in the purchase and sale of futures contracts for hedging purposes or to seek to enhance the Acquiring Fund's return, any losses incurred in connection therewith should, if the hedging strategy is successful, be offset in whole or in part by increases in the value of securities held by the Acquiring Fund or decreases in the price of securities the Acquiring Fund intends to acquire.

The amount of risk the Acquiring Fund assumes when it purchases an option on a futures contract is the premium paid for the option plus related transaction costs. In addition to the correlation risks discussed above, the purchase of an option on a futures contract also entails the risk that changes in the value of the underlying futures contract will not be fully reflected in the value of the option purchased.

*Options Risks.* There are several risks associated with transactions in options on securities and indexes. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. In addition, a liquid secondary market for particular options, whether traded over-the-counter or on a national securities exchange ( Exchange ) may be absent for reasons which include the following: there may be insufficient trading interest in certain options; restrictions may be imposed by an Exchange on opening transactions or closing transactions or both; trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; unusual or unforeseen circumstances may interrupt normal operations on an Exchange; the facilities of an Exchange or the OCC may not at all times be adequate to handle current trading volume; or one or more Exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that Exchange (or in that class or series of options) would cease to exist, although outstanding options that had been issued by the OCC as a result of trades on that Exchange would continue to be exercisable in accordance with their terms.

*Over-the-Counter Trading Risk.* The derivative instruments that may be purchased or sold by the Acquiring Fund may include instruments not traded on an exchange. The risk of nonperformance by the counterparty to an instrument may be greater than, and the ease with which the Acquiring Fund can dispose of or enter into closing transactions with respect to an instrument may be less than, the risk associated with an exchange traded instrument. In addition, significant disparities may exist between bid and asked prices for derivative instruments that are not traded on an exchange. The absence of liquidity may make it difficult or impossible for the Acquiring Fund to sell such instruments promptly at an acceptable price. Derivative instruments not traded on exchanges also are not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions. Because derivatives traded in OTC markets generally are not guaranteed by an exchange or clearing corporation and generally do not require payment of margin, to the extent that the Acquiring Fund has unrealized gains in such instruments or has deposited collateral with its counterparties the Acquiring Fund is at risk that its counterparties will become bankrupt or otherwise fail to honor its obligations.

*Clearing Broker and Central Clearing Counterparty Risks.* The Commodity Exchange Act ( CEA ) requires swaps and futures clearing brokers registered as futures commission merchants to segregate all funds received from customers with respect to any orders for the purchase or sale of U.S. domestic futures contracts and cleared swaps from the brokers' proprietary assets. Similarly, the CEA requires each futures commission merchant to hold in a separate secure account all funds received from customers with respect to any orders for the purchase or sale of foreign futures contracts and segregate any such funds from the funds received with respect to domestic futures contracts. However, all funds and other property received by a clearing broker from its customers are held by the clearing broker on a commingled basis in an omnibus account and may be freely accessed by the clearing broker, which may also invest any such funds in certain instruments permitted under the

applicable regulations. There is a risk that assets deposited by the Acquiring Fund with any swaps or futures clearing broker as margin for futures contracts or cleared swaps may, in certain circumstances, be used to satisfy losses of other clients of the Acquiring Fund's clearing broker. In addition, the assets of the Acquiring Fund might not be fully protected in the event of the Acquiring Fund's clearing broker's bankruptcy, as the Acquiring Fund would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker's combined domestic customer accounts.

Similarly, the CEA requires a clearing organization approved by the Commodity Futures Trading Commission (CFTC) as a derivatives clearing organization to segregate all funds and other property received from a clearing member's clients in connection with domestic futures and options contracts from any funds held at the clearing organization to support the clearing member's proprietary trading. Nevertheless, all customer funds held at a clearing organization in connection with any futures or options contracts are held in a commingled omnibus account and are not identified to the name of the clearing member's individual customers. With respect to futures and options contracts, a clearing organization may use assets of a non-defaulting customer held in an omnibus account at the clearing organization to satisfy payment obligations of a defaulting customer of the clearing member to the clearing organization. As a result, in the event of a default of the clearing broker's other clients or the clearing broker's failure to extend its own funds in connection with any such default, the Acquiring Fund would not be able to recover the full amount of assets deposited by the clearing broker on behalf of the Acquiring Fund with the clearing organization.

*Dodd-Frank Act Risk.* Title VII of the Dodd-Frank Act (the Derivatives Title) imposes a new regulatory structure on derivatives markets, with particular emphasis on swaps and security-based swaps (collectively swaps). This new regulatory framework covers a broad range of swap market participants, including banks, non-banks, credit unions, insurance companies, broker-dealers and investment advisers. The SEC, other U.S. regulators, and to a lesser extent the CFTC (the Regulators) still are in the process of adopting regulations to implement the Derivatives Title, though certain aspects of the new regulatory structure are substantially complete. Until the Regulators complete their rulemaking efforts, the full extent to which the Derivatives Title and the rules adopted thereunder will impact the Acquiring Fund is unclear. It is possible that the continued development of this new regulatory structure for swaps may jeopardize certain trades and/or trading strategies that may be employed by the Investment Advisor, or at least make them more costly.

Recently, new regulations have required the mandatory central clearing and mandatory exchange trading of particular types of interest rate swaps and index credit default swaps (together, Covered Swaps). Together, these new regulatory requirements change the Acquiring Fund's trading of Covered Swaps. With respect to mandatory central clearing, the Acquiring Fund is now required to clear its Covered Swaps through a clearing broker, which requires, among other things, posting initial margin and variation margin to the Acquiring Fund's clearing broker in order to enter into and maintain positions in Covered Swaps. With respect to mandatory exchange trading, the Investment Advisor may be required to become participants of a new type of execution platform called a swap execution facility (SEF) or may be required to access the SEF through an intermediary (such as an executing broker) in order to be able to trade Covered Swaps for the Acquiring Fund. In either scenario, the Investment Advisor and/or the Acquiring Fund may incur additional legal and compliance costs and transaction fees. Just as with the other regulatory changes imposed as a result of the implementation of the Derivatives Title, the increased costs and fees associated with trading Covered Swaps may jeopardize certain trades and/or trading strategies that may be employed by the Investment Advisor, or at least make them more costly.

Additionally, the Regulators plan to finalize proposed regulations that would require swap dealers to collect from the Acquiring Fund initial margin and variation margin for uncleared derivatives transactions and that would impose upon swap dealers new capital requirements. These requirements, when finalized, may make certain types of trades and/or trading strategies more costly or impermissible.

There may be market dislocations due to uncertainty during the implementation period of any new regulation and the Investment Advisor cannot know how the derivatives market will adjust to new regulations. Until the Regulators complete the rulemaking process for the Derivatives Title, it is unknown the extent to which such risks may materialize.

*Legal and Regulatory Risk.* At any time after the date hereof, legislation or additional regulations may be enacted that could negatively affect the assets of the Acquiring Fund. Changing approaches to regulation may have a negative impact on the securities in which the Acquiring Fund invests. Legislation or regulation may also change the way in which the Acquiring Fund itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Acquiring Fund or will not impair the ability of the Acquiring Fund to achieve its investment objective. In addition, as new rules and regulations resulting from the passage of the Dodd-Frank Act are implemented and new international capital and liquidity requirements are introduced under the Basel III Accords ( Basel III ), the market may not react the way the Investment Advisor expects. Whether the Acquiring Fund achieves its investment objective may depend on, among other things, whether the Investment Advisor correctly forecast market reactions to this and other legislation. In the event the Investment Advisor incorrectly forecast market reaction, the Acquiring Fund may not achieve its investment objective.

## MANAGEMENT OF THE FUNDS

### The Board of Directors and Officers

The Board of each Fund currently consists of 11 individuals (each, a Board Member ), nine of whom are not interested persons of each Fund as defined in the 1940 Act (the Independent Board Members ). The registered investment companies advised by the Investment Advisor or its affiliates (the BlackRock-Advised Funds ) are organized into one complex of closed-end funds (the Closed-End Complex ), two complexes of open-end funds (the Equity-Liquidity Complex and the Equity-Bond Complex ) and one complex of exchange-traded funds (the Exchange-Traded Complex ; each such complex a BlackRock Fund Complex ). Each Fund is included in the Closed-End Complex. The Board Members also oversee as Board members the operations of the other closed-end registered investment companies included in the Closed-End Complex.

Certain biographical and other information relating to the Board Members and officers of each Fund is set forth below, including their year of birth, their principal occupation for at least the last five years, the length of time served, the total number of investment companies overseen in the BlackRock Fund Complexes and any public directorships or trusteeships.

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Please refer to the below table which identifies the Board Members and sets forth certain biographical information about the Board Members for each Fund.

Name, Address and Year of Birth	Position(s) Held with Funds	Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies ( RICs ) Consisting of Investment Portfolios ( Portfolios ) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
<b>Independent Board Members</b>					
Richard E. Cavanagh 55 East 52nd Street New York, NY 10055 1946	Chairman of the Boards	Since 2007	Trustee, Aircraft Finance Trust from 1999 to 2009; Director, The Guardian Life Insurance Company of America since 1998; Trustee, Educational Testing Service from 1997 to 2009 and Chairman thereof from 2005 to 2009; Senior Advisor, The Fremont Group since 2008 and Director thereof since 1996; Faculty Member/Adjunct Lecturer, Harvard University since 2007; President and Chief Executive Officer, The Conference Board, Inc. (global business research organization) from 1995 to 2007.	76 RICs consisting of 76 Portfolios	Arch Chemical (chemical and allied products) from 1999 to 2011
Karen P. Robards 55 East 52nd Street New York, NY 10055 1950	Vice Chairperson of the Boards and Chairperson of the Audit Committee	Since 2007	Partner of Robards & Company, LLC (financial advisory firm) since 1987; Co-founder and Director of the Cooke Center for Learning and Development (a not-for-profit organization) since 1987; Investment Banker at Morgan Stanley from 1976 to 1987.	76 RICs consisting of 76 Portfolios	AtriCure, Inc. (medical devices) since 2000; Greenhill & Co., Inc. since 2013; Care Investment Trust, Inc. (health care real estate investment trust) from 2007 to 2010

Name, Address and Year of Birth	Position(s) Held with Funds	Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies ( RICs ) Consisting of Investment Portfolios ( Portfolios ) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
Michael J. Castellano 55 East 52nd Street New York, NY 10055 1946	Board Member and Member of the Audit Committee	Since 2011	Chief Financial Officer of Lazard Group LLC from 2001 to 2011; Chief Financial Officer of Lazard Ltd from 2004 to 2011; Director, Support Our Aging Religious (non-profit) from 2009 to June 2015; Director, National Advisory Board of Church Management at Villanova University since 2010; Trustee, Domestic Church Media Foundation since 2012; Director, CircleBlack Inc. (financial technology company) since 2015.	76 RICs consisting of 76 Portfolios	None
Frank J. Fabozzi 55 East 52nd Street New York, NY 10055 1948	Board Member and Member of the Audit Committee	Since 2007	Editor of and Consultant for The Journal of Portfolio Management since 2006; Professor of Finance, EDHEC Business School since 2011; Visiting Professor, Princeton University from 2013 to 2014; Professor in the Practice of Finance and Becton Fellow, Yale University School of Management from 2006 to 2011.	109 RICs consisting of 235 Portfolios	None
Kathleen F. Feldstein 55 East 52nd Street New York, NY 10055 1941	Board Member	Since 2007	President of Economics Studies, Inc. (private economic consulting firm) since 1987; Chair, Board of Directors, McLean Hospital from 2000 to 2008 and Trustee Emeritus thereof since 2008; Member of the Board of Partners Community Healthcare, Inc. from 2005 to 2009; Member of the Corporation of Partners HealthCare since 1995; Trustee, Museum of Fine Arts, Boston since 1992; Member of the Visiting Committee to the Harvard University Art Museum since 2003; Director, Catholic Charities of Boston since 2009.	76 RICs consisting of 76 Portfolios	The McClatchy Company (publishing) since 2006



Name, Address and Year of Birth	Position(s) Held with Funds	Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies ( RICs ) Consisting of Investment Portfolios ( Portfolios ) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
James T. Flynn 55 East 52nd Street New York, NY 10055 1939	Board Member and Member of the Audit Committee	Since 2007	Chief Financial Officer of JPMorgan & Co., Inc. from 1990 to 1995.	76 RICs consisting of 76 Portfolios	None
Jerrold B. Harris 55 East 52nd Street New York, NY 10055 1942	Board Member	Since 2007	Trustee, Ursinus College from 2000 to 2012; Director, Waterfowl Chesapeake (conservation) since 2014; Director, Troemner LLC (scientific equipment) since 2000; Director, Ducks Unlimited, Inc. (conservation) since 2013; Director of Delta Waterfowl Foundation from 2010 to 2012.; President and Chief Executive Officer, VWR Scientific Products Corporation from 1990 to 1999.	76 RICs consisting of 76 Portfolios	BlackRock Capital Investment Corp. (business development company) since 2004
R. Glenn Hubbard 55 East 52nd Street New York, NY 10055 1958	Board Member	Since 2007	Dean, Columbia Business School since 2004; Faculty member, Columbia Business School since 1988.	76 RICs consisting of 76 Portfolios	ADP (data and information services) since 2004; KKR Financial Corporation (finance) from 2004 to 2014; Metropolitan Life Insurance Company (insurance) since 2007

Name, Address and Year of Birth	Position(s) Held with Funds	Length of Time Served*	Principal Occupation(s) During Past Five Years	Number of BlackRock-Advised Registered Investment Companies ( RICs ) Consisting of Investment Portfolios ( Portfolios ) Overseen**	Other Public Company or Investment Company Directorships Held During Past Five Years***
W. Carl Kester 55 East 52nd Street New York, NY 10055 1951	Board Member and Member of the Audit Committee	Since 2007	George Fisher Baker Jr. Professor of Business Administration, Harvard Business School since 2008. Deputy Dean for Academic Affairs from 2006 to 2010; Chairman of the Finance Unit, from 2005 to 2006; Senior Associate Dean and Chairman of the MBA Program, from 1999 to 2005. Member of the faculty of Harvard Business School since 1981.	76 RICs consisting of 76 Portfolios	None

**Interested Board Members**

John M. Perlowski 55 East 52nd Street New York, NY 10055 1964	Board Member, President and Chief Executive Officer	Board Member since 2014; President and Chief Executive Officer since 2011	Managing Director of BlackRock, Inc. since 2009; Head of BlackRock Global Fund Administration since 2009; Managing Director and Chief Operating Officer of the Global Product Group at Goldman Sachs Asset Management, L.P. from 2003 to 2009; Treasurer of Goldman Sachs Mutual Funds from 2003 to 2009 and Senior Vice President thereof from 2007 to 2009; Director of Goldman Sachs Offshore Funds from 2002 to 2009; Director of Family Resource Network (charitable foundation) since 2009.	104 RICs consisting of 174 Portfolios	None
Barbara G. Novick 55 East 52nd Street New York, NY 10055 1960	Board Member	Since 2014	Vice Chairman of BlackRock, Inc. since 2006; Chair of BlackRock's Government Relations Steering Committee since 2009; Head of the Global Client Group of BlackRock, Inc. from 1988 to 2008.	109 RICs consisting of 235 Portfolios	None

\* Date shown is the earliest date a person has served for the Funds covered by this Joint Proxy Statement/Prospectus. Following the combination of Merrill Lynch Investment Managers, L.P. ( MLIM ) and BlackRock, Inc. ( BlackRock ) in September 2006, the various legacy MLIM and legacy BlackRock fund boards were realigned and consolidated into three new fund boards in 2007. As a result, although the chart shows certain Board Members as joining the Funds Boards in 2007, each Board Member first became a member of the board of other legacy MLIM or legacy BlackRock funds as follows: Richard E. Cavanagh, 1994; Frank J. Fabozzi, 1988; Kathleen

F. Feldstein, 2005; James T. Flynn, 1996; Jerrold B. Harris, 1999; R. Glenn Hubbard, 2004; W. Carl Kester, 1995 and Karen P. Robards, 1998. Each Independent Board Member will serve until his or her successor is elected and qualifies, or until his or her earlier death, resignation, retirement or removal, or until December 31 of the year in which he or she turns 74. The maximum age limitation may be waived as to any Board Member by action of a majority of the Board upon a finding of good cause therefor. The Boards of the Funds have unanimously approved extending the mandatory retirement age for James T. Flynn until December 31, 2015, which the Boards believe is in the best interest of shareholders.

\*\* For purposes of this chart, RICs refers to investment companies registered under the 1940 Act and Portfolios refers to the investment programs of the BlackRock-Advised Funds. The Closed-End Complex is comprised of 76 RICs. Mr. Perlowski, Dr. Fabozzi and Ms. Novick are also board members of a complex of BlackRock registered open-end funds. Mr. Perlowski is also a board member of the BlackRock Equity-Bond Complex, and Ms. Novick and Dr. Fabozzi are also board members of the BlackRock Equity-Liquidity Complex.

\*\*\* Directorships disclosed under this column do not include directorships disclosed under the column Principal Occupation(s) During Past Five Years. Mr. Perlowski, Dr. Fabozzi and Ms. Novick are also board members of a complex of BlackRock registered open-end funds. Mr. Perlowski is also a board member of the BlackRock Equity-Bond Complex, and Ms. Novick and Dr. Fabozzi are also board members of the BlackRock Equity-Liquidity Complex.

Mr. Perlowski and Ms. Novick are both interested persons, as defined in the 1940 Act, of the Funds based on their positions with BlackRock and its affiliates. Mr. Perlowski and Ms. Novick are also board members of a complex of BlackRock registered open-end funds. Mr. Perlowski is also a board member of the BlackRock Equity-Bond Complex and Ms. Novick is also a board member of the BlackRock Equity-Liquidity Complex. Interested Board Members serve until their resignation, removal or death, or until December 31 of the year in which they turn 72. The maximum age limitation may be waived as to any Board Member by action of a majority of the Board Members upon a finding of good cause therefor.

#### **Experience, Qualifications and Skills of the Board Members**

The Independent Board Members have adopted a statement of policy that describes the experiences, qualifications, skills and attributes that are necessary and desirable for potential Independent Board Member candidates (the Statement of Policy ). The Boards believe that each Independent Board Member satisfied, at the time he or she was initially elected or appointed a Board Member, and continues to satisfy, the standards contemplated by the Statement of Policy as well as the standards set forth in each Fund's By-laws. Furthermore, in determining that a particular Board Member was and continues to be qualified to serve as a Board Member, the Boards have considered a variety of criteria, none of which, in isolation, was controlling. The Boards believe that, collectively, the Board Members have balanced and diverse experiences, skills, attributes and qualifications, which allow the Boards to operate effectively in governing the Funds and protecting the interests of shareholders. Among the attributes common to all Board Members is their ability to review critically, evaluate, question and discuss information provided to them, to interact effectively with the Funds' investment advisor, sub-advisers, other service providers, counsel and independent auditors, and to exercise effective business judgment in the performance of their duties as Board Members. Each Board Member's ability to perform his or her duties effectively is evidenced by his or her educational background or professional training; business, consulting, public service or academic positions; experience from service as a board member of the Funds or the other funds in the BlackRock fund complexes (and any predecessor funds), other investment funds, public companies, or not-for-profit entities or other organizations; ongoing commitment and participation in Board and committee meetings, as well as their leadership of standing and other committees throughout the years; or other relevant life experiences.

The table below discusses some of the experiences, qualifications and skills of Board Members that support the conclusion that they should serve on the Board.

Board Members	Experience, Qualifications and Skills
Richard E. Cavanagh	<p>Mr. Cavanagh brings to the Boards a wealth of practical business knowledge and leadership as an experienced director/trustee of various public and private companies. In particular, because Mr. Cavanagh served for over a decade as President and Chief Executive Officer of The Conference Board, Inc., a global business research organization, he is able to provide the Boards with expertise about business and economic trends and governance practices. Mr. Cavanagh created the blue ribbon Commission on Public Trust and Private Enterprise in 2002, which recommended corporate governance enhancements. Mr. Cavanagh's service as a director of The Guardian Life Insurance Company of America and as a senior advisor and director of The Fremont Group provides added insight into investment trends and conditions. Mr. Cavanagh's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Mr. Cavanagh is also an experienced board leader, having served as the lead independent director of a NYSE public company (Arch Chemicals) and as the Board Chairman of the Educational Testing Service. Mr. Cavanagh's independence from the Funds and the Funds' investment advisor enhances his service as Chair of the Boards, Chair of the Leverage Committee, Chair of the Executive Committee and as a member of the Governance and Nominating Committee, Compliance Committee and Performance Oversight Committee.</p>
Karen P. Robards	<p>The Boards benefit from Ms. Robards' many years of experience in investment banking and the financial advisory industry where she obtained extensive knowledge of the capital markets and advised clients on corporate finance transactions, including mergers and acquisitions and the issuance of debt and equity securities. Ms. Robards' prior position as an investment banker at Morgan Stanley provides useful oversight of the Funds' investment decisions and investment valuation processes. Additionally, Ms. Robards' experience as a director of publicly held and private companies allows her to provide the Boards with insight into the management and governance practices of other companies. Ms. Robards' long-standing service on the boards of the Closed-End Complex also provides her with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Ms. Robards' knowledge of financial and accounting matters qualifies her to serve as Vice Chair of the Boards and as the Chair of each Fund's Audit Committee. Ms. Robards' independence from the Funds and the Funds' investment advisor enhances her service as a member of the Performance Oversight Committee, Executive Committee, Governance and Nominating Committee and Leverage Committee.</p>

**Board Members****Experience, Qualifications and Skills**

Michael J. Castellano	The Boards benefit from Mr. Castellano's career in accounting which spans over forty years. Mr. Castellano has served as Chief Financial Officer of Lazard Ltd. and as a Managing Director and Chief Financial Officer of Lazard Group. Prior to joining Lazard, Mr. Castellano held various senior management positions at Merrill Lynch & Co., including Senior Vice President Chief Control Officer for Merrill Lynch's capital markets businesses, Chairman of Merrill Lynch International Bank and Senior Vice President Corporate Controller. Prior to joining Merrill Lynch & Co., Mr. Castellano was a partner with Deloitte & Touche where he served a number of investment banking clients over the course of his 24 years with the firm. Mr. Castellano currently serves as a director for CircleBlack Inc. Mr. Castellano's knowledge of financial and accounting matters qualifies him to serve as a member of each Fund's Audit Committee. Mr. Castellano's independence from the Funds and the Funds' investment advisor enhances his service as a member of the Audit Committee, Governance and Nominating Committee and Performance Oversight Committee.
Frank J. Fabozzi	Dr. Fabozzi has served for over 25 years on the boards of registered investment companies. Dr. Fabozzi holds the designations of Chartered Financial Analyst and Certified Public Accountant. Dr. Fabozzi was inducted into the Fixed Income Analysts Society's Hall of Fame and is the 2007 recipient of the C. Stewart Sheppard Award and the 2015 recipient of the James R. Vertin Award, both given by the CFA Institute. The Boards benefit from Dr. Fabozzi's experiences as a professor and author in the field of finance. Dr. Fabozzi's experience as a professor at various institutions, including EDHEC Business School, Yale, MIT, and Princeton, as well as Dr. Fabozzi's experience as a Professor in the Practice of Finance and Becton Fellow at the Yale University School of Management and as editor of the Journal of Portfolio Management demonstrates his wealth of expertise in the investment management and structured finance areas. Dr. Fabozzi has authored and edited numerous books and research papers on topics in investment management and financial econometrics, and his writings have focused on fixed income securities and portfolio management, many of which are considered standard references in the investment management industry. Dr. Fabozzi's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations and the business and regulatory issues facing the Funds. In addition, Dr. Fabozzi joined as a member of the boards of the funds in the Equity-Liquidity Complex, effective April 1, 2014. Moreover, Dr. Fabozzi's knowledge of financial and accounting matters qualifies him to serve as a member of each Fund's Audit Committee. Dr. Fabozzi's independence from the Funds and the Funds' investment advisor enhances his service as Chair of the Performance Oversight Committee and as a member of the Governance and Nominating Committee and Leverage Committee.
Kathleen F. Feldstein	Dr. Feldstein, who serves as President of Economics Studies, Inc., an economic consulting firm, benefits the Boards by providing business leadership and experience and knowledge of economics. The Boards benefit from Dr. Feldstein's experience as a director/trustee of publicly traded and private companies, including financial services, technology and telecommunications companies. Dr. Feldstein's long-standing service on the boards of the Closed-End Complex also provides her with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. In addition, Dr. Feldstein's independence from the Funds and the Funds' investment advisor enhances her service as a member of the Compliance Committee, Governance and Nominating Committee and Performance Oversight Committee.

**Board Members**

**Experience, Qualifications and Skills**

James T. Flynn

Mr. Flynn brings to the Boards a broad and diverse knowledge of business and capital markets as a result of his many years of experience in the banking and financial industry. Mr. Flynn's five years as the Chief Financial Officer of JP Morgan & Co. provide the Boards with experience on financial reporting obligations and oversight of investments. Mr. Flynn's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Mr. Flynn's knowledge of financial and accounting matters qualifies him to serve as a member of each Fund's Audit Committee. Mr. Flynn's independence from the Funds and the Funds investment advisor enhances his service as a member of the Governance and Nominating Committee and Performance Oversight Committee.

Jerrold B. Harris

Mr. Harris's time as President and Chief Executive Officer of VWR Scientific Products Corporation brings to the Boards business leadership and experience and knowledge of the chemicals industry and national and international product distribution. Mr. Harris's position as a director of BlackRock Capital Investment Corporation brings to the Boards the benefit of his experience as a director of a business development company governed by the 1940 Act and allows him to provide the Boards with added insight into the management practices of other financial companies. Mr. Harris's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations and the business and regulatory issues facing the Funds. Mr. Harris's independence from the Funds and the Funds investment advisor enhances his service as Chair of the Compliance Committee and as a member of the Governance and Nominating Committee and Performance Oversight Committee.

R. Glenn Hubbard

Dr. Hubbard has served in numerous roles in the field of economics, including as the Chairman of the U.S. Council of Economic Advisers of the President of the United States. Dr. Hubbard serves as the Dean of Columbia Business School, has served as a member of the Columbia Faculty and as a Visiting Professor at the John F. Kennedy School of Government at Harvard University, the Harvard Business School and the University of Chicago. Dr. Hubbard's experience as an adviser to the President of the United States adds a dimension of balance to the Funds' governance and provides perspective on economic issues. Dr. Hubbard's service on the boards of ADP and Metropolitan Life Insurance Company provides the Boards with the benefit of his experience with the management practices of other financial companies. Dr. Hubbard's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Dr. Hubbard's independence from the Funds and the Funds' investment advisor enhances his service as the Chair of the Governance and Nominating Committee and a member of the Compliance Committee and Performance Oversight Committee.

**Board Members****Experience, Qualifications and Skills**

W. Carl Kester

The Boards benefit from Dr. Kester's experiences as a professor and author in finance, and his experience as the George Fisher Baker Jr. Professor of Business Administration at Harvard Business School and as Deputy Dean of Academic Affairs at Harvard Business School from 2006 through 2010 adds to the Board a wealth of expertise in corporate finance and corporate governance. Dr. Kester has authored and edited numerous books and research papers on both subject matters, including co-editing a leading volume of finance case studies used worldwide. Dr. Kester's long-standing service on the boards of the Closed-End Complex also provides him with a specific understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Dr. Kester's knowledge of financial and accounting matters qualifies him to serve as a member of each Fund's Audit Committee. Dr. Kester's independence from the Funds and the Funds' investment advisor enhances his service as a member of the Governance and Nominating Committee, Performance Oversight Committee and the Leverage Committee.

John M. Perlowski

Mr. Perlowski's experience as Managing Director of BlackRock, Inc. since 2009, as the Head of BlackRock Global Fund Administration since 2009, and as President and Chief Executive Officer of the Funds since 2011 provides him with a strong understanding of the Funds, their operations, and the business and regulatory issues facing the Funds. Mr. Perlowski's prior position as Managing Director and Chief Operating Officer of the Global Product Group at Goldman Sachs Asset Management, and his former service as Treasurer and Senior Vice President of the Goldman Sachs Mutual Funds and as Director of the Goldman Sachs Offshore Funds provides the Boards with the benefit of his experience with the management practices of other financial companies. Mr. Perlowski is a member of the Funds' Executive Committee and Leverage Committee.

Barbara G. Novick

Ms. Novick has extensive experience in the financial services industry, including more than 26 years with BlackRock. Ms. Novick currently is a member of BlackRock's Global Executive, Global Operating and Corporate Risk Management Committees and chairs BlackRock's Government Relations Steering Committee. For the first twenty years at BlackRock, Ms. Novick oversaw global business development, marketing and client service across equity, fixed income, liquidity, alternative investment and real estate products, and in her current role, heads BlackRock's efforts globally on government relations and public policy. Prior to joining BlackRock, Ms. Novick was Vice President of the Mortgage Products Group at the First Boston Corporation and, prior to that, was with Morgan Stanley. The Boards benefit from Ms. Novick's wealth of experience and long history with BlackRock and BlackRock's management practices, investment strategies and products, which stretches back to BlackRock's founding in 1988.

**Board Leadership Structure and Oversight**

The Boards have overall responsibility for the oversight of the Funds. The Chair of the Boards and the Chief Executive Officer are two different people. Not only is the Chair of the Boards an Independent Board Member, but the Chair of each Board committee (each, a Committee) is also an Independent Board Member. The Boards have six standing Committees: an Audit Committee, a Governance and Nominating Committee, a Compliance Committee, a Performance Oversight Committee, a Leverage Committee and an Executive Committee. The Funds do not have a compensation committee because their executive officers, other than the Funds' Chief Compliance Officer (CCO), do not receive any direct compensation from the Funds and the CCO's compensation is comprehensively reviewed by the Boards. The role of the Chair of the Boards is to preside over all meetings of the Boards and to act as a liaison with service providers, officers, attorneys, and other Board

Members between meetings. The Chair of each Committee performs a similar role with respect to such Committee. The Chair of the Boards or Committees may also perform such other functions as may be delegated by the Boards or the Committees from time to time. The Independent Board Members meet regularly outside the presence of the Funds' management, in executive sessions or with other service providers to the Funds. The Boards have regular meetings five times a year, including a meeting to consider the approval of the Funds' Investment Management Agreements, and if necessary, may hold special meetings before their next regular meeting. Each Committee meets regularly to conduct the oversight functions delegated to that Committee by the Boards and reports its findings to the Boards. The Boards and each standing Committee conduct annual assessments of their oversight function and structure. The Boards have determined that the Boards' leadership structure is appropriate because it allows the Boards to exercise independent judgment over management and to allocate areas of responsibility among Committees and the Boards to enhance oversight.

The Boards decided to separate the roles of Chair and Chief Executive Officer because they believe that an independent Chair:

increases the independent oversight of the Funds and enhances the Boards' objective evaluation of the Chief Executive Officer;

allows the Chief Executive Officer to focus on the Funds' operations instead of Board administration;

provides greater opportunities for direct and independent communication between shareholders and the Boards; and

provides an independent spokesman for the Funds.

The Boards have engaged the Investment Advisor to manage the Funds on a day-to-day basis. Each Board is responsible for overseeing the Investment Advisor, other service providers, the operations of each Fund and associated risks in accordance with the provisions of the 1940 Act, state law, other applicable laws, each Fund's charter, and each Fund's investment objective(s) and strategies. The Boards review, on an ongoing basis, the Funds' performance, operations, and investment strategies and techniques. The Boards also conduct reviews of the Investment Advisor and its role in running the operations of the Funds.

Day-to-day risk management with respect to the Funds is the responsibility of the Investment Advisor or other service providers (depending on the nature of the risk), subject to the supervision of the Investment Advisor. The Funds are subject to a number of risks, including investment, compliance, operational and valuation risks, among others. While there are a number of risk management functions performed by the Investment Advisor or other service providers, as applicable, it is not possible to eliminate all of the risks applicable to the Funds. Risk oversight is part of the Boards' general oversight of the Funds and is addressed as part of various Board and Committee activities. The Boards, directly or through Committees, also review reports from, among others, management, the independent registered public accounting firm for the Funds, the Investment Advisor, and internal auditors for the Investment Advisor or its affiliates, as appropriate, regarding risks faced by the Funds and management's or the service provider's risk functions. The Committee system facilitates the timely and efficient consideration of matters by the Board Members and facilitates effective oversight of compliance with legal and regulatory requirements and of the Funds' activities and associated risks. The Boards have appointed a Chief Compliance Officer, who oversees the implementation and testing of the Funds' compliance program and reports regularly to the Boards regarding compliance matters for the Funds and their service providers. The Independent Board Members have engaged independent legal counsel to assist them in performing their oversight responsibilities.



During the calendar year 2014, the Board of each Fund met 8 times. During the most recent full fiscal year for each Fund, the Board met the following number of times:

Fund Name	Ticker	Fiscal Year End	Number of Board Meetings
BlackRock MuniYield Michigan Quality Fund II, Inc.	MYM	31-July	7
BlackRock MuniYield Michigan Quality Fund, Inc.	MIY	31-July	7

No incumbent Board Member attended less than 75% of the aggregate number of meetings of each Board and of each Committee on which the Board Member served during each Fund's most recently completed fiscal year.

**Audit Committee.** Each Board has a standing Audit Committee composed of Karen P. Robards (Chair), Michael J. Castellano, Frank J. Fabozzi, James T. Flynn and W. Carl Kester, all of whom are Independent Board Members. The principal responsibilities of the Audit Committee are to assist the Board in fulfilling its oversight responsibilities relating to the accounting and financial reporting policies and practices of the Fund. The Audit Committee's responsibilities include, without limitation: (i) approving and recommending to the full Board for approval the selection, retention, termination and compensation of the Fund's independent registered public accounting firm (the Independent Registered Public Accounting Firm) and evaluating the independence and objectivity of the Independent Registered Public Accounting Firm; (ii) approving all audit engagement terms and fees for the Fund; (iii) reviewing the conduct and results of each audit; (iv) reviewing any issues raised by the Fund's Independent Registered Public Accounting Firm or management regarding the accounting or financial reporting policies and practices of the Fund, its internal controls, and, as appropriate, the internal controls of certain service providers and management's response to any such issues; (v) reviewing and discussing the Fund's audited and unaudited financial statements and disclosure in the Fund's shareholder reports relating to the Fund's performance; (vi) assisting the Board's responsibilities with respect to the internal controls of the Fund and its service providers with respect to accounting and financial matters; and (vii) resolving any disagreements between the Fund's management and the Fund's Independent Registered Public Accounting Firm regarding financial reporting.

A copy of the Audit Committee Charter for each Fund can be found in the Corporate Governance section of the BlackRock Closed-End Fund website at [www.blackrock.com](http://www.blackrock.com).

**Governance and Nominating Committee.** Each Board has a standing Governance and Nominating Committee (the Governance Committee) composed of R. Glenn Hubbard (Chair), Richard E. Cavanagh, Michael J. Castellano, Frank J. Fabozzi, Kathleen F. Feldstein, James T. Flynn, Jerrold B. Harris, W. Carl Kester and Karen P. Robards, all of whom are Independent Board Members.

The principal responsibilities of the Governance Committee are: (i) identifying individuals qualified to serve as Independent Board Members and recommending Board Nominees that are not interested persons of the Funds (as defined in the 1940 Act) for election by shareholders or appointment by the Board; (ii) advising the Board with respect to Board composition, procedures and committees of the Board (other than the Audit Committee); (iii) overseeing periodic self-assessments of the Board and committees of the Board (other than the Audit Committee); (iv) reviewing and making recommendations in respect of Independent Board Member compensation; (v) monitoring corporate governance matters and making recommendations in respect thereof to the Board; (vi) acting as the administrative committee with respect to Board policies and procedures, committee policies and procedures (other than the Audit Committee) and codes of ethics as they relate to the Independent Board Members; and (vii) reviewing and making recommendations to the Board in respect of Fund share ownership by the Independent Board Members.

The Governance Committee of each Board seeks to identify individuals to serve on the Board who have a diverse range of viewpoints, qualifications, experiences, backgrounds and skill sets so that the Board will be

better suited to fulfill its responsibility of overseeing the Fund's activities. In so doing, the Governance Committee reviews the size of the Board, the ages of the current Board Members and their tenure on the Board, and the skills, background and experiences of the Board Members in light of the issues facing the Fund in determining whether one or more new Board Members should be added to the Board. The Board as a group strives to achieve diversity in terms of gender, race and geographic location. The Governance Committee believes that the Board Members as a group possess the array of skills, experiences and backgrounds necessary to guide the Fund. The Board Members' biographies included in the Proxy Statement highlight the diversity and breadth of skills, qualifications and expertise that the Board Members bring to the Fund.

Each Governance Committee may consider nominations for Board Members made by the Fund's shareholders as it deems appropriate. Under each Fund's By-laws, shareholders must follow certain procedures to nominate a person for election as a Board Member at an annual or special meeting, or to introduce an item of business at an annual meeting. Under these advance notice procedures, shareholders must submit the proposed nominee or item of business by delivering a notice to the Secretary of the Funds at their principal executive offices. Each Fund must receive notice of a shareholder's intention to introduce a nomination or proposed item of business for an annual shareholder meeting not less than 120 days nor more than 150 days before the anniversary of the prior year's annual shareholder meeting. Assuming that the 2015 annual shareholder meeting of a Fund is held within 25 days of July 30, 2015, the Fund must receive notice pertaining to the 2015 annual meeting of shareholders no earlier than Monday, March 2, 2015 and no later than Wednesday, April 1, 2015. However, if a Fund holds its 2015 annual shareholder meeting on a date that is not within 25 days before or after July 30, 2015, such Fund must receive the notice of a shareholder's intention to introduce a nomination or proposed item of business not later than the close of business on the tenth day following the day on which the notice of the date of the shareholder meeting was mailed or the public disclosure of the date of the shareholder meeting was made, whichever comes first.

Each Fund's By-laws provide that notice of a proposed nomination must include certain information about the shareholder and the nominee, as well as a written consent of the proposed nominee to serve if elected. A notice of a proposed item of business must include a description of and the reasons for bringing the proposed business to the meeting, any material interest of the shareholder in the business, and certain other information about the shareholder.

Further, each Fund has adopted Board Member qualification requirements which can be found in each Fund's By-laws and are applicable to all Board Members that may be nominated, elected, appointed, qualified or seated to serve as Board Members. The qualification requirements include: (i) age limits; (ii) limits on service on other boards; (iii) restrictions on relationships with investment advisors other than BlackRock; and (iv) character and fitness requirements. In addition to not being an interested person of the Fund as defined under Section 2(a)(19) of the 1940 Act, each Independent Board Member may not be or have certain relationships with a shareholder owning five percent or more of the Fund's voting securities or owning other percentage ownership interests in investment companies registered under the 1940 Act. Reference is made to each Fund's By-laws for more details.

A copy of the Governance and Nominating Committee Charter for each Fund can be found in the Corporate Governance section of the BlackRock Closed-End Fund website at [www.blackrock.com](http://www.blackrock.com).

**Compliance Committee.** Each Fund has a Compliance Committee composed of Jerrold B. Harris (Chair), Richard E. Cavanagh, Kathleen F. Feldstein and R. Glenn Hubbard, all of whom are Independent Board Members. The Compliance Committee's purpose is to assist the Board in fulfilling its responsibility with respect to the oversight of regulatory and fiduciary compliance matters involving the Fund, the fund-related activities of BlackRock, and any sub-advisor and the Fund's other third party service providers. The Compliance Committee's responsibilities include, without limitation: (i) overseeing the compliance policies and procedures of the Fund and its service providers and recommending changes or additions to such policies and procedures; (ii) reviewing information on and, where appropriate, recommending policies concerning the Fund's compliance

with applicable law; (iii) reviewing information on any significant correspondence with or other actions by regulators or governmental agencies with respect to the Fund and any employee complaints or published reports that raise concerns regarding compliance matters; and (iv) reviewing reports from, overseeing the annual performance review of, and making certain recommendations in respect of the CCO, including, without limitation, determining the amount and structure of the CCO's compensation. Each Board has adopted a written charter for the Board's Compliance Committee.

**Performance Oversight Committee.** Each Fund has a Performance Oversight Committee composed of Frank J. Fabozzi (Chair), Michael J. Castellano, Richard E. Cavanagh, Kathleen F. Feldstein, James T. Flynn, Jerrold B. Harris, R. Glenn Hubbard, W. Carl Kester and Karen P. Robards, all of whom are Independent Board Members. The Performance Oversight Committee's purpose is to assist the Board in fulfilling its responsibility to oversee the Fund's investment performance relative to the Fund's investment objective(s), policies and practices. The Performance Oversight Committee's responsibilities include, without limitation: (i) reviewing the Fund's investment objective(s), policies and practices; (ii) recommending to the Board any required action in respect of changes in fundamental and non-fundamental investment restrictions; (iii) reviewing information on appropriate benchmarks and competitive universes; (iv) reviewing the Fund's investment performance relative to such benchmarks; (v) reviewing information on unusual or exceptional investment matters; (vi) reviewing whether the Fund has complied with its investment policies and restrictions; and (vii) overseeing policies, procedures and controls regarding valuation of the Fund's investments. Each Board has adopted a written charter for the Board's Performance Oversight Committee.

**Executive Committee.** Each Fund has an Executive Committee composed of Richard E. Cavanagh (Chair) and Karen P. Robards, both of whom are Independent Board Members, and John M. Perlowski, who serves as an interested Board Member. The principal responsibilities of the Executive Committee include, without limitation: (i) acting on routine matters between meetings of the Board; (ii) acting on such matters as may require urgent action between meetings of the Board; and (iii) exercising such other authority as may from time to time be delegated to the Executive Committee by the Board. Each Board has adopted a written charter for the Board's Executive Committee.

**Leverage Committee.** Each Board has a Leverage Committee composed of Richard E. Cavanagh (Chair), Karen P. Robards, Frank J. Fabozzi, John M. Perlowski and W. Carl Kester, all of whom are Independent Board Members, except for John M. Perlowski. The Leverage Committee was originally formed in March 2008 as an ad hoc committee for the purpose of monitoring issues arising from credit market turmoil and overseeing efforts to address the effects of reduced auction market preferred shares or auction preferred shares (AMPS) liquidity on each fund in the Closed-End Complex using AMPS for leverage at the time, to evaluate the liquidity considerations of the AMPS holders and to oversee other financial leverage-related issues as delegated by the Board, each in a manner consistent with the Fund's and its shareholders' best interests and the Fund's investment strategies. This committee was converted to a standing committee in 2011, and was renamed the Leverage Committee and expanded to include all funds in the Closed-End Complex in April 2012. The Leverage Committee's responsibilities include, without limitation: (i) to support the Independent Board Members in pursuing the best interests of each Fund and its shareholders; (ii) to oversee each Fund's usage of leverage, including the Fund's incurrence, refinancing and maintenance of leverage and, to the extent necessary or appropriate, authorize or approve the execution of documentation in respect thereto, (iii) to oversee and authorize actions in respect of refinancing and redeeming forms of leverage; and (iv) to receive reports with respect to the foregoing matters. Each Board has adopted a written Charter for the Board's Leverage Committee.

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Each Audit Committee, Governance and Nominating Committee, Compliance Committee, Performance Oversight Committee, Executive Committee and Leverage Committee met the following number of times for each Fund's most recent fiscal year:

Ticker	Fiscal Year End	Number of Audit Committee Meetings	Number of Governance and Nominating Committee Meetings	Number of Compliance Committee Meetings	Number of Performance Oversight Committee Meetings	Number of Executive Committee Meetings	Number of Leverage Committee Meetings
Target Fund (MYM)	31-July	14	4	4	4	3	4
Acquiring Fund (MIY)	31-July	14	4	4	4	3	4

### Compensation of Board Members

Each Board Member who is an Independent Board Member is paid an annual retainer of \$250,000 per year for his or her services as a Board Member of all funds in the BlackRock Closed-End Complex that are overseen by the respective director/trustee, and each Board Member may also receive a \$10,000 board meeting fee for special unscheduled meetings or meetings in excess of six Board meetings held in a calendar year, together with out-of-pocket expenses in accordance with a Board policy on travel and other business expenses relating to attendance at meetings. In addition, the Chair and Vice Chair of the Board are paid an additional annual retainer of \$120,000 and \$40,000, respectively. The Chairs of the Audit Committee, Compliance Committee, Governance and Nominating Committee, and Performance Oversight Committee are paid an additional annual retainer of \$35,000, \$20,000, \$10,000 and \$20,000, respectively. Each Audit Committee and Leverage Committee member is paid an additional annual retainer of \$25,000 for his or her service on such committee. For the year ended December 31, 2014, the Closed-End Complex reimbursed Independent Board Member expenses in an aggregate amount of approximately \$50,338. Each Fund pays a pro rata portion quarterly (based on relative net assets) of the foregoing Board Member fees paid by the funds in the Closed-End Complex.

Dr. Fabozzi was appointed to serve as a member of the boards of the Equity-Liquidity Complex effective April 1, 2014. Dr. Fabozzi is paid an annual retainer of \$275,000 for his services as a board member of all funds in the BlackRock Equity-Liquidity Complex. Dr. Fabozzi may also receive a \$10,000 board meeting fee to be paid for each in-person board meeting attended (a \$5,000 board meeting fee for telephonic attendance at regular board meetings), for up to five board meetings held in a calendar year (compensation for meetings in excess of this number to be determined on a case-by-case basis), together with out of pocket expenses in accordance with a board policy on travel and other business expenses relating to attendance at meetings. Dr. Fabozzi is currently a member of the Audit Committee and Performance Oversight Committee of the BlackRock-Advised Funds in the Equity-Liquidity Complex. Dr. Fabozzi receives \$10,000 for each standing committee on which he serves for up to two standing Committee assignments but is not paid this amount for serving on a committee which he chairs. The boards of the Funds or of any other BlackRock-Advised Fund in a BlackRock Fund Complex may modify the board members' compensation from time to time depending on market conditions and accordingly Dr. Fabozzi's compensation would be impacted by those modifications.

The Independent Board Members have agreed that a maximum of 50% of each Independent Board Member's total compensation paid by funds in the Closed-End Complex may be deferred pursuant to the Closed-End Complex's deferred compensation plan. Under the deferred compensation plan, deferred amounts earn a return for the Independent Board Members as though equivalent dollar amounts had been invested in common shares of certain funds in the Closed-End Complex selected by the Independent Board Members. This has approximately the same economic effect for the Independent Board Members as if they had invested the deferred amounts in such other funds in the Closed-End Complex. The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of a fund and are recorded as a liability for accounting purposes.

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The following table sets forth the aggregate compensation, including deferred compensation amounts, paid to each Independent Board Member by each Fund during its most recently completed fiscal year and by the Closed-End Complex for the most recently completed calendar year. Mr. Perlowski and Ms. Novick serve without compensation from the Funds because of their affiliations with BlackRock, Inc. and the Investment Advisor.

Fund	Fund's Fiscal		Kathleen								Fund Total
	Year End <sup>(1)</sup>	Michael J. Castellano <sup>(2)</sup>	Richard E. Cavanagh <sup>(2)</sup>	Frank J. Fabozzi <sup>(2)</sup>	F. Feldstein <sup>(2)</sup>	James T. Flynn <sup>(2)</sup>	Jerrold B. Harris <sup>(2)</sup>	R. Glenn Hubbard <sup>(2)</sup>	W. Carl Kester <sup>(2)</sup>	Karen P. Robards <sup>(2)</sup>	
Target Fund (MYM)	31-July	\$1,383	\$1,987	\$1,609	\$1,257	\$1,383	\$1,358	\$1,308	\$1,509	\$1,886	\$13,679
Acquiring Fund (MIY)	31-July	\$2,226	\$3,198	\$2,591	\$2,024	\$2,226	\$2,186	\$2,105	\$2,429	\$3,036	\$22,020
Total Compensation from Closed-End Complex <sup>(3)</sup>		\$ 275,000	\$ 395,000	\$ 320,000	\$ 250,000	\$ 275,000	\$ 270,000	\$ 260,000	\$ 300,000	\$ 375,000	
Number of Registered Investment Companies (RICs) in Closed-End Complex Overseen by Board Member		76	76	76	76	76	76	76	76	76	76

(1) Information is for the Fund's most recent fiscal year.

(2) Total amount of deferred compensation payable by the Closed-End Complex to Mr. Castellano, Mr. Cavanagh, Dr. Fabozzi, Dr. Feldstein, Mr. Flynn, Mr. Harris, Dr. Hubbard, Dr. Kester and Ms. Robards is \$318,107, \$762,212, \$635,471, \$842,364, \$1,293,891, \$1,220,933, \$1,275,673, \$710,821, and \$595,342, respectively, as of December 31, 2014.

(3) Represents the aggregate compensation earned by such persons from the Closed-End Complex during the calendar year ended December 31, 2014. Of this amount, Mr. Castellano, Mr. Cavanagh, Dr. Fabozzi, Dr. Feldstein, Mr. Flynn, Mr. Harris, Dr. Hubbard, Dr. Kester and Ms. Robards deferred \$82,500, \$74,000, \$29,500, \$75,000, \$137,500, \$135,000, \$130,000, \$80,000, and \$35,000, respectively, pursuant to the Closed-End Complex's deferred compensation plan.

**Share Ownership**

Information relating to each director's share ownership in each Fund and in the other funds in the Closed-End Complex that are overseen by the respective director (Supervised Funds) as of April 30, 2015 is set forth in the chart below:

Name of Board Member	Aggregate Dollar Range of Common Shares in the Target Fund (MYM)	Aggregate Dollar Range of Share Equivalents in the Target Fund (MYM)	Aggregate Dollar Range of Common Shares in the Acquiring Fund (MIY)	Aggregate Dollar Range of Share Equivalents in the Acquiring Fund (MIY)	Aggregate Dollar Range of Common Shares in Supervised Funds	Aggregate Dollar Range of Common Shares and Share Equivalents in Supervised Funds
<b>Interested Board Members</b>						
John M. Perlowski	N/A	N/A	N/A	N/A	\$50,001-\$100,000	\$50,001-\$100,000
Barbara G. Novick	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000
<b>Independent Board Members</b>						
Michael J. Castellano	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000
Richard E. Cavanagh	\$1-\$10,000	N/A	\$1-\$10,000	N/A	Over \$100,000	Over \$100,000
Frank J. Fabozzi	N/A	N/A	N/A	N/A	\$50,001-\$100,000	Over \$100,000
Kathleen F. Feldstein	N/A	N/A	N/A	N/A	\$50,001-\$100,000	Over \$100,000
James T. Flynn	N/A	N/A	N/A	N/A	\$50,001-\$100,000	Over \$100,000
Jerrold B. Harris	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000
R. Glenn Hubbard	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000
W. Carl Kester	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000
Karen P. Robards	N/A	N/A	N/A	N/A	Over \$100,000	Over \$100,000

As of April 30, 2015, none of the Independent Board Members of each Fund or their immediate family members owned beneficially or of record any securities of BlackRock or any affiliate of BlackRock or underwriter or any person controlling, controlled by or under common control with any such entities nor did any Independent Board Member of each Fund or their immediate family member have any material interest in any



transaction, or series of similar transactions, during the most recently completed two calendar years involving each Fund, BlackRock or any affiliate of BlackRock or underwriter or any person controlling, controlled by or under common control with any such entities.

### Independent Board Member Ownership of Securities

As of April 30, 2015, the Independent Board Members (and their respective immediate family members) did not beneficially own securities of the Investment Advisor, or an entity controlling, controlled by or under common control with the Investment Advisor (not including registered investment companies).

### Information Pertaining to the Executive Officers

The executive officers of the Funds, their year of birth and their principal occupations during the past five years (their titles may have varied during that period) are shown in the table below. The address of each officer is c/o BlackRock, Inc., Park Avenue Plaza, 55 East 52nd Street, New York, New York 10055. With the exception of the CCO, executive officers receive no compensation from the Funds. The Acquiring Fund compensates the CCO for his services as its CCO. The officers of the Funds serve at the pleasure of the Board Members or until their successors have been duly elected and qualified.

Each executive officer is an interested person of the Funds (as defined in the 1940 Act) by virtue of that individual's position with BlackRock or its affiliates described in the table below.

Name, Address and Year of Birth	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupations(s)
			During Past 5 Years
<b>John M. Perowski</b> 55 East 52nd Street New York, NY 10055  1964	Board Member, President and Chief Executive Officer	Annual (President and Chief Executive Officer); Board Member since 2014; President and Chief Executive since 2011	Managing Director of BlackRock, Inc. since 2009; Global Head of BlackRock Fund Administration since 2009; Managing Director and Chief Operating Officer of the Global Product Group at Goldman Sachs Asset Management, L.P. from 2003 to 2009; Treasurer of Goldman Sachs Mutual Funds from 2003 to 2009 and Senior Vice President thereof from 2007 to 2009; Director of Goldman Sachs Offshore Funds from 2002 to 2009; Director of Family Resource Network (charitable foundation) since 2009.
<b>Robert W. Crothers</b> 55 East 52nd Street New York, NY 10055  1981	Vice President	Annual; Since 2012	Director of BlackRock, Inc. since 2011; Vice President of BlackRock, Inc. from 2008 to 2010.
<b>Neal J. Andrews</b> 55 East 52nd Street New York, NY 10055	Chief Financial Officer	Annual; Since 2007	Managing Director of BlackRock, Inc. since 2006; Senior Vice President and Line of Business Head of Fund Accounting and Administration at PNC Global Investment Servicing (US) Inc. from 1992 to 2006.

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Name, Address and Year of Birth	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupations(s) During Past 5 Years
<b>Jay M. Fife</b> 55 East 52nd Street New York, NY 10055 1970	Treasurer	Annual; Since 2007	Managing Director of BlackRock, Inc. since 2007; Director of BlackRock, Inc. in 2006; Assistant Treasurer of the MLIM and Fund Asset Management L.P. advised funds from 2005 to 2006; Director of MLIM Fund Services Group from 2001 to 2006.
<b>Charles Park</b> 55 East 52nd Street New York, NY 10055 1967	Chief Compliance Officer ( CCO )	Annual; Since 2014	Anti-Money Laundering Compliance Officer for the BlackRock-Advised Funds in the Equity-Bond Complex, the Equity-Liquidity Complex and the Closed-End Complex from 2014 to 2015; Chief Compliance Officer of BlackRock Advisors, LLC and the BlackRock-Advised Funds in the Equity-Bond Complex, the Equity-Liquidity Complex and the Closed-End Complex since 2014; Principal of and Chief Compliance Officer for iShares <sup>®</sup> Delaware Trust Sponsor LLC since 2012 and BlackRock Fund Advisors ( BFA ) since 2006; Chief Compliance Officer for the BFA-advised iShares exchange traded funds since 2006; Chief Compliance Officer for BlackRock Asset Management International Inc. since 2012.
<b>Janey Ahn</b> 55 East 52nd Street New York, NY 10055 1975	Secretary	Annual; Since 2012	Director of BlackRock, Inc. since 2009; Vice President of BlackRock, Inc. from 2008 to 2009; Assistant Secretary of the Funds from 2008 to 2012.

**Indemnification of Board Members and Officers**

The governing documents of each Fund generally provide that, to the extent permitted by applicable law, the Fund will indemnify its directors and officers against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Fund unless they engaged in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in their offices. In addition, the Fund will not indemnify directors with respect to any matter as to which directors did not act in good faith in the reasonable belief that his or her action was in the best interest of the Fund or, in the case of any criminal proceeding, as to which directors had reasonable cause to believe that the conduct was unlawful. Indemnification provisions contained in a Fund's governing documents are subject to any limitations imposed by applicable law.

The funds in the Closed-End Complex have also entered into a separate indemnification agreement with the Board Members of each Board (the Indemnification Agreement). The Indemnification Agreement (i) extends the indemnification provisions contained in a Fund's governing documents to Board Members who leave that Fund's Board and serve on an advisory board of a different fund in the Closed-End Complex; (ii) sets in place the terms of the indemnification provisions of a Fund's governing documents once a director retires from a Board; and (iii) in the case of Board Members who left the Board of a Fund in connection with or prior to the board consolidation that occurred in 2007 as a result of the merger of BlackRock and Merrill Lynch & Co., Inc.'s investment management business, clarifies that such Fund continues to indemnify the director for claims arising out of his or her past service to that Fund.

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## INVESTMENT MANAGEMENT AGREEMENTS

### Investment Management Agreements

The Investment Management Agreement between each Fund and the Investment Advisor was approved by such Fund's Board, including a majority of the Independent Board Members. Certain administrative services are also provided to each Fund by the Investment Advisor pursuant to such Fund's Investment Management Agreement. The Investment Advisor and its affiliates provide each Fund with administrative services, including, among others: (i) preparing disclosure documents, such as the prospectus and the statement of additional information (if applicable) in connection with public offerings and periodic shareholder reports; (ii) preparing communications with analysts to support secondary market trading of such Fund; (iii) assisting with daily accounting and pricing; (iv) preparing periodic filings with regulators and stock exchanges; (v) overseeing and coordinating the activities of other service providers; (vi) organizing Board meetings and preparing the materials for such Board meetings; (vii) providing legal and compliance support; (viii) furnishing analytical and other support to assist the Board in its consideration of strategic issues such as a merger or consolidation; and (ix) performing other administrative functions necessary for the operation of such Fund, such as tax reporting, fulfilling regulatory filing requirements and call center services.

The Investment Management Agreement of each Fund is in effect for a one year term ending June 30, 2016 and will continue in effect for successive periods of 12 months thereafter, provided that each continuance is specifically approved at least annually by both (1) the vote of a majority of such Fund's Board or the vote of a majority of the securities of such Fund at the time outstanding and entitled to vote (as such term is defined in the 1940 Act) and (2) by the vote of a majority of the Independent Board Members of such Fund, cast in person at a meeting called for the purpose of voting on such approval.

The Investment Management Agreement of each Fund may be terminated at any time, without the payment of any penalty, by such Fund (upon the vote of a majority of such Fund's Board or a majority of the outstanding voting securities of such Fund) or by the Investment Advisor, upon 60 days' written notice by either party to the other which can be waived by the non-terminating party. The Investment Management Agreement of each Fund will terminate automatically in the event of its assignment (as such term is defined in the 1940 Act and the rules thereunder).

The Investment Management Agreement of each Fund provides that the Investment Advisor will not be liable for any error of judgment or mistake of law or for any loss suffered by such Fund in connection with the performance of such Fund's Investment Management Agreement, except a loss resulting from a breach of fiduciary duty with respect to the receipt of compensation for services or a loss resulting from willful misfeasance, bad faith or gross negligence on the Investment Advisor's part in the performance of its duties or from reckless disregard by the Investment Advisor of its duties under the Investment Management Agreement. The Investment Management Agreement of each Fund also provides for indemnification by such Fund of the Investment Advisor, its directors, officers, employees, agents and control persons for liabilities incurred by them in connection with their services to such Fund, subject to certain limitations and conditions.

The Investment Advisor will devote such time and effort to the business of each Fund as is reasonably necessary to perform its duties to such Fund. However, the services of the Investment Advisor are not exclusive, and the Investment Advisor provides similar services to other investment companies and other clients and may engage in other activities.

In addition to the fees paid to the Investment Advisor, each Fund pays all other costs and expenses of its respective operations, including compensation of its Board Members (other than those affiliated with the Investment Advisor), custodian, leveraging expenses, transfer and dividend disbursing agent expenses, legal fees, rating agency fees, listing fees and expenses, expenses of independent auditors, expenses of repurchasing shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies and taxes, if any.

*Advisory Fees Paid to the Investment Advisor*

BlackRock Advisors, LLC acts as the investment advisor for each Fund. The tables below set forth information about the total advisory fees paid by each Fund to the Investment Advisor and any amounts waived by the Investment Advisor respect to each Fund during the six month period ended January 31, 2015 and for each Fund's previous three fiscal years.

For the Period/Fiscal Year Ended	Paid to the Investment Advisor	
	Target Fund (MYM)	Acquiring Fund (MIY)
January 31, 2015	\$ 699,628	\$ 1,142,699
July 31, 2014	\$ 1,326,074	\$ 2,164,356
July 31, 2013	\$ 1,426,385	\$ 2,331,645
July 31, 2012	\$ 1,362,443	\$ 2,232,998

For the Period/Fiscal Year Ended	Waived by the Investment Advisor	
	Target Fund (MYM)	Acquiring Fund (MIY)
January 31, 2015	\$ 4,828	\$ 5,724
July 31, 2014	\$ 73	\$ 106
July 31, 2013	\$ 997	\$ 1,551
July 31, 2012	\$ 1,544	\$ 2,309

**Sub-Investment Advisory Agreements**

BlackRock Investment Management, LLC served as the sub-advisor for each Fund until July 1, 2014.

*Sub-Advisory Fees Paid to the Sub-Advisor*

The following table sets forth the sub-advisory fees paid by the Investment Advisor to the sub-advisor, BlackRock Investment Management, LLC, with respect to each Fund during the six month period ended January 31, 2015 and for each Fund's previous three fiscal years.

For the Period/Fiscal Year Ended	Sub-Advisory Fees Paid	
	Target Fund (MYM)	Acquiring Fund (MIY)
January 31, 2015	\$ 0	\$ 0
July 31, 2014	\$ 1,164,718	\$ 713,603
July 31, 2013	\$ 1,375,624	\$ 841,529
July 31, 2012	\$ 227,791	\$ 139,210

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**PORTFOLIO MANAGER INFORMATION**
**Other Accounts Managed by the Portfolio Managers**

The tables below set forth information about the other accounts managed by each Fund's portfolio managers as of July 31, 2014.

For the Target Fund (MYM):

Name of Portfolio Manager	Number of Other Accounts Managed and Assets by Account Type		Number of Other Accounts and Assets for Which Advisory Fee is Performance-Based			
	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
	Theodore R. Jaeckel, Jr., CFA	64	0	0	0	0
	\$26.14 Billion	\$0	\$0	\$0	\$0	\$0
Michael Kalinoski, CFA	12	0	0	0	0	0
	\$7.90 Billion	\$0	\$0	\$0	\$0	\$0
Walter O. Connor, CFA	64	0	0	0	0	0
	\$26.14 Billion	\$0	\$0	\$0	\$0	\$0

For the Acquiring Fund (MIY):

Name of Portfolio Manager	Number of Other Accounts Managed and Assets by Account Type		Number of Other Accounts and Assets for Which Advisory Fee is Performance-Based			
	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts	Other Registered Investment Companies	Other Pooled Investment Vehicles	Other Accounts
	Theodore R. Jaeckel, Jr., CFA	64	0	0	0	0
	\$26.03 Billion	\$0	\$0	\$0	\$0	\$0
Michael Kalinoski, CFA	12	0	0	0	0	0
	\$7.79 Billion	\$0	\$0	\$0	\$0	\$0
Walter O. Connor, CFA	64	0	0	0	0	0
	\$26.03 Billion	\$0	\$0	\$0	\$0	\$0

**Potential Material Conflicts of Interest**

BlackRock has built a professional working environment, firm-wide compliance culture and compliance procedures and systems designed to protect against potential incentives that may favor one account over another. BlackRock has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, BlackRock furnishes investment management and advisory services to numerous clients in addition to the Fund, and BlackRock may, consistent with applicable law, make investment recommendations to other clients or accounts (including accounts which are hedge funds or have performance or higher fees paid to BlackRock, or in which portfolio managers have a personal interest in the receipt of such fees), which may be the same as or different from those made to the Fund. In addition, BlackRock, Inc., its affiliates and significant shareholders and any officer, director, shareholder or employee may or may not have an interest in the securities whose purchase and sale BlackRock recommends to the Fund. BlackRock, Inc., or any of its affiliates or significant shareholders, or any officer, director, shareholder, employee or any member of their families may take different actions than those recommended to the Fund by BlackRock with respect to the same securities. Moreover, BlackRock may refrain from rendering any advice or services concerning securities of companies of which any of BlackRock, Inc.'s (or its affiliates' or significant shareholders') officers, directors or

employees are directors or officers, or companies as to which BlackRock,

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Inc. or any of its affiliates or significant shareholders or the officers, directors and employees of any of them has any substantial economic interest or possesses material non-public information. Certain portfolio managers also may manage accounts whose investment strategies may at times be opposed to the strategy utilized for a fund. It should also be noted that a portfolio manager may be managing hedge fund and/or long only accounts, or may be part of a team managing hedge fund and/or long only accounts, subject to incentive fees. Such portfolio managers may therefore be entitled to receive a portion of any incentive fees earned on such accounts. Currently, the portfolio managers of this fund are not entitled to receive a portion of incentive fees of other accounts.

As a fiduciary, BlackRock owes a duty of loyalty to its clients and must treat each client fairly. When BlackRock purchases or sells securities for more than one account, the trades must be allocated in a manner consistent with its fiduciary duties. BlackRock attempts to allocate investments in a fair and equitable manner among client accounts, with no account receiving preferential treatment. To this end, BlackRock, Inc. has adopted policies that are intended to ensure reasonable efficiency in client transactions and provide BlackRock with sufficient flexibility to allocate investments in a manner that is consistent with the particular investment discipline and client base, as appropriate.

### **Portfolio Manager Compensation Overview**

The discussion below describes the portfolio managers' compensation as of July 31, 2014.

BlackRock's financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The principal components of compensation include a base salary, a performance-based discretionary bonus, participation in various benefits programs and one or more of the incentive compensation programs established by BlackRock.

### **Base Compensation**

Generally, portfolio managers receive base compensation based on their position with BlackRock, Inc.

### **Discretionary Incentive Compensation**

Discretionary incentive compensation is a function of several components: the performance of BlackRock, Inc., the performance of the portfolio manager's group within BlackRock, the investment performance, including risk-adjusted returns, of the firm's assets under management or supervision by that portfolio manager relative to predetermined benchmarks, and the individual's performance and contribution to the overall performance of these portfolios and BlackRock. In most cases, these benchmarks are the same as the benchmark or benchmarks against which the performance of the Funds or other accounts managed by the portfolio managers are measured. Among other things, BlackRock's Chief Investment Officers make a subjective determination with respect to each portfolio manager's compensation based on the performance of the Funds and other accounts managed by each portfolio manager relative to the various benchmarks. Performance of fixed income funds is measured on a pre-tax and/or after-tax basis over various time periods including 1-, 3- and 5- year periods, as applicable. With respect to these portfolio managers, such benchmarks for the Fund and other accounts are: a combination of market-based indices (e.g., Standard & Poor's Municipal Bond Index), certain customized indices and certain fund industry peer groups.

### **Distribution of Discretionary Incentive Compensation**

Discretionary incentive compensation is distributed to portfolio managers in a combination of cash and BlackRock, Inc. restricted stock units which vest ratably over a number of years. For some portfolio managers, discretionary incentive compensation is also distributed in deferred cash awards that notionally track the returns of select BlackRock investment products they manage and that vest ratably over a number of years. The BlackRock, Inc. restricted stock units, upon vesting, will be settled in BlackRock, Inc. common stock. Typically,

the cash portion of the discretionary incentive compensation, when combined with base salary, represents more than 60% of total compensation for the portfolio managers. Paying a portion of discretionary incentive compensation in BlackRock, Inc. stock puts compensation earned by a portfolio manager for a given year at risk based on BlackRock's ability to sustain and improve its performance over future periods. Providing a portion of discretionary incentive compensation in deferred cash awards that notionally track the BlackRock investment products they manage provides direct alignment with investment product results.

*Long-Term Incentive Plan Awards* From time to time long-term incentive equity awards are granted to certain key employees to aid in retention, align their interests with long-term shareholder interests and motivate performance. Equity awards are generally granted in the form of BlackRock, Inc. restricted stock units that, once vested, settle in BlackRock, Inc. common stock. Messrs. Jaeckel and O Connor have invested long-term incentive awards.

*Deferred Compensation Program* A portion of the compensation paid to eligible United States-based BlackRock employees may be voluntarily deferred at their election for defined periods of time into an account that tracks the performance of certain of the firm's investment products. Any portfolio manager who is either a managing director or director at BlackRock with compensation above a specified threshold is eligible to participate in the deferred compensation program.

**Other Compensation Benefits**

In addition to base salary and discretionary incentive compensation, portfolio managers may be eligible to receive or participate in one or more of the following:

*Incentive Savings Plans* BlackRock, Inc. has created a variety of incentive savings plans in which BlackRock, Inc. employees are eligible to participate, including a 401(k) plan, the BlackRock Retirement Savings Plan (RSP), and the BlackRock Employee Stock Purchase Plan (ESPP). The employer contribution components of the RSP include a company match equal to 50% of the first 8% of eligible pay contributed to the plan capped at \$5,000 per year, and a company retirement contribution equal to 3-5% of eligible compensation up to the Internal Revenue Service (IRS) limit (\$265,000 for 2015). The RSP offers a range of investment options, including registered investment companies and collective investment funds managed by the firm. BlackRock, Inc. contributions follow the investment direction set by participants for their own contributions or, absent participant investment direction, are invested into a target date fund that corresponds to, or is closest to, the year in which the participant attains age 65. The ESPP allows for investment in BlackRock, Inc. common stock at a 5% discount on the fair market value of the stock on the purchase date. Annual participation in the ESPP is limited to the purchase of 1,000 shares of common stock or a dollar value of \$25,000 based on its fair market value on the purchase date. All of the eligible portfolio managers are eligible to participate in these plans

**Securities Ownership of Portfolio Managers as of July 31, 2014**

Portfolio Manager	Dollar Range of Equity Securities of the Target Fund (MYM) Beneficially Owned	Dollar Range of Equity Securities of the Acquiring Fund (MIY) Beneficially Owned
Theodore R. Jaeckel, Jr., CFA	None	None
Michael Kalinoski, CFA	None	None
Walter O Connor, CFA	None	None



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**PORTFOLIO TRANSACTIONS AND BROKERAGE ALLOCATION**

The Investment Advisor is responsible for decisions to buy and sell securities for the Funds, the selection of brokers and dealers to effect the transactions and the negotiation of prices and any brokerage commissions. The securities in which the Funds invest are traded principally in the over-the-counter market. In the over-the-counter market, securities are generally traded on a net basis with dealers acting as principal for their own accounts without a stated commission, although the price of such securities usually includes a markup to the dealer. Securities purchased in underwritten offerings generally include, in the price, a fixed amount of compensation for the manager(s), underwriter(s) and dealer(s). The Funds may also purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid. Purchases and sales of bonds on a stock exchange are effected through brokers who charge a commission for their services.

The Investment Advisor is responsible for effecting securities transactions of the Funds and will do so in a manner deemed fair and reasonable to shareholders of the Funds and not according to any formula. The Investment Advisor's primary considerations in selecting the manner of executing securities transactions for the Funds will be prompt execution of orders, the size and breadth of the market for the security, the reliability, integrity and financial condition and execution capability of the firm, the difficulty in executing the order, and the best net price. There are many instances when, in the judgment of the Investment Advisor, more than one firm can offer comparable execution services. In selecting among such firms, consideration is given to those firms which supply research and other services in addition to execution services. Consideration may also be given to the sale of shares of the Funds. However, it is not the policy of BlackRock, absent special circumstances, to pay higher commissions to a firm because it has supplied such research or other services.

The Investment Advisor is able to fulfill its obligation to furnish a continuous investment program to the Funds without receiving research or other information from brokers; however, each considers access to such information to be an important element of financial management. Although such information is considered useful, its value is not determinable, as it must be reviewed and assimilated by the Investment Advisor, and does not reduce the Investment Advisor's normal research activities in rendering investment advice under the investment management agreement or the sub-investment advisory agreement. It is possible that the Investment Advisor's expenses could be materially increased if it attempted to purchase this type of information or generate it through its own staff.

One or more of the other investment companies or accounts which the Investment Advisor manages may own from time to time some of the same investments as the Funds. Investment decisions for the Funds are made independently from those of such other investment companies or accounts; however, from time to time, the same investment decision may be made for more than one company or account. When two or more companies or accounts seek to purchase or sell the same securities, the securities actually purchased or sold will be allocated among the companies and accounts on a good faith equitable basis by the Investment Advisor in their discretion in accordance with the accounts' various investment objectives. In some cases, this system may adversely affect the price or size of the position obtainable for the Funds. In other cases, however, the ability of the Funds to participate in volume transactions may produce better execution for the Funds. It is the opinion of the Funds Boards that this advantage, when combined with the other benefits available due to the Investment Advisor's organization, outweighs any disadvantages that may be said to exist from exposure to simultaneous transactions.

It is not the Funds' policy to engage in transactions with the objective of seeking profits from short-term trading. However, the annual portfolio turnover rate of the Funds may be greater than 100%. Because it is difficult to predict accurately portfolio turnover rates, actual turnover may be higher or lower. Higher portfolio turnover results in increased Fund costs, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and on the reinvestment in other securities.

Each Fund has received an exemptive order from the SEC permitting them to lend portfolio securities to affiliates of the Fund and to retain an affiliate of the Fund as lending agent. Pursuant to that order, each Fund has

retained an affiliate of BlackRock as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. The securities lending agent may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by the Investment Advisor or in registered money market funds advised by the Investment Advisor or its affiliates.

Information about the brokerage commissions paid by each Fund during the six month period ended January 31, 2015 and each Fund's previous three fiscal years is set forth in the following table:

For the Period/Fiscal Year Ended	Aggregate Brokerage Commissions Paid	
	Target Fund (MYM)	Acquiring Fund (MIY)
January 31, 2015	\$0	\$0
July 31, 2014	\$364	\$932
July 31, 2013	\$501	\$819
July 31, 2012	\$1,395	\$2,371

Information about the brokerage commissions paid to affiliates by each Fund during the six month period ended January 31, 2015 and each Fund's previous three fiscal years is set forth in the following table:

For the Period/Fiscal Year Ended	Brokerage Commissions Paid to Affiliates	
	Target Fund (MYM)	Acquiring Fund (MIY)
January 31, 2015	\$ 0	\$ 0
July 31, 2014	\$ 0	\$ 0
July 31, 2013	\$ 0	\$ 0
July 31, 2012	\$ 0	\$ 0

Each Fund paid no security lending agent fees to the security lending agent during the six month period ended January 31, 2015 and each Fund's previous three fiscal years.

The Funds held no securities of their regular brokers or dealers (as defined in Rule 10b-1 under the 1940 Act) during the six month period ended January 31, 2015 and the fiscal year ended July 31, 2014.

### CONFLICTS OF INTEREST

The PNC Financial Services Group, Inc. ( "PNC" ) has a significant economic interest in BlackRock, Inc., the parent of the Investment Advisor. PNC is considered to be an affiliate of BlackRock, Inc. under the 1940 Act. Certain activities of the Investment Advisor, BlackRock, Inc. and their affiliates (collectively, "BlackRock") and PNC and its affiliates (collectively, "PNC" and together with BlackRock, "Affiliates"), with respect to a Fund and/or other accounts managed by BlackRock or PNC, may give rise to actual or perceived conflicts of interest such as those described below.

BlackRock is one of the world's largest asset management firms. PNC is a diversified financial services organization spanning the retail, business and corporate markets. BlackRock and PNC are affiliates of one another under the 1940 Act. BlackRock, PNC, and their respective affiliates (including, for these purposes, their directors, partners, trustees, managing members, officers and employees), including the entities and personnel who may be involved in the investment activities and business operations of a Fund, are engaged worldwide in businesses, including equity, fixed income, cash management and alternative investments, and have interests other than that of managing a Fund. These are considerations of which investors in a Fund should be aware, and which may cause conflicts of interest that could disadvantage a Fund and its shareholders. These activities and interests include potential multiple advisory, transactional, financial and other interests in securities and other instruments, and companies that may be purchased or sold by a Fund.

BlackRock and its Affiliates have proprietary interests in, and may manage or advise with respect to, accounts or funds (including separate accounts and other funds and collective investment vehicles) that have investment objectives similar to those of a Fund and/or that engage in transactions in the same types of securities, currencies, and instruments as a Fund. One or more Affiliates are also major participants in the global currency, equities, swap and fixed income markets, in each case both on a proprietary basis and for the accounts of customers. As such, one or more Affiliates are or may be actively engaged in transactions in the same securities, currencies, and instruments in which a Fund may invest. Such activities could affect the prices and availability of the securities, currencies, and instruments in which a Fund may invest, which could have an adverse impact on such Fund's performance. Such transactions, particularly in respect of most proprietary accounts or customer accounts, will be executed independently of a Fund's transactions and thus at prices or rates that may be more or less favorable than those obtained by such Fund.

When BlackRock and its Affiliates seek to purchase or sell the same assets for their managed accounts, the assets actually purchased or sold may be allocated among the accounts on a basis determined in their good faith discretion to be equitable. In some cases, this system may adversely affect the size or price of the assets purchased or sold for a Fund. In addition, transactions in investments by one or more other accounts managed by BlackRock or its Affiliates may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of a Fund, particularly, but not limited to, with respect to small capitalization, emerging market or less liquid strategies. This may occur when investment decisions regarding a Fund are based on research or other information that is also used to support decisions for other accounts. When BlackRock or its Affiliates implements a portfolio decision or strategy on behalf of another account ahead of, or contemporaneously with, similar decisions or strategies for a Fund, market impact, liquidity constraints, or other factors could result in such Fund receiving less favorable trading results and the costs of implementing such decisions or strategies could be increased or such Fund could otherwise be disadvantaged. BlackRock or its Affiliates may, in certain cases, elect to implement internal policies and procedures designed to limit such consequences, which may cause a Fund to be unable to engage in certain activities, including purchasing or disposing of securities, when it might otherwise be desirable for it to do so.

Conflicts may also arise because portfolio decisions regarding a Fund may benefit other accounts managed by BlackRock or its Affiliates. For example, the sale of a long position or establishment of a short position by a Fund may impair the price of the same security sold short by (and therefore benefit) one or more Affiliates or their other accounts, and the purchase of a security or covering of a short position in a security by such Fund may increase the price of the same security held by (and therefore benefit) one or more Affiliates or their other accounts.

BlackRock and its Affiliates and their clients may pursue or enforce rights with respect to an issuer in which a Fund has invested, and those activities may have an adverse effect on such Fund. As a result, prices, availability, liquidity and terms of a Fund's investments may be negatively impacted by the activities of BlackRock or its Affiliates or their clients, and transactions for a Fund may be impaired or effected at prices or terms that may be less favorable than would otherwise have been the case.

The results of a Fund's investment activities may differ significantly from the results achieved by BlackRock and its Affiliates for their proprietary accounts or other accounts (including investment companies or collective investment vehicles) managed or advised by them. It is possible that one or more Affiliate-managed accounts and such other accounts will achieve investment results that are substantially more or less favorable than the results achieved by a Fund. Moreover, it is possible that a Fund will sustain losses during periods in which one or more Affiliate-managed accounts achieve significant profits on their trading for proprietary or other accounts. The opposite result is also possible. The investment activities of one or more Affiliates for their proprietary accounts and accounts under their management may also limit the investment opportunities for a Fund in certain emerging and other markets in which limitations are imposed upon the amount of investment, in the aggregate or in individual issuers, by affiliated foreign investors.

From time to time, a Fund's activities may also be restricted because of regulatory restrictions applicable to one or more Affiliates, and/or their internal policies designed to comply with such restrictions. As a result, there may be periods, for example, when BlackRock, and/or one or more Affiliates, will not initiate or recommend certain types of transactions in certain securities or instruments with respect to which BlackRock and/or one or more Affiliates are performing services or when position limits have been reached.

In connection with its management of a Fund, BlackRock may have access to certain fundamental analysis and proprietary technical models developed by one or more Affiliates. BlackRock will not be under any obligation, however, to effect transactions on behalf of any Fund in accordance with such analysis and models. In addition, neither BlackRock nor any of its Affiliates will have any obligation to make available any information regarding their proprietary activities or strategies, or the activities or strategies used for other accounts managed by them, for the benefit of the management of a Fund and it is not anticipated that BlackRock will have access to such information for the purpose of managing a Fund. The proprietary activities or portfolio strategies of BlackRock and its Affiliates, or the activities or strategies used for accounts managed by them or other customer accounts could conflict with the transactions and strategies employed by BlackRock in managing a Fund.

In addition, certain principals and certain employees of BlackRock are also principals or employees of BlackRock or another Affiliate. As a result, the performance by these principals and employees of their obligations to such other entities may be a consideration of which investors in a Fund should be aware.

BlackRock may enter into transactions and invest in securities, instruments and currencies on behalf of a Fund in which customers of BlackRock or its Affiliates, or, to the extent permitted by the SEC, BlackRock or another Affiliate, serves as the counterparty, principal or issuer. In such cases, such party's interests in the transaction will be adverse to the interests of a Fund, and such party may have no incentive to assure that such Fund obtains the best possible prices or terms in connection with the transactions. In addition, the purchase, holding and sale of such investments by a Fund may enhance the profitability of BlackRock or its Affiliates. One or more Affiliates may also create, write or issue derivatives for their customers, the underlying securities, currencies or instruments of which may be those in which a Fund invests or which may be based on the performance of a Fund. A Fund may, subject to applicable law, purchase investments that are the subject of an underwriting or other distribution by one or more Affiliates and may also enter into transactions with other clients of an Affiliate where such other clients have interests adverse to those of a Fund.

At times, these activities may cause departments of BlackRock or its Affiliates or to give advice to clients that may cause these clients to take actions adverse to the interests of a Fund. To the extent affiliated transactions are permitted, a Fund will deal with BlackRock and its Affiliates on an arms-length basis. BlackRock or its Affiliates may also have an ownership interest in certain trading or information systems used by a Fund. A Fund's use of such trading or information systems may enhance the profitability of BlackRock and its Affiliates.

One or more Affiliates may act as broker, dealer, agent, lender or adviser or in other commercial capacities for a Fund. It is anticipated that the commissions, mark-ups, mark-downs, financial advisory fees, underwriting and placement fees, sales fees, financing and commitment fees, brokerage fees, other fees, compensation or profits, rates, terms and conditions charged by an Affiliate will be in its view commercially reasonable, although each Affiliate, including its sales personnel, will have an interest in obtaining fees and other amounts that are favorable to the Affiliate and such sales personnel.

Subject to applicable law, the Affiliates (and their personnel and other distributors) will be entitled to retain fees and other amounts that they receive in connection with their service to a Fund as broker, dealer, agent, lender, adviser or in other commercial capacities and no accounting to a Fund or its shareholders will be required, and no fees or other compensation payable by a Fund or its shareholders will be reduced by reason of receipt by an Affiliate of any such fees or other amounts.

When an Affiliate acts as broker, dealer, agent, adviser or in other commercial capacities in relation to a Fund, the Affiliate may take commercial steps in its own interests, which may have an adverse effect on a Fund. A Fund will be required to establish business relationships with its counterparties based on a Fund's own credit standing. Neither BlackRock nor any of the Affiliates will have any obligation to allow their credit to be used in connection with a Fund's establishment of its business relationships, nor is it expected that a Fund's counterparties will rely on the credit of BlackRock or any of the Affiliates in evaluating a Fund's creditworthiness.

Under a securities lending program approved by a Fund's Board, a Fund has retained an Affiliate of BlackRock to serve as the securities lending agent for a Fund to the extent that such Fund participates in the securities lending program. For these services, the lending agent may receive a fee from such Fund, including a fee based on the returns earned on such Fund's investment of the cash received as collateral for the loaned securities. In addition, one or more Affiliates may be among the entities to which a Fund may lend its portfolio securities under the securities lending program.

Purchases and sales of securities for a Fund may be bunched or aggregated with orders for other BlackRock client accounts. BlackRock and its Affiliates, however, are not required to bunch or aggregate orders if portfolio management decisions for different accounts are made separately, or if they determine that bunching or aggregating is not practicable, required or concern cases involving client direction.

Prevailing trading activity frequently may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold. When this occurs, the various prices may be averaged, and a Fund will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of a Fund. In addition, under certain circumstances, a Fund will not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

BlackRock may select brokers (including, without limitation, Affiliates) that furnish BlackRock, a Fund, other BlackRock client accounts or other Affiliates or personnel, directly or through correspondent relationships, with research or other appropriate services which provide, in BlackRock's view, appropriate assistance to BlackRock in the investment decision-making process (including with respect to futures, fixed price offerings and over-the-counter transactions). Such research or other services may include, to the extent permitted by law, research reports on companies, industries and securities; economic and financial data; financial publications; proxy analysis; trade industry seminars; computer data bases; research-oriented software and other services and products.

Research or other services obtained in this manner may be used in servicing a Fund and other BlackRock client accounts, including in connection with BlackRock client accounts other than those that pay commissions to the broker relating to the research or other service arrangements. Such products and services may disproportionately benefit other BlackRock client accounts relative to a Fund based on the amount of brokerage commissions paid by such Fund and such other BlackRock client accounts. For example, research or other services that are paid for through one client's commissions may not be used in managing that client's account. In addition, other BlackRock client accounts may receive the benefit, including disproportionate benefits, of economies of scale or price discounts in connection with products and services that may be provided to a Fund and to such other BlackRock client accounts. To the extent that BlackRock uses soft dollars, it will not have to pay for those products and services itself.

BlackRock may receive research that is bundled with the trade execution, clearing, and/or settlement services provided by a particular broker-dealer. To the extent that BlackRock receives research on this basis, many of the same conflicts related to traditional soft dollars may exist. For example, the research effectively will be paid by client commissions that also will be used to pay for the execution, clearing, and settlement services provided by the broker-dealer and will not be paid by BlackRock.

BlackRock may endeavor to execute trades through brokers who, pursuant to such arrangements, provide research or other services in order to ensure the continued receipt of research or other services BlackRock believes are useful in its investment decision-making process. BlackRock may from time to time choose not to engage in the above described arrangements to varying degrees. BlackRock may also enter into commission sharing arrangements under which BlackRock may execute transactions through a broker-dealer, including, where permitted, an Affiliate, and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research to BlackRock. To the extent that BlackRock engages in commission sharing arrangements, many of the same conflicts related to traditional soft dollars may exist.

BlackRock may utilize certain electronic crossing networks ( ECNs ) in executing client securities transactions for certain types of securities. These ECNs may charge fees for their services, including access fees and transaction fees. The transaction fees, which are similar to commissions or markups/markdowns, will generally be charged to clients and, like commissions and markups/markdowns, would generally be included in the cost of the securities purchased. Access fees may be paid by BlackRock even though incurred in connection with executing transactions on behalf of clients, including a Fund. In certain circumstances, ECNs may offer volume discounts that will reduce the access fees typically paid by BlackRock. This would have the effect of reducing the access fees paid by BlackRock. BlackRock will only utilize ECNs consistent with its obligation to seek to obtain best execution in client transactions.

BlackRock has adopted policies and procedures designed to prevent conflicts of interest from influencing proxy voting decisions that it makes on behalf of advisory clients, including a Fund, and to help ensure that such decisions are made in accordance with BlackRock's fiduciary obligations to its clients. Nevertheless, notwithstanding such proxy voting policies and procedures, actual proxy voting decisions of BlackRock may have the effect of favoring the interests of other clients or businesses of other divisions or units of BlackRock and/or its Affiliates, provided that BlackRock believes such voting decisions to be in accordance with its fiduciary obligations. For a more detailed discussion of these policies and procedures, see Other Information Proxy Voting Policy.

It is also possible that, from time to time, BlackRock or its Affiliates may, although they are not required to, purchase and hold shares of a Fund. Increasing such Fund's assets may enhance investment flexibility and diversification and may contribute to economies of scale that tend to reduce such Fund's expense ratio.

It is possible that a Fund may invest in securities of companies with which an Affiliate has or is trying to develop investment banking relationships as well as securities of entities in which BlackRock or its Affiliates has significant debt or equity investments or in which an Affiliate makes a market. A Fund also may invest in securities of companies to which an Affiliate provides or may someday provide research coverage. Such investments could cause conflicts between the interests of a Fund and the interests of other clients of BlackRock or its Affiliates. In making investment decisions for a Fund, BlackRock is not permitted to obtain or use material non-public information acquired by any division, department or Affiliate of BlackRock in the course of these activities. In addition, from time to time, the activities of an Affiliate may limit a Fund's flexibility in purchases and sales of securities. When an Affiliate is engaged in an underwriting or other distribution of securities of an entity, BlackRock may be prohibited from purchasing or recommending the purchase of certain securities of that entity for a Fund. As indicated below, BlackRock or its Affiliates may engage in transactions with companies in which BlackRock-advised funds or other clients have an investment.

BlackRock and Ace Limited ( ACE ), a public company whose securities are held by BlackRock-advised funds and other accounts, partially funded the creation of a re-insurance company ( Re Co ) pursuant to which each has approximately a 9.9% ownership interest and each has representation on the board of directors. Certain employees and executives of BlackRock will also have a less than 1/2 of 1% ownership interest in Re Co. BlackRock will manage the investment portfolio of Re Co, which will be held in a wholly-owned subsidiary. Re Co will participate as a reinsurer with reinsurance contracts underwritten by subsidiaries of ACE. An independent director of certain BlackRock-advised funds also serves as an independent director of ACE and has no interest or involvement in the Re Co transaction.

BlackRock and its Affiliates, their personnel and other financial service providers have interests in promoting sales of a Fund. With respect to BlackRock and its Affiliates and their personnel, the remuneration and profitability relating to services to and sales of a Fund or other products may be greater than remuneration and profitability relating to services to and sales of certain funds or other products that might be provided or offered. BlackRock and its Affiliates and their sales personnel may directly or indirectly receive a portion of the fees and commissions charged to a Fund or their shareholders. BlackRock and its advisory or other personnel may also benefit from increased amounts of assets under management. Fees and commissions may also be higher than for other products or services, and the remuneration and profitability to BlackRock or its Affiliates and such personnel resulting from transactions on behalf of or management of a Fund may be greater than the remuneration and profitability resulting from other funds or products.

BlackRock and its Affiliates and their personnel may receive greater compensation or greater profit in connection with an account for which BlackRock serves as an adviser than with an account advised by an unaffiliated investment adviser. Differentials in compensation may be related to the fact that BlackRock may pay a portion of its advisory fee to its Affiliate, or relate to compensation arrangements, including for portfolio management, brokerage transactions or account servicing. Any differential in compensation may create a financial incentive on the part of BlackRock or its Affiliates and their personnel to recommend BlackRock over unaffiliated investment advisers or to effect transactions differently in one account over another.

BlackRock and its Affiliates may provide valuation assistance to certain clients with respect to certain securities or other investments and the valuation recommendations made for their clients' accounts may differ from the valuations for the same securities or investments assigned by a Fund's pricing vendors, especially if such valuations are based on broker-dealer quotes or other data sources unavailable to such Fund's pricing vendors. While BlackRock will generally communicate its valuation information or determinations to a Fund's pricing vendors and/or fund accountants, there may be instances where a Fund's pricing vendors or fund accountants assign a different valuation to a security or other investment than the valuation for such security or investment determined or recommended by BlackRock.

When market quotations of direct investments are not readily available or are believed by BlackRock to be unreliable, a Fund's investments may be valued at fair value by BlackRock, pursuant to procedures adopted by the Board. When determining an asset's fair value, BlackRock seeks to determine the price that a Fund might reasonably expect to receive from the current sale of that asset in an arm's-length transaction. The price generally may not be determined based on what a Fund might reasonably expect to receive for selling an asset at a later time or if it holds the asset to maturity. While fair value determinations will be based upon all available factors that BlackRock deems relevant at the time of the determination, and may be based on analytical values determined by BlackRock using proprietary or third-party valuation models, fair value represents only a good faith approximation of the value of a security. The fair value of one or more securities may not, in retrospect, be the price at which those assets could have been sold during the period in which the particular fair values were used in determining a Fund's NAV. As a result, a Fund's sale or repurchase of its shares at NAV, at a time when a holding or holdings are valued by BlackRock (pursuant to Board-adopted procedures) at fair value, may have the effect of diluting or increasing the economic interest of existing shareholders.

To the extent permitted by applicable law, a Fund may invest all or some of its short-term cash investments in any money market fund or similarly-managed private fund or exchange-traded fund advised or managed by BlackRock. In connection with any such investments, a Fund, to the extent permitted by the 1940 Act, may pay its share of expenses of a money market fund in which it invests, which may result in such Fund bearing some additional expenses.

BlackRock and its Affiliates and their directors, officers and employees, may buy and sell securities or other investments for their own accounts, and may have conflicts of interest with respect to investments made on behalf of a Fund. As a result of differing trading and investment strategies or constraints, positions may be taken by directors, officers, employees and Affiliates of BlackRock that are the same, different from or made at

different times than positions taken for a Fund. To lessen the possibility that any Fund will be adversely affected by this personal trading, a Fund and BlackRock each have adopted a Code of Ethics in compliance with Section 17(j) of the 1940 Act that restricts securities trading in the personal accounts of investment professionals and others who normally come into possession of information regarding a Fund's portfolio transactions.

BlackRock and its Affiliates will not purchase securities or other property from, or sell securities or other property to, any Fund, except that a Fund may in accordance with rules adopted under the 1940 Act engage in transactions with accounts that are affiliated with a Fund as a result of common officers, directors, or investment advisers or pursuant to exemptive orders granted to a Fund and/or BlackRock by the SEC. These transactions would be effected in circumstances in which BlackRock determined that it would be appropriate for a Fund to purchase and another client of BlackRock to sell, or such Fund to sell and another client of BlackRock to purchase, the same security or instrument on the same day. From time to time, the activities of a Fund may be restricted because of regulatory requirements applicable to BlackRock or its Affiliates and/or BlackRock's internal policies designed to comply with, limit the applicability of, or otherwise relate to such requirements. A client not advised by BlackRock would not be subject to some of those considerations. There may be periods when BlackRock may not initiate or recommend certain types of transactions, or may otherwise restrict or limit their advice in certain securities or instruments issued by or related to companies for which an Affiliate is performing investment banking, market making, advisory or other services or has proprietary positions. For example, when an Affiliate is engaged in an underwriting or other distribution of securities of, or advisory services for, a company, a Fund may be prohibited from or limited in purchasing or selling securities of that company. Similar situations could arise if personnel of BlackRock or its Affiliates serve as directors of companies the securities of which a Fund wishes to purchase or sell. However, if permitted by applicable law, a Fund may purchase securities or instruments that are issued by such companies or are the subject of an underwriting, distribution, or advisory assignment by an Affiliate, or in cases in which personnel of BlackRock or its Affiliates are directors or officers of the issuer. The investment activities of one or more Affiliates for their proprietary accounts and for client accounts may also limit the investment strategies and rights of a Fund. For example, in regulated industries, in certain emerging or international markets, in corporate and regulatory ownership definitions, and in certain futures and derivative transactions, and to comply with certain provisions of the 1940 Act that prohibit affiliated transactions, there may be limits on the aggregate amount of investment by Affiliates that may not be exceeded without the grant of a license or other regulatory or corporate consent, or, if exceeded, may cause BlackRock, a Fund or other client accounts to suffer disadvantages or business restrictions. As a result, BlackRock on behalf of its clients (including a Fund) may limit purchases, sell existing investments, or otherwise restrict or limit the exercise of rights (including voting rights) when BlackRock, in its sole discretion, deems it appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds.

In those circumstances where ownership thresholds or limitations must be observed, BlackRock seeks to allocate limited investment opportunities equitably among clients (including a Fund), taking into consideration benchmark weight and investment strategy. When ownership in certain securities nears an applicable threshold, BlackRock may limit purchases in such securities to the issuer's weighting in the applicable benchmark used by BlackRock to manage a Fund. If client (including Fund) holdings of an issuer exceed an applicable threshold and BlackRock is unable to obtain relief to enable the continued holding of such investments, it may be necessary to sell down these positions to meet the applicable limitations. In these cases, benchmark overweight positions will be sold prior to benchmark positions being reduced to meet applicable limitations.

In addition to the foregoing, other ownership thresholds may trigger reporting requirements to governmental and regulatory authorities, and such reports may entail the disclosure of the identity of a client or BlackRock's intended strategy with respect to such security or asset.

BlackRock and its Affiliates may maintain securities indices as part of their product offerings. Index based funds seek to track the performance of securities indices and may use the name of the index in the fund name. Index providers, including BlackRock and its Affiliates may be paid licensing fees for use of their index or index



name. BlackRock and its Affiliates will not be obligated to license their indices to BlackRock, and BlackRock cannot be assured that the terms of any index licensing agreement with BlackRock and its Affiliates will be as favorable as those terms offered to other index licensees.

BlackRock and its Affiliates may serve as Authorized Participants in the creation and redemption of exchange traded funds, including funds advised by affiliates of BlackRock. BlackRock and its Affiliates may therefore be deemed to be participants in a distribution of such exchange traded funds, which could render them statutory underwriters.

Custody arrangements may lead to potential conflicts of interest with BlackRock where BlackRock has agreed to waive fees and/or reimburse ordinary operating expenses in order to cap expenses of a Fund. This is because the custody arrangements with such Fund's custodian may have the effect of reducing custody fees when the Fund leaves cash balances uninvested. When a Fund's actual operating expense ratio exceeds a stated cap, a reduction in custody fees reduces the amount of waivers and/or reimbursements BlackRock would be required to make to the Fund. This could be viewed as having the potential to provide BlackRock an incentive to keep high positive cash balances for funds with expense caps in order to offset fund custody fees that BlackRock might otherwise reimburse. However, BlackRock's portfolio managers do not intentionally keep uninvested balances high, but rather make investment decisions that they anticipate will be beneficial to fund performance.

Present and future activities of BlackRock and its Affiliates, including the Investment Advisor, in addition to those described in this section, may give rise to additional conflicts of interest.

## OTHER INFORMATION

### **Custody of Assets**

The custodian of the assets of each Fund is State Street Bank and Trust Company, 225 Franklin Street, Boston Massachusetts 02110. The custodian is responsible for, among other things, receipt of and disbursement of funds from each Fund's accounts, establishment of segregated accounts as necessary, and transfer, exchange and delivery of Fund portfolio securities.

### **Transfer Agent, Dividend Disbursing Agent and Registrar**

Computershare Trust Company, N.A., 250 Royall Street, Canton, Massachusetts 02021 serves as each Fund's transfer agent with respect to such Fund's Common Shares.

### **VRDP Shares Liquidity Provider**

Citibank, N.A., 399 Park Avenue, New York, New York 10022 serves as the liquidity provider for each Fund's VRDP Shares.

### **VRDP Shares Remarketing Agent**

Citigroup Global Markets Inc., 399 Park Avenue, New York, New York 10022 serves as the remarketing agent for each Fund's VRDP Shares.

### **VRDP Shares Tender and Paying Agent**

The Bank of New York Mellon, One Wall Street, New York, New York 10286, acts as each Fund's tender agent, transfer agent and registrar, dividend disbursing agent and paying agent and redemption price disbursing agent with respect to the VRDP Shares.

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**Code of Ethics**

Each Fund and the Investment Advisor has adopted a code of ethics (the Code of Ethics ) in compliance with Section 17(j) of the 1940 Act and Rule 17j-1 thereunder. Each Code of Ethics establishes procedures for personal investing and restricts certain transactions. Employees subject to a Code of Ethics may invest in securities for their personal investment accounts, including making investments in securities that may be purchased or held by a Fund. The Codes of Ethics are available on the EDGAR Database on the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, the Codes of Ethics can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C.

Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. Copies of the Codes of Ethics may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing the SEC's Public Reference Section, Washington, DC 20549-0102.

**Proxy Voting Policy**

The Board of each Fund has delegated the voting of proxies for its Fund's securities to the Investment Advisor pursuant to the Investment Advisor's proxy voting guidelines. Under these guidelines, the Investment Advisor will vote proxies related to Fund securities in the best interests of the Funds and their shareholders. From time to time, a vote may present a conflict between the interests of a Fund's shareholders, on the one hand, and those of the Investment Advisor, or any affiliated person of such Fund or the Investment Advisor, on the other. In such event, provided that the Investment Advisor's Equity Investment Policy Oversight Committee, or a sub-committee thereof (the Committee ) is aware of the real or potential conflict, if the matter to be voted on represents a material, non-routine matter and if the Committee does not reasonably believe it is able to follow its general voting guidelines (or if the particular proxy matter is not addressed in the guidelines) and vote impartially, the Committee may retain an independent fiduciary to advise the Committee on how to vote or to cast votes on behalf of the Investment Advisor's clients. If the Investment Advisor determines not to retain an independent fiduciary, or does not desire to follow the advice of such independent fiduciary, the Committee shall determine how to vote the proxy after consulting with the Investment Advisor's Portfolio Management Group and/or the Investment Advisor's Legal & Compliance Department and concluding that the vote cast is in its client's best interest notwithstanding the conflict. A copy of the Funds' Proxy Voting Policy and Procedures is included as Appendix D to this Statement of Additional Information. Information on how a Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, (i) at [www.blackrock.com](http://www.blackrock.com) and (ii) on the SEC's website at <http://www.sec.gov>.

**FINANCIAL STATEMENTS**

The financial statements of the Acquiring Fund for the fiscal year ended July 31, 2014 are incorporated by reference herein to the Acquiring Fund's annual report filed on Form N-CSR on October 1, 2014. The financial statements of the Acquiring Fund for the six months ended January 31, 2015 are incorporated by reference herein to the Acquiring Fund's semi-annual report filed on Form N-CSRS on April 2, 2015.

The financial statements of the Target Fund for the fiscal year ended July 31, 2014 are incorporated by reference herein to the Target Fund's annual report filed on Form N-CSR on October 1, 2014. The financial statements of the Target Fund for the six months ended January 31, 2015 are incorporated by reference herein to the Target Fund's semi-annual report filed on Form N-CSRS on April 2, 2015.

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**PRO FORMA FINANCIAL STATEMENTS**

The unaudited *pro forma* financial information set forth herein is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the Reorganization had been consummated. The closing of the Reorganization is contingent upon certain conditions being satisfied, including that shareholders of the Target Fund must approve the Agreement and Plan of Reorganization between the Target Fund and the Acquiring Fund and that shareholders of the Acquiring Fund must approve the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization. These *pro forma* numbers have been estimated in good faith based on information regarding each Fund as of January 31, 2015.

The unaudited pro forma information provided herein should be read in conjunction with the Annual Reports of the Target Fund and the Acquiring Fund, each dated July 31, 2014, and the Semi-Annual Reports of the Target Fund and the Acquiring Fund, each dated January 31, 2015, all of which are on file with the SEC and are available at no charge.

The unaudited pro forma information set forth below for the period ended January 31, 2015 is intended to present ratios and supplemental data as if the Reorganization of the Target Fund into the Acquiring Fund had been consummated at February 1, 2014. The Reorganization is intended to consolidate the Target Fund with a similar fund advised by the Investment Advisor.

The Funds have the same investment adviser, transfer agent, accounting services agent and custodian. Each of such service providers has entered into an agreement with each Fund, which governs the provision of services to that Fund. Such agreements contain the same terms with respect to each Fund except for the Investment Management Agreement. Each Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory services. For such services, each Fund pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets (0.79% of the average daily net assets attributable to the Target Fund's Common Shares, and 0.80% of the average daily net assets attributable to the Acquiring Fund's Common Shares, each for the 12-month period ended January 31, 2015). Average daily net assets are the average daily value of a Fund's total assets minus its total accrued liabilities (which does not include liabilities represented by TOB leverage and the liquidation preference of the VRDP shares).

If the Reorganization is consummated, the annual contractual management fee rate of the Combined Fund will be reduced to 0.49% of the average daily net assets of the Combined Fund (0.78% of the average daily net assets attributable to the Combined Fund's Common Shares on a historical and pro forma basis for the 12-month period ended January 31, 2015).

As of January 31, 2015, the net assets of (i) the Target Fund were \$182,985,207 and (ii) the Acquiring Fund were \$295,465,788. The net assets of the Combined Fund as of January 31, 2015 would have been \$474,807,038 on a pro forma basis. In the Reorganization, the outstanding common shares of the Target Fund will be exchanged for newly issued common shares of the Acquiring Fund, par value \$0.10 per share (Acquiring Fund Common Shares). The aggregate net asset value (not the market value) of Acquiring Fund Common Shares received by the shareholders of the Target Fund in the Reorganization will equal the aggregate net asset value (not the market value) of Target Fund common shares held by such shareholders immediately prior to such Reorganization, less the direct costs of such Reorganization and the distribution of undistributed net investment income, as applicable (although shareholders may receive cash for their fractional common shares). The amount of increased common shares of 11,306,445 was calculated based on net asset value of the Acquiring Fund Common Shares of \$16.07 in exchange for common shares of the Target Fund.

Upon the closing of the Reorganization, the Target Fund VRDP Holders will receive on a one-for-one basis one newly issued VRDP Share of the Acquiring Fund, par value \$0.10 per share and with a liquidation preference of \$100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP

Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund's Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially similar to the outstanding Target Fund VRDP Shares, held by such holders immediately prior to the closing of the Reorganization, with the only significant difference being that the Target Fund VRDP Shares have a mandatory redemption date of June 1, 2041 and the newly issued Acquiring Fund VRDP Shares is expected to have a mandatory redemption date of May 1, 2041.

The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares and will rank on a parity with the Acquiring Fund's existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund's VRDP Shares currently outstanding.

The terms of the outstanding Target Fund VRDP Shares are substantially similar to the terms of the outstanding Acquiring Fund VRDP Shares. The only significant difference between the terms of the two Funds' VRDP Shares is that the Target Fund VRDP Shares have a mandatory redemption date of June 1, 2041 and the Acquiring Fund VRDP Shares have a mandatory redemption date of May 1, 2041. The Funds' VRDP Shares have the same \$100,000 per share liquidation preference, dividend period, dividend payment date, voting rights, redemption provisions, remarketing procedures, mandatory purchase events, mandatory tender events, transfer restrictions and covenants with respect to effective leverage, asset coverage and eligible investments. The Funds' VRDP Shares also have the same mechanism for determining the applicable dividend rate and maximum rate, the same liquidity provider, remarketing agent, tender and paying agent. Each Fund's VRDP Shares are currently in a three year special rate period that will end on June 24, 2015. The special rate period is expected to be extended to June 22, 2016. The terms applicable to each Fund's VRDP Shares during the special rate period are substantially identical. During the special rate period, the Funds' VRDP Shares have the same mechanism for determining the applicable dividend rate and maximum rate, redemption premiums and transfer restrictions.

On a pro forma basis for the twelve months ended January 31, 2015, the proposed Reorganization would result in a decrease of \$72,090 in the investment advisory fees charged and a decrease in other operating expenses (including custody, legal, accounting and audit fees) of \$141,770 on a pro forma basis for the twelve months ended January 31, 2015.

The total annual portfolio operating expenses (including interest expenses) for the Target Fund was 1.48% as of January 31, 2015. The Acquiring Fund's total annual portfolio operating expenses (including interest expenses) was 1.48% as of January 31, 2015. Assuming the Reorganization is consummated, the Combined Fund's pro forma total annual portfolio operating expenses (including interest expenses) are expected to be 1.43%.

The total annual portfolio operating expenses (excluding interest expenses) for the Target Fund was 0.93% as of January 31, 2015. The Acquiring Fund's total annual portfolio operating expenses (excluding interest expenses) was 0.91% as of January 31, 2015. Assuming the Reorganization is consummated, the Combined Fund's pro forma total annual portfolio operating expenses (excluding interest expenses) are expected to be 0.87%.

No significant accounting policies will change as a result of the proposed Reorganization, specifically, policies regarding valuation and Subchapter M compliance. As of January 31, 2015, all the securities held by the Target Fund comply with the compliance guidelines and/or investment restrictions of the Acquiring Fund. It is not anticipated that the Acquiring Fund will sell any securities of the Target Fund acquired in the Reorganization other than in the ordinary course of business.

The Reorganization is expected to be tax free for federal income tax purposes. This means that no gain or loss will be recognized by the Target Fund or its shareholders as a result of the Reorganization. The aggregate tax basis of the Acquiring Fund Shares received by the shareholders of the Target Fund will be the same as the aggregate tax basis the shareholders of the Target Fund held in its shares of the Target Fund immediately before the Reorganization.

**Accounting Survivor:** The Acquiring Fund is deemed to be the accounting survivor in connection with the Reorganization.

**Cost of Reorganization:** Regardless of whether the Reorganization is completed, the costs associated with the proposed Reorganization, including the costs associated with the stockholder meeting, will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate except that, the Investment Advisor has agreed to pay approximately \$115,000 of the Target Fund's costs of the Reorganization and approximately \$120,000 of the Acquiring Fund's costs of the Reorganization. The estimated expenses of the Reorganization attributable to each Fund, which include the amount to be paid by the Investment Advisor, are as follows:

Estimated Reorganization Expenses		
Target Fund (MYM)		Acquiring Fund (MIY)
\$331,000		\$351,000

**Undistributed Net Investment Income:** If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund's common shareholders prior to the Closing Date. As of January 31, 2015, the amount of undistributed net investment income for each Fund was as follows:

Undistributed Net Investment Income		
Target Fund (MYM)		Acquiring Fund (MIY)
\$1,131,112		\$2,065,845

**Capital Loss Carryforwards:** The Funds' capital loss carryforwards as of the Closing Date are estimated to be approximately as follows (rounded to the nearest thousand and subject to change based on actual operating results after the date hereof):

Expiration	Capital Loss Amount	
	Target Fund (MYM)	Acquiring Fund (MIY)
2015	\$715	\$0
2016	\$254	\$1,402
2017	\$0	\$2,031
No expiration date	\$4,572	\$5,793

APPENDIX A

FORM OF AGREEMENT AND PLAN OF REORGANIZATION

, 2015

In order to consummate the reorganization contemplated herein (the Reorganization ) and in consideration of the promises and the covenants and agreements hereinafter set forth, and intending to be legally bound, BlackRock MuniYield Michigan Quality Fund II, Inc., a registered non-diversified closed-end investment company, File No. 811-06501, (the Target Fund ) and BlackRock MuniYield Michigan Quality Fund, Inc., a registered non-diversified closed-end investment company, File No. 811-07080 (the Acquiring Fund and together with the Target Fund, the Funds ), each hereby agree as follows:

1. REPRESENTATIONS AND WARRANTIES OF THE ACQUIRING FUND.

The Acquiring Fund represents and warrants to, and agrees with, the Target Fund that:

(a) The Acquiring Fund is a corporation duly organized, validly existing and in good standing in conformity with the laws of the State of Maryland, and has the power to own all of its assets and to carry out this Agreement. The Acquiring Fund has all necessary federal, state and local authorizations to carry on its business as it is now being conducted and to carry out this Agreement.

(b) The Acquiring Fund is duly registered under the Investment Company Act of 1940, as amended (the 1940 Act ) as a non-diversified, closed-end management investment company and such registration has not been revoked or rescinded and is in full force and effect.

(c) The Acquiring Fund has full power and authority to enter into and perform its obligations under this Agreement subject, in the case of the consummation of the Reorganization to the approval and adoption of this Agreement and the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization by the holders of the Acquiring Fund VRDP Shares (as defined in Section 1(n) herein) (Acquiring Fund VRDP Holders ) voting as a separate class, and in the case of the issuance of additional Acquiring Fund Common Shares (as defined in Section 1(n) herein) in connection with the Reorganization to the approval of such issuance of additional Acquiring Fund Common Shares by the common shareholders of the Acquiring Fund (Acquiring Fund Common Shareholders and together with the Acquiring Fund VRDP Holders, the Acquiring Fund Shareholders ) and the Acquiring Fund VRDP Holders voting as a single class, in each case as described in Sections 9(a) and (b) hereof. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action of the Acquiring Fund's Board of Directors, and this Agreement constitutes a valid and binding contract of the Acquiring Fund enforceable against the Acquiring Fund in accordance with its terms, subject to the effects of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors' rights generally and court decisions with respect thereto.

(d) The Acquiring Fund has provided or made available (including by electronic format) to the Target Fund the most recent audited annual financial statements of the Acquiring Fund, which have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP ) consistently applied and have been audited by Deloitte & Touche LLP, each Fund's independent registered public accounting firm, and such statements fairly present the financial condition and the results of operations of the Acquiring Fund as of the respective dates indicated and the results of operations and changes in net assets for the periods indicated, and there are no liabilities of the Acquiring Fund whether actual or contingent and whether or not determined or determinable as of such date that are required to be disclosed but are not disclosed in such statements.

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(e) An unaudited statement of assets, capital and liabilities of the Acquiring Fund and an unaudited schedule of investments of the Acquiring Fund, each as of the Valuation Time (as defined in Section 3(e) herein) (together, the Acquiring Fund Closing Financial Statements ), will be provided or made available (including by electronic format) to the Target Fund, at or prior to the Closing Date (as defined in Section 7(a) herein), for the purpose of determining the number of Acquiring Fund Shares (as defined in Section 1(n) herein) to be issued to the Target Fund shareholders (the Target Fund Shareholders ) pursuant to Section 3 of this Agreement; the Acquiring Fund Closing Financial Statements will fairly present the financial position of the Acquiring Fund as of the Valuation Time in conformity US GAAP consistently applied.

(f) There are no material legal, administrative or other proceedings pending or, to the knowledge of the Acquiring Fund, threatened against it which assert liability on the part of the Acquiring Fund or which materially affect its financial condition or its ability to consummate the Reorganization. The Acquiring Fund is not charged with or, to the best of its knowledge, threatened with any violation or investigation of any possible violation of any provisions of any federal, state or local law or regulation or administrative ruling relating to any aspect of its business.

(g) There are no material contracts outstanding to which the Acquiring Fund is a party that have not been disclosed in the N-14 Registration Statement (as defined in Section 1(k) herein) or that will not otherwise be disclosed to the Target Fund prior to the Valuation Time.

(h) The Acquiring Fund is not obligated under any provision of its charter or by-laws, each as amended to the date hereof, and is not a party to any contract or other commitment or obligation, and is not subject to any order or decree, which would be violated by its execution of or performance under this Agreement, except insofar as the Funds have mutually agreed to amend such contract or other commitment or obligation to cure any potential violation as a condition precedent to the Reorganization.

(i) The Acquiring Fund has no known liabilities of a material amount, contingent or otherwise, other than those shown on the Acquiring Fund's Semi-Annual Report for the six months ended January 31, 2015, those incurred since the date thereof in the ordinary course of its business as an investment company, and those incurred in connection with the Reorganization. As of the Valuation Time, the Acquiring Fund will advise the Target Fund of all known liabilities, contingent or otherwise, whether or not incurred in the ordinary course of business, existing or accrued as of such time, except to the extent disclosed in the Acquiring Fund Closing Financial Statements or to the extent already known by the Target Fund.

(j) No consent, approval, authorization or order of any court or government authority is required for the consummation by the Acquiring Fund of the Reorganization, except such as may be required under the Securities Act of 1933, as amended (the 1933 Act ), the Securities Exchange Act of 1934, as amended (the 1934 Act ) and the 1940 Act or state securities laws (which term as used herein shall include the laws of the District of Columbia and Puerto Rico) or the rules of the New York Stock Exchange, each of which will have been obtained on or prior to the Closing Date.

(k) The registration statement filed by the Acquiring Fund on Form N-14, which includes the proxy statement for the common shareholders of the Target Fund and the Acquiring Fund with respect to the transactions contemplated herein (the Joint Proxy Statement/Prospectus ), and any supplement or amendment thereto or to the documents included or incorporated by reference therein (collectively, as so amended or supplemented, the N-14 Registration Statement ), on its effective date, at the time of the shareholder meeting called to vote on this Agreement and on the Closing Date, insofar as it relates to the Acquiring Fund, (i) complied or will comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading; and the Joint Proxy Statement/Prospectus included therein did not or will not contain any untrue statement of a material fact or omit to state any material fact

necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this subsection only shall apply to statements in or omissions from the N-14 Registration Statement made in reliance upon and in conformity with information furnished by the Acquiring Fund for use in the N-14 Registration Statement.

(l) The proxy statement for the Acquiring Fund VRDP Holders and the Target Fund VRDP Holders with respect to the transactions contemplated herein, and any supplement or amendment thereto (the Preferred Shares Proxy Statement ) or to the documents included or incorporated by reference therein, at the time of the shareholder meeting called to vote on this Agreement and on the Closing Date, insofar as it relates to the Acquiring Fund, (i) complied or will comply in all material respects with the provisions of the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading; and did not or will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(m) The Acquiring Fund has filed, or intends to file, or has obtained extensions to file, all federal, state and local tax returns which are required to be filed by it, and has paid or has obtained extensions to pay, all federal, state and local taxes shown on said returns to be due and owing and all assessments received by it, up to and including the taxable year in which the Closing Date occurs. All tax liabilities of the Acquiring Fund have been adequately provided for on its books, and no tax deficiency or liability of the Acquiring Fund has been asserted and no question with respect thereto has been raised by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid, up to and including the taxable year in which the Closing Date occurs.

(n) The Acquiring Fund is authorized to issue 200,000,000 shares of common stock, par value \$0.10 per share (the Acquiring Fund Common Shares ) and 1,446 shares of preferred stock of Series W-7 Variable Rate Demand Preferred Shares or any other series of Variable Rate Demand Preferred Shares ( VRDP Shares ), par value \$0.10 per share and liquidation preference \$100,000 per share ( Acquiring Fund VRDP Shares ) and together with Acquiring Fund Common Shares, the Acquiring Fund Shares ). Each outstanding Acquiring Fund Share is fully paid and non-assessable and has the voting rights provided by the Acquiring Fund's charter and applicable law.

(o) The books and records of the Acquiring Fund made available to the Target Fund and/or its counsel are substantially true and correct and contain no material misstatements or omissions with respect to the operations of the Acquiring Fund.

(p) The Acquiring Fund Shares to be issued to the Target Fund Shareholders pursuant to this Agreement will have been duly authorized and, when issued and delivered pursuant to this Agreement, will be legally and validly issued and will be fully paid and nonassessable and will have full voting rights, except as provided by the Acquiring Fund's charter or applicable law, and no Acquiring Fund Shareholder will have any preemptive right of subscription or purchase in respect thereof.

(q) At or prior to the Closing Date, the Acquiring Fund Common Shares to be transferred to the Target Fund for distribution to the Target Fund Shareholders on the Closing Date will be duly qualified for offering to the public in all states of the United States in which the sale of shares of the Funds presently are qualified, and there will be a sufficient number of such Acquiring Fund Common Shares registered under the 1933 Act and, as may be necessary, with each pertinent state securities commission to permit the transfers contemplated by this Agreement to be consummated.

(r) At or prior to the Closing Date, the Acquiring Fund will have obtained any and all regulatory, board and shareholder approvals necessary to issue the Acquiring Fund Shares to the Target Fund Shareholders.



(s) The Acquiring Fund has elected to qualify and has qualified as a regulated investment company ( RIC ) within the meaning of Section 851 of the Internal Revenue Code of 1986, as amended (the Code ) for each of its taxable years since its inception, and the Acquiring Fund has satisfied the distribution requirements imposed by Section 852 of the Code to maintain RIC status for each of its taxable years.

## 2. REPRESENTATIONS AND WARRANTIES OF THE TARGET FUND.

The Target Fund represents and warrants to, and agrees with, the Acquiring Fund that:

(a) The Target Fund is a corporation duly organized, validly existing and in good standing in conformity with the laws of the State of Maryland, and has the power to own all of its assets and to carry out this Agreement. The Target Fund has all necessary federal, state and local authorizations to carry on its business as it is now being conducted and to carry out this Agreement.

(b) The Target Fund is duly registered under the 1940 Act as a non-diversified, closed-end management investment company, and such registration has not been revoked or rescinded and is in full force and effect.

(c) The Target Fund has full power and authority to enter into and perform its obligations under this Agreement subject, in the case of consummation of the Reorganization to the approval and adoption of this Agreement by the Target Fund Shareholders as described in Sections 8(a) hereof. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action of the Target Fund's Board of Directors and this Agreement constitutes a valid and binding contract of the Target Fund enforceable against the Target Fund in accordance with its terms, subject to the effects of bankruptcy, insolvency, moratorium, fraudulent conveyance and similar laws relating to or affecting creditors' rights generally and court decisions with respect thereto.

(d) The Target Fund has provided or made available (including by electronic format) to the Acquiring Fund the most recent audited annual financial statements of the Target Fund which have been prepared in accordance with US GAAP consistently applied and have been audited by Deloitte & Touche LLP, and such statements fairly present the financial condition and the results of operations of the Target Fund as of the respective dates indicated and the results of operations and changes in net assets for the periods indicated, and there are no liabilities of the Target Fund whether actual or contingent and whether or not determined or determinable as of such date that are required to be disclosed but are not disclosed in such statements.

(e) An unaudited statement of assets, capital and liabilities of the Target Fund and an unaudited schedule of investments of the Target Fund, each as of the Valuation Time (together, the Target Fund Closing Financial Statements ), will be provided or made available (including by electronic format) to the Acquiring Fund at or prior to the Closing Date, for the purpose of determining the number of Acquiring Fund Shares to be issued to the Target Fund Shareholders pursuant to Section 3 of this Agreement; the Target Fund Closing Financial Statements will fairly present the financial position of the Target Fund as of the Valuation Time in conformity with US GAAP consistently applied.

(f) There are no material legal, administrative or other proceedings pending or, to the knowledge of the Target Fund, threatened against it which assert liability on the part of the Target Fund or which materially affect its financial condition or its ability to consummate the Reorganization. The Target Fund is not charged with or, to the best of its knowledge, threatened with any violation or investigation of any possible violation of any provisions of any federal, state or local law or regulation or administrative ruling relating to any aspect of its business.

(g) There are no material contracts outstanding to which the Target Fund is a party that have not been disclosed in the N-14 Registration Statement or will not otherwise be disclosed to the Acquiring Fund prior to the Valuation Time.

(h) The Target Fund is not obligated under any provision of its charter or by-laws, each as amended to the date hereof, or a party to any contract or other commitment or obligation, and is not subject to any order or decree, which would be violated by its execution of or performance under this Agreement, except insofar as the Funds have mutually agreed to amend such contract or other commitment or obligation to cure any potential violation as a condition precedent to the Reorganization.

(i) The Target Fund has no known liabilities of a material amount, contingent or otherwise, other than those shown on the Target Fund's Semi-Annual Report for the six months ended January 31, 2015, those incurred since the date thereof in the ordinary course of its business as an investment company and those incurred in connection with the Reorganization. As of the Valuation Time, the Target Fund will advise the Acquiring Fund of all known liabilities, contingent or otherwise, whether or not incurred in the ordinary course of business, existing or accrued as of such time, except to the extent disclosed in the Target Fund Closing Financial Statements or to the extent already known by the Acquiring Fund.

(j) At both the Valuation Time and the Closing Date, the Target Fund will have full right, power and authority to sell, assign, transfer and deliver the Target Fund Investments. As used in this Agreement, the term Target Fund Investments shall mean (i) the investments of the Target Fund shown on the schedule of its investments as of the Valuation Time furnished to the Acquiring Fund; and (ii) all other assets owned by the Target Fund or liabilities incurred as of the Valuation Time. At the Closing Date, subject only to the obligation to deliver the Target Fund Investments as contemplated by this Agreement, the Target Fund will have good and marketable title to all of the Target Fund Investments, and the Acquiring Fund will acquire all of the Target Fund Investments free and clear of any encumbrances, liens or security interests and without any restrictions upon the transfer thereof (except those imposed by the federal or state securities laws and those imperfections of title or encumbrances as do not materially detract from the value or use of the Target Fund Investments or materially affect title thereto).

(k) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by the Target Fund of the Reorganization, except such as may be required under the 1933 Act, the 1934 Act and the 1940 Act or state securities laws (which term as used herein shall include the laws of the District of Columbia and Puerto Rico) or the rules of the New York Stock Exchange, each of which will have been obtained on or prior to the Closing Date.

(l) The N-14 Registration Statement, on its effective date, at the time of the Target Fund Shareholders meeting called to vote on this Agreement and on the Closing Date, insofar as it relates to the Target Fund (i) complied or will comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading; and the Joint Proxy Statement/Prospectus included therein did not or will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this subsection shall apply only to statements in or omissions from the N-14 Registration Statement made in reliance upon and in conformity with information furnished by the Target Fund for use in the N-14 Registration Statement.

(m) The Preferred Shares Proxy Statement for the holders of the Target Fund VRDP Shares (as defined in section 2(o) herein) (Target Fund VRDP Holders) with respect to the transactions contemplated herein, and any supplement or amendment thereto or to the documents included or incorporated by reference therein, at the time of the shareholder meeting called to vote on this Agreement and on the Closing Date, insofar as it relates to the Target Fund, (i) complied or will comply in all material respects with the provisions of the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made, not misleading; and did not or will not contain

any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(n) The Target Fund has filed, or intends to file, or has obtained extensions to file, all federal, state and local tax returns which are required to be filed by it, and has paid or has obtained extensions to pay, all federal, state and local taxes shown on said returns to be due and owing and all assessments received by it, up to and including the taxable year in which the Closing Date occurs. All tax liabilities of the Target Fund have been adequately provided for on its books, and no tax deficiency or liability of the Target Fund has been asserted and no question with respect thereto has been raised by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid, up to and including the taxable year in which the Closing Date occurs.

(o) The Target Fund is authorized to issue 2 shares of common stock, par value \$0.10 per share (the Target Fund Common Shares ) and 873 shares of preferred stock of Series W-7 Variable Rate Demand Preferred Shares, par value \$0.10 per share and liquidation preference \$100,000 per share ( Target Fund VRDP Shares and together with Target Fund Common Shares, the Target Fund Shares ). Each outstanding Target Fund Share is fully paid and nonassessable and has the voting rights provided by the Target Fund's charter and applicable law.

(p) All of the issued and outstanding Target Fund Shares were offered for sale and sold in conformity with all applicable federal and state securities laws.

(q) The Target Fund will not sell or otherwise dispose of any of the Acquiring Fund Common Shares to be received in the Reorganization, except in distribution to Target Fund Shareholders as provided in Section 3 of this Agreement.

(r) The books and records of the Target Fund made available to the Acquiring Fund and/or its counsel are substantially true and correct and contain no material misstatements or omissions with respect to the operations of the Target Fund.

(s) The Target Fund has elected to qualify and has qualified as a RIC within the meaning of Section 851 of the Code for each of its taxable years since its inception, and the Target Fund has satisfied the distribution requirements imposed by Section 852 of the Code to maintain RIC status for each of its taxable years.

### 3. THE REORGANIZATION.

(a) Subject to receiving the requisite approvals of the Target Fund Shareholders and the Acquiring Fund Shareholders, and to the other terms and conditions contained herein, and in accordance with the applicable law, the Target Fund agrees to convey, transfer and deliver to the Acquiring Fund and the Acquiring Fund agrees to acquire from the Target Fund, on the Closing Date, all of the Target Fund Investments (including interest accrued as of the Valuation Time on debt instruments), and assume substantially all of the liabilities of the Target Fund, in exchange for that number of Acquiring Fund Shares provided in Section 4 of this Agreement. The existence of the Acquiring Fund shall continue unaffected and unimpaired by the Reorganization and it shall be governed by the laws of Maryland.

(b) If the investment adviser determines that the portfolios of the Target Fund and the Acquiring Fund, when aggregated, would contain investments exceeding certain percentage limitations imposed upon the Acquiring Fund with respect to such investments or that the disposition of certain assets is necessary to ensure that the resulting portfolio will meet the Acquiring Fund's investment objective, policies and restrictions, as set forth in the Joint Proxy Statement/Prospectus, a copy of which has been delivered (including by electronic format) to the Target Fund, the Target Fund, if requested by the Acquiring Fund, will dispose of a sufficient

amount of such investments as may be necessary to avoid violating such limitations as of the Closing Date. Notwithstanding the foregoing, nothing herein will require the Target Fund to dispose of any portion of its assets if, in the reasonable judgment of the Target Fund's Board of Directors or investment adviser, such disposition would create more than an insignificant risk that the Reorganization would not be treated as a reorganization described in Section 368(a) of the Code or would otherwise not be in the best interests of the Target Fund.

(c) Prior to the Closing Date, the Target Fund shall declare a dividend or dividends which, together with all such previous dividends, shall have the effect of distributing to its shareholders (i) all of its investment company taxable income to and including the Closing Date, if any (computed without regard to any deduction for dividends paid), (ii) all of its net capital gain, if any, recognized to and including the Closing Date and (iii) the excess of its interest income excludable from gross income under Section 103(a) of the Code, if any, over its deductions disallowed under Sections 265 and 171(a)(2) of the Code for the period to and including the Closing Date. The Acquiring Fund may pay amounts in respect of such distributions ( UNII Distributions ) on behalf of the Target Fund to the Target Fund Shareholders entitled to receive such UNII Distributions after the Closing Date as an agent out of cash or other short-term liquid assets maturing prior to the payment date of the UNII Distributions acquired from the Target Fund in the Reorganization, segregated for this purpose and maintained in an amount at least equal to the remaining payment obligations in respect of the UNII Distributions.

(d) Pursuant to this Agreement, as soon as practicable, and in no event more than 48 hours, exclusive of Sundays and holidays, after the Closing Date, the Target Fund will distribute all Acquiring Fund Shares received by it to its shareholders in exchange for their Target Fund Shares. Such distributions shall be accomplished by the opening of shareholder accounts on the share ledger records of the Acquiring Fund in the names of and in the amounts due to the Target Fund Shareholders based on their respective holdings in the Target Fund as of the Valuation Time.

(e) The Valuation Time shall be at the close of business of the New York Stock Exchange on the business day immediately preceding the Closing Date, or such earlier or later day and time as may be mutually agreed upon in writing by the Funds (the Valuation Time ).

(f) The Target Fund will pay or cause to be paid to the Acquiring Fund any interest the Target Fund receives on or after the Closing Date with respect to any of the Target Fund Investments transferred to the Acquiring Fund hereunder.

(g) Recourse for liabilities assumed from the Target Fund by the Acquiring Fund in the Reorganization will be limited to the net assets acquired by the Acquiring Fund. The known liabilities of the Target Fund, as of the Valuation Time, shall be confirmed to the Acquiring Fund pursuant to Section 2(i) of this Agreement.

(h) The Target Fund will be terminated as soon as practicable following the Closing Date by terminating its registration under the 1940 Act and dissolving under Maryland law and will withdraw its authority to do business in any state where it is registered.

(i) For U.S. federal income tax purposes, the parties to this Agreement intend that (i) the Reorganization qualify as a reorganization within the meaning of Section 368(a) of the Code, (ii) this Agreement constitutes a plan of reorganization within the meaning of U.S. Treasury Regulations Section 1.368-2(g), and (iii) the parties to this Agreement will each be a party to such reorganization within the meaning of Section 368(b) of the Code.

#### 4. ISSUANCE AND VALUATION OF ACQUIRING FUND SHARES IN THE REORGANIZATION.

(a) A number of Acquiring Fund Common Shares with an aggregate net asset value equal to the value of the assets of the Target Fund acquired in the Reorganization determined as hereinafter provided, reduced by the amount of liabilities of the Target Fund assumed by the Acquiring Fund in the Reorganization, shall be issued

by the Acquiring Fund to the Target Fund in exchange for such assets of the Target Fund, which shall be determined as set forth below. The value of each Fund's net assets shall be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding preferred shares of such Fund.

(b) A number of Acquiring Fund VRDP Shares equal to the number of Target Fund VRDP Shares outstanding immediately prior to the Closing Date, with the terms described in the Preferred Shares Proxy Statement, shall be issued by the Acquiring Fund to the Target Fund. No fractional Acquiring Fund VRDP Shares will be issued. Each Acquiring Fund VRDP Share issued to the Target Fund in exchange for a Target Fund VRDP Share will have a liquidation preference of \$100,000 plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date. The Target Fund may pay any such accumulated and unpaid dividends prior to the Closing Date.

(c) The net asset value of the Acquiring Fund and the Target Fund, the values of their assets, the amounts of their liabilities, and the liquidation preference (including accumulated and unpaid dividends) of the Target Fund VRDP Shares and the Acquiring Fund VRDP Shares shall be determined as of the Valuation Time in accordance with the regular procedures of the investment adviser, and no formula will be used to adjust the net asset value or liquidation preference so determined of any Fund to take into account differences in realized and unrealized gains and losses.

Such valuation and determination shall be made by the Acquiring Fund in cooperation with the Target Fund and shall be confirmed in writing by the Acquiring Fund to the Target Fund. The net asset value per share of the Acquiring Fund Common Shares and the liquidation preference (including accumulated and unpaid dividends) per share of the Acquiring Fund VRDP Shares shall be determined in accordance with such procedures and the Acquiring Fund shall certify the computations involved.

For purposes of determining the net asset value per share of Target Fund Common Shares and the Acquiring Fund Common Shares, the value of the securities held by the applicable Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses) and the aggregate liquidation value of the outstanding Target Fund VRDP Shares or Acquiring Fund VRDP Shares, as the case may be, shall be divided by the total number of Target Fund Common Shares or Acquiring Fund Common Shares, as the case may be, outstanding at such time.

(d) The Acquiring Fund shall issue to the Target Fund certificates, share deposit receipts or book entry interests for the Acquiring Fund Common Shares registered in the name of the Target Fund. The Target Fund shall then distribute the Acquiring Fund Common Shares to the holders of Target Fund Common Shares by redelivering the certificates, share deposit receipts or book entry interests evidencing ownership of the Acquiring Fund Common Shares to the transfer agent and registrar for the Acquiring Fund Common Shares, for distribution to the holders of Target Fund Common Shares on the basis of such holder's proportionate interest in the aggregate net asset value of the Target Fund Common Shares. With respect to any Target Fund Shareholders holding certificates evidencing ownership of Target Fund Common Shares as of the Closing Date, and subject to the Acquiring Fund being informed thereof in writing by the Target Fund, the Acquiring Fund will not permit such Target Fund Shareholder to receive new book entry interests of the Acquiring Fund Common Shares, until notified by the Target Fund or its agent that such shareholder has surrendered his or her outstanding certificates evidencing ownership of Target Fund Common Shares or, in the event of lost certificates, posted adequate bond. The Target Fund, at its own expense, will request its Target Fund Shareholders to surrender their outstanding certificates evidencing ownership of Target Fund Common Shares or post adequate bond therefor.

(e) The Acquiring Fund shall issue to the Target Fund VRDP Holders book entry interests for the Acquiring Fund VRDP Shares registered in the name of such holders on the basis of each holder's proportionate holdings of the Target Fund VRDP Shares. In connection with such issuance, the Acquiring Fund shall amend the Acquiring Fund VRDP Shares' Articles Supplementary Establishing and Fixing the Rights and Preferences of Variable Rate Demand Preferred Shares (the Articles Supplementary), Notice of Special Rate Period and share

certificates representing such VRDP Shares, in each case as of the effective date of the Reorganization, to reflect the authorization and issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization.

(f) No fractional shares of Acquiring Fund Common Shares will be issued to holders of Target Fund Common Shares unless such shares are held in a Dividend Reinvestment Plan account. In lieu thereof, the Acquiring Fund's transfer agent will aggregate all fractional Acquiring Fund Common Shares to be issued in connection with the Reorganization (other than those issued to a Dividend Reinvestment Plan account) and sell the resulting full shares on the New York Stock Exchange at the current market price for Acquiring Fund Common Shares for the account of all holders of such fractional interests, and each such holder will receive such holder's *pro rata* share of the proceeds of such sale upon surrender of such holder's certificates representing Acquiring Fund Common Shares.

#### 5. PAYMENT OF EXPENSES.

(a) The Target Fund and the Acquiring Fund will bear expenses incurred in connection with the Reorganization, including but not limited to, costs related to the preparation and distribution of materials distributed to each Fund's Board of Directors, expenses incurred in connection with the preparation of this Agreement, the preparation and filing of any documents required by such Fund's state of organization, the preparation and filing of the N-14 Registration Statement and the Preferred Shares Proxy Statement with the U.S. Securities and Exchange Commission (SEC), the printing and distribution of the Joint Proxy Statement/Prospectus, the Preferred Shares Proxy Statement and any other materials required to be distributed to shareholders, the SEC, state securities commission and secretary of state filing fees and legal and audit fees in connection with the Reorganization, fees incurred in obtaining the requisite consents of rating agencies, counterparties or service providers to the VRDP Shares, legal fees incurred in connection with amending the transaction documents for the VRDP Shares, which may include the legal fees of counterparties and service providers to the extent applicable, legal fees incurred preparing each Fund's board materials, attending each Fund's board meetings and preparing the minutes, rating agency fees associated with the ratings of the VRDP Shares in connection with the Reorganization, audit fees associated with each Fund's financial statements, stock exchange fees, transfer agency fees, rating agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganization, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds based upon any reasonable methodology approved by the Boards of Directors of the Funds, provided, that the Acquiring Fund's investment adviser may bear all or a portion of the reorganization expenses of each Fund. Neither the Funds nor the investment adviser will pay any expenses of shareholders arising out of or in connection with the Reorganization.

(b) If for any reason the Reorganization is not consummated, no party shall be liable to any other party for any damages resulting therefrom, including, without limitation, consequential damages, and each Fund shall be responsible, on a proportionate total assets basis, for all expenses incurred in connection with the Reorganization.

#### 6. COVENANTS OF THE FUNDS.

##### (a) COVENANTS OF EACH FUND.

(i) Each Fund covenants to operate its business as presently conducted between the date hereof and the Closing Date.

(ii) Each of the Funds agrees that by the Closing Date all of its U.S. federal and other tax returns and reports required to be filed on or before such date shall have been filed and all taxes shown as due on said returns either have been paid or adequate liability reserves have been provided for the payment of such taxes.

(iii) The intention of the parties is that the transaction contemplated by this Agreement will qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither the Acquiring Fund nor the Target Fund shall take any action or cause any action to be taken (including, without limitation, the filing of any tax return) that is inconsistent with such treatment or results in the failure of the transaction to qualify as a reorganization within the meaning of Section 368(a) of the Code. At or prior to the Closing Date, the Acquiring Fund and the Target Fund will take such action, or cause such action to be taken, as is reasonably necessary to enable Skadden, Arps, Slate, Meagher & Flom LLP ( Skadden ), special counsel to the Funds, to render the tax opinion required herein (including, without limitation, each party's execution of representations reasonably requested by and addressed to Skadden).

(iv) In connection with this covenant, the Funds agree to cooperate with each other in filing any tax return, amended return or claim for refund, determining a liability for taxes or a right to a refund of taxes or participating in or conducting any audit or other proceeding in respect of taxes. The Acquiring Fund agrees to retain for a period of ten (10) years following the Closing Date all returns, schedules and work papers and all material records or other documents relating to tax matters of the Target Fund for each of such Fund's taxable periods ending on or before the Closing Date.

(v) The Acquiring Fund VRDP Shares to be transferred to the Target Fund for distribution to Target Fund VRDP Holders on the Closing Date shall only be distributed to Target Fund VRDP Holders in accordance with an available exemption from registration under the 1933 Act, in a manner not involving any public offering within the meaning of Section 4(2) of the 1933 Act.

(vi) Each Fund shall use reasonable efforts to obtain all requisite consents and approvals necessary to consummate the Reorganization.

(b) COVENANTS OF THE ACQUIRING FUND.

(i) The Acquiring Fund will file the N-14 Registration Statement and the Preferred Shares Proxy Statement with the SEC and will use its best efforts to provide that the N-14 Registration Statement becomes effective as promptly as practicable. Each Fund agrees to cooperate fully with the other, and each will furnish to the other the information relating to itself to be set forth in the N-14 Registration Statement and the Preferred Shares Proxy Statement as required by the 1933 Act, the 1934 Act and the 1940 Act, and the rules and regulations thereunder and the state securities laws.

(ii) The Acquiring Fund has no plan or intention to sell or otherwise dispose of the Target Fund Investments, except for dispositions made in the ordinary course of business.

(iii) Following the consummation of the Reorganization, the Acquiring Fund will continue its business as a non-diversified, closed-end management investment company registered under the 1940 Act.

(iv) The Acquiring Fund shall use reasonable efforts to cause the Acquiring Fund Common Shares to be issued in the Reorganization to be approved for listing on the New York Stock Exchange prior to the Closing Date.

(v) The Acquiring Fund agrees to mail to its shareholders of record entitled to vote at the special meeting of shareholders at which action is to be considered regarding this Agreement, in sufficient time to comply with requirements as to notice thereof, the Joint Proxy Statement/Prospectus (but only to the Acquiring Fund Common Shareholders) and the Preferred Shares Proxy Statement (but only to the Acquiring Fund VRDP Holders), each of which complies in all material respects with the applicable provisions of Section 14(a) of the 1934 Act and Section 20(a) of the 1940 Act, and the rules and regulations, respectively, thereunder.

(vi) The Acquiring Fund shall use reasonable efforts to cause the Acquiring Fund VRDP Shares to be issued in connection with the Reorganization to be rated no lower than the rating assigned to the Acquiring Fund VRDP Shares immediately prior to the Closing Date by the rating agencies then rating the Acquiring Fund VRDP Shares.

(vii) The Acquiring Fund shall use reasonable efforts to amend the following documents to reflect the authorization and issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization: (1) the Articles Supplementary; (2) the Notice of Special Rate Period for the Acquiring Fund VRDP Shares; (3) share certificates representing Acquiring Fund VRDP Shares; (4) the VRDP Shares Fee Agreement for the Acquiring Fund VRDP Shares; (5) the VRDP Shares Purchase Agreement for the Acquiring Fund VRDP Shares; (6) the VRDP Shares Remarketing Agreement for the Acquiring Fund VRDP Shares; (7) the VRDP Shares Tender and Paying Agent Agreement for the Acquiring Fund VRDP Shares; and (8) such other agreements, instruments or documents relating to the Acquiring Fund VRDP Shares, in each case by the effective date of the Reorganization and only to the extent necessary or applicable to such agreement, instrument or document.

(c) COVENANTS OF THE TARGET FUND.

(i) The Target Fund agrees that following the consummation of the Reorganization, it will dissolve in accordance with the laws of the State of Maryland and any other applicable law, it will not make any distributions of any Acquiring Fund Common Shares other than to its shareholders and without first paying or adequately providing for the payment of all of its respective liabilities not assumed by the Acquiring Fund, if any, and on and after the Closing Date it shall not conduct any business except in connection with its termination.

(ii) The Target Fund undertakes that if the Reorganization is consummated, it will file an application pursuant to Section 8(f) of the 1940 Act for an order declaring that the Target Fund has ceased to be a registered investment company.

(iii) The Target Fund agrees to mail to its shareholders of record entitled to vote at the special meeting of shareholders at which action is to be considered regarding this Agreement, in sufficient time to comply with requirements as to notice thereof, the Joint Proxy Statement/Prospectus (but only to Target Fund Common Shareholders) and the Preferred Shares Proxy Statement (but only to Target Fund VRDP Holders), each of which complies in all material respects with the applicable provisions of Section 14(a) of the 1934 Act and Section 20(a) of the 1940 Act, and the rules and regulations, respectively, thereunder.

(iv) After the Closing Date, the Target Fund shall prepare, or cause its agents to prepare, any U.S. federal, state or local tax returns required to be filed by such Target Fund with respect to its final taxable year ending with its complete liquidation and dissolution and for any prior periods or taxable years and further shall cause such tax returns to be duly filed with the appropriate taxing authorities. Notwithstanding the aforementioned provisions of this subsection, any expenses incurred by the Target Fund (other than for payment of taxes) in connection with the preparation and filing of said tax returns after the Closing Date shall be borne by such Target Fund to the extent such expenses have been accrued by such Target Fund in the ordinary course without regard to the Reorganization; any excess expenses shall be paid from a liability reserve established to provide for the payment of such expenses.

(v) Upon the request of the Acquiring Fund, the Target Fund shall use reasonable efforts to perform the following actions by the effective date of the Reorganization or such later time as may be agreed to by the Acquiring Fund: (a) terminate the VRDP Shares Fee Agreement, VRDP Shares Purchase Agreement, the VRDP Shares Remarketing Agreement and the Tender and Paying Agent Agreement and such other agreements, instruments or documents related to the Target Fund VRDP Shares, (b) withdraw the ratings assigned to Target Fund VRDP Shares, (c) cancel the share certificates representing Target Fund VRDP Shares, and (d) withdraw or deregister the Target Fund VRDP Shares from The Depository Trust Company.

7. CLOSING DATE.

(a) The closing of the Reorganization (the Closing ) shall occur prior to the opening of the NYSE at the offices of Skadden, Four Times Square, New York, New York 10036, or at such other time or location as may be mutually agreed to by the Funds, on the next full business day following the Valuation Time to occur after the



satisfaction or waiver of all of the conditions set forth in Sections 8 and 9 of this Agreement (other than the conditions that relate to actions to be taken, or documents to be delivered at the Closing, it being understood that the occurrence of the Closing shall remain subject to the satisfaction or waiver of such conditions at Closing), or at such other time and date as may be mutually agreed to by the Funds (such date, the Closing Date ).

(b) On the Closing Date, the Target Fund shall deliver its assets that are to be transferred, together with any other Target Fund Investments, to the Acquiring Fund, and the Acquiring Fund shall issue the Acquiring Fund Shares as provided in this Agreement. To the extent that any Target Fund Investments, for any reason, are not transferable on the Closing Date, the Target Fund shall cause such Target Fund Investments to be transferred to the Acquiring Fund's account with its custodian at the earliest practicable date thereafter.

(c) The Target Fund will deliver to the Acquiring Fund on the Closing Date confirmation or other adequate evidence as to the tax basis of the Target Fund Investments delivered to the Acquiring Fund hereunder.

(d) As soon as practicable after the close of business on the Closing Date, the Target Fund shall deliver or make available to (including by electronic format) the Acquiring Fund a list of the names and addresses of all of the Target Fund Shareholders of record on the Closing Date and the number of Target Fund Common Shares owned by each such Target Fund Shareholder, certified to the best of its knowledge and belief by the transfer agent for the Target Fund Shares or by the Target Fund's Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, or Secretary or any Assistant Secretary.

## 8. CONDITIONS OF THE TARGET FUND.

The obligations of the Target Fund hereunder shall be subject to the following conditions:

(a) That this Agreement shall have been approved by the Board of Directors of the Target Fund and by the affirmative vote of the Target Fund Common Shareholders and the Target Fund VRDP Holders, voting as a single class, representing a majority of the outstanding shares entitled to vote on this Agreement, and by the affirmative vote of the Target Fund VRDP Holders, voting as a separate class, of either (i) 67% or more of the Target Fund VRDP Shares present at the Target Fund's shareholder meeting where this Agreement shall be approved, if the holders of more than 50% of the outstanding Target Fund VRDP Shares were present or represented by proxy or (ii) more than 50% of the outstanding Target Fund VRDP Shares, whichever is less.

(b) That the Acquiring Fund shall have delivered (including in electronic format) to the Target Fund (i) a copy of the resolutions approving this Agreement and the issuance of additional Acquiring Fund Shares in connection with the Reorganization adopted by the Board of Directors of the Acquiring Fund, (ii) a certificate setting forth the vote of the Acquiring Fund VRDP Holders, voting as a separate class, approving this Agreement and the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization, and the vote of the Acquiring Fund Common Shareholders and the Acquiring Fund VRDP Holders, voting as a single class, approving the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization, and (iii) a certificate certifying that the Acquiring Fund has received all requisite consents and approvals necessary to consummate the Reorganization, each certified by the Acquiring Fund's Secretary.

(c) That the Acquiring Fund shall have provided or made available (including by electronic format) to the Target Fund the Acquiring Fund Closing Financial Statements, together with a schedule of the Acquiring Fund's investments, all as of the Valuation Time, certified on the Acquiring Fund's behalf by its Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, and a certificate signed by the Acquiring Fund's Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, dated as of the Closing Date, certifying that as of the Valuation Time and as of the Closing Date there has been no material adverse change in the financial position of the Acquiring Fund since the date of the Acquiring Fund's most recent Annual or Semi-Annual Report, as applicable, other than changes in its portfolio securities since that date or changes in the market value of its portfolio securities.

(d) That the Acquiring Fund shall have furnished to the Target Fund a certificate signed by the Acquiring Fund's Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, dated as of the Closing Date, certifying that, as of the Valuation Time and as of the Closing Date, all representations and warranties of the Acquiring Fund made in this Agreement are true and correct in all material respects with the same effect as if made at and as of such dates, and that the Acquiring Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to each of such dates.

(e) That there shall not be any material litigation pending with respect to the matters contemplated by this Agreement.

(f) That the Target Fund shall have received the opinion of counsel(s) to the Acquiring Fund, dated as of the Closing Date, addressed to the Target Fund, that substantively provides the following:

(i) the Acquiring Fund is validly existing as a corporation and in good standing under the laws of the State of Maryland;

(ii) the Acquiring Fund is registered with the SEC as a closed-end management investment company under the 1940 Act;

(iii) the Acquiring Fund has the power and authority to execute, deliver and perform all of its obligations under this Agreement; the execution and delivery of and the consummation by the Acquiring Fund of the transactions contemplated under this Agreement have been duly authorized by all requisite action of the Acquiring Fund; and this Agreement has been duly executed by the Acquiring Fund;

(iv) the execution, delivery and performance of this Agreement by the Acquiring Fund do not and will not conflict with, or result in any breach of or constitute a default under, any provision of the Acquiring Fund's charter and bylaws or any Maryland statute applicable to the Acquiring Fund;

(v) no approval of any governmental authority of the State of Maryland having jurisdiction over the Acquiring Fund is required in connection with the execution and delivery of this Agreement by the Acquiring Fund or the performance by the Acquiring Fund of its obligations thereunder;

(vi) this Agreement constitutes the valid and binding obligation of the Acquiring Fund, enforceable against the Acquiring Fund in accordance with its terms under the laws of the State of New York;

(vii) neither the execution and delivery by the Acquiring Fund of this Agreement nor the performance by the Acquiring Fund of its obligations under this Agreement: (i) constitutes a material violation of, or a default under, any material contract, agreement, instrument or other document pertaining to, or material to the business or financial condition of, the Acquiring Fund; (ii) contravenes any material judgment, order or decree of courts or other governmental authorities or arbitrators that are material to the business or financial condition of the Acquiring Fund; or (iii) violates the 1940 Act or any law, rule or regulation of the State of New York or the State of Maryland;

(viii) neither the execution and delivery by the Acquiring Fund of this Agreement nor the performance by the Acquiring Fund of its obligations under this Agreement requires the consent, approval, licensing or authorization of, or any filing, recording or registration with, any governmental authority under the 1940 Act or any law, rule or regulation of the State of New York or the State of Maryland, except for those consents, approvals, licenses and authorizations already obtained and those filings, recordings and registrations already made; and

(ix) the issuance of the Acquiring Fund Shares to be issued in the manner contemplated by the N-14 Registration Statement and as contemplated by this Agreement has been duly authorized and, when issued in accordance with the Agreement at the effective time, the Acquiring Fund Shares will be validly issued, fully paid and non-assessable.

- (g) That the Target Fund shall have obtained an opinion from counsel for the Acquiring Fund, dated as of the Closing Date, addressed to the Target Fund, that the consummation of the transactions set forth in this Agreement complies with the requirements of a reorganization as described in Section 368(a) of the Code.
- (h) That all proceedings taken by the Acquiring Fund and its counsel in connection with the Reorganization and all documents incidental thereto shall be satisfactory in form and substance to the Target Fund.
- (i) That the N-14 Registration Statement shall have become effective under the 1933 Act, and no stop order suspending such effectiveness shall have been instituted or, to the knowledge of the Acquiring Fund, be contemplated by the SEC.
- (j) That the liquidity provider for the Target Fund VRDP Shares shall have consented to this Agreement.

#### 9. CONDITIONS OF THE ACQUIRING FUND.

The obligations of the Acquiring Fund hereunder shall be subject to the following conditions:

- (a) That this Agreement and the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization shall have been approved by the Board of Directors of the Acquiring Fund and by the affirmative vote of the Acquiring Fund VRDP Holders, voting as a separate class, of a majority of the outstanding Acquiring Fund VRDP Shares.
- (b) That the issuance of additional Acquiring Fund Common Shares in connection with the Reorganization shall have been approved by the Board of Directors of the Acquiring Fund and by the affirmative vote of the Acquiring Fund Common Shareholders and the Acquiring Fund VRDP Holders, voting as a single class, of a majority of the votes cast at the Acquiring Fund's shareholder meeting where such issuance of additional Acquiring Fund Common Shares shall be approved.
- (c) The Target Fund shall have delivered (including in electronic format) to the Acquiring Fund (i) a copy of the resolutions approving this Agreement adopted by the Board of Directors of the Target Fund, (ii) a certificate setting forth the vote of the Target Fund Common Shareholders and the Target Fund VRDP Holders, voting as a single class, approving this Agreement, and the vote of the Target Fund VRDP Holders, voting as a separate class, approving this Agreement, and (iii) a certificate certifying that the Target Fund has received all requisite consents and approvals necessary to consummate the Reorganization, each certified by the Target Fund's Secretary.
- (d) That the Target Fund shall have provided or made available (including by electronic format) to the Acquiring Fund the Target Fund Closing Financial Statements, together with a schedule of the Target Fund's investments with their respective dates of acquisition and tax costs, all as of the Valuation Time, certified on the Target Fund's behalf by its Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, and a certificate signed by Target Fund's Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, dated as of the Closing Date, certifying that as of the Valuation Time and as of the Closing Date there has been no material adverse change in the financial position of the Target Fund since the date of the Target Fund's most recent Annual Report or Semi-Annual Report, as applicable, other than changes in the Target Fund Investments since that date or changes in the market value of the Target Fund Investments.
- (e) That the Target Fund shall have furnished to the Acquiring Fund a certificate signed by the Target Fund's Chief Executive Officer, President, any Vice President, Chief Financial Officer, Treasurer or any Assistant Treasurer, dated as of the Closing Date, certifying that as of the Valuation Time and as of the Closing Date all representations and warranties of the Target Fund made in this Agreement are true and correct in all

material respects with the same effect as if made at and as of such dates and the Target Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to such dates.

(f) That there shall not be any material litigation pending with respect to the matters contemplated by this Agreement.

(g) That the Acquiring Fund shall have received the opinion of counsel(s) for the Target Fund, dated as of the Closing Date, addressed to the Acquiring Fund, that substantively provides the following:

(i) the Target Fund is validly existing as a corporation and in good standing under the laws of the State of Maryland;

(ii) the Target Fund is registered with the SEC as a closed-end management investment company under the 1940 Act;

(iii) the Target Fund has the power and authority to execute, deliver and perform all of its obligations under this Agreement; the execution and delivery of and the consummation by the Target Fund of the transactions contemplated under this Agreement have been duly authorized by all requisite action of the Target Fund; and this Agreement has been duly executed by the Target Fund.

(iv) the execution, delivery and performance of this Agreement by the Target Fund do not and will not conflict with, or result in any breach of or constitute a default under, any provision of the Target Fund's charter and bylaws or any Maryland statute applicable to the Target Fund.

(v) no approval of any governmental authority of the State of Maryland having jurisdiction over the Target Fund is required in connection with the execution and delivery of this Agreement by the Target Fund or the performance by the Target Fund of its obligations thereunder;

(vi) this Agreement constitutes the valid and binding obligation of the Target Fund, enforceable against the Target Fund in accordance with its terms under the laws of the State of New York;

(vii) neither the execution and delivery by the Target Fund of this Agreement nor the performance by the Target Fund of its obligations under this Agreement: (i) constitutes a material violation of, or a default under, any material contract, agreement, instrument or other document pertaining to, or material to the business or financial condition of, the Target Fund; (ii) contravenes any material judgment, order or decree of courts or other governmental authorities or arbitrators that are material to the business or financial condition of the Target Fund; or (iii) violates the 1940 Act or any law, rule or regulation of the State of New York or the State of Maryland; and

(viii) neither the execution and delivery by the Target Fund of this Agreement nor the performance by the Target Fund of its obligations under this Agreement requires the consent, approval, licensing or authorization of, or any filing, recording or registration with, any governmental authority under the 1940 Act or any law, rule or regulation of the State of New York or the State of Maryland, except for those consents, approvals, licenses and authorizations already obtained and those filings, recordings and registrations already made.

(h) That the Acquiring Fund shall have obtained an opinion from counsel for the Target Fund, dated as of the Closing Date, addressed to the Acquiring Fund, that the consummation of the transactions set forth in this Agreement complies with the requirements of a reorganization as described in Section 368(a) of the Code.

(i) That all proceedings taken by the Target Fund and its counsel in connection with the Reorganization and all documents incidental thereto shall be satisfactory in form and substance to the Acquiring Fund.

(j) That the N-14 Registration Statement shall have become effective under the 1933 Act and no stop order suspending such effectiveness shall have been instituted or, to the knowledge of the Target Fund, be contemplated by the SEC.

(k) That prior to the Closing Date, the Target Fund shall have declared a dividend or dividends which, together with all such previous dividends, shall have the effect of distributing to its shareholders (i) all of its investment company taxable income to and including the Closing Date, if any (computed without regard to any deduction for dividends paid), (ii) all of its net capital gain, if any, recognized to and including the Closing Date and (iii) the excess of its interest income excludable from gross income under Section 103(a) of the Code, if any, over its deductions disallowed under Sections 265 and 171(a)(2) of the Code for the period to and including the Closing Date. The Acquiring Fund may pay amounts in respect of such UNII Distributions on behalf of the Target Fund to the Target Fund Shareholders entitled to receive such UNII Distributions after the Closing Date as an agent out of cash or other short-term liquid assets maturing prior to the payment date of the UNII Distributions acquired from the Target Fund in the Reorganization, segregated for this purpose and maintained in an amount at least equal to the remaining payment obligations in respect of the UNII Distributions.

(l) That the liquidity provider for the Acquiring Fund VRDP Shares shall have consented to this Agreement and the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization.

(m) That the liquidity provider, remarketing agent, tender and paying agent and the rating agencies for the Acquiring Fund VRDP Shares shall have consented to any amendments to the Articles Supplementary, the notice of special rate period for the special rate period in effect for the Acquiring Fund VRDP Shares as of the Closing Date, and the share certificate of the Acquiring Fund VRDP Shares that are necessary to reflect the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization, but only to the extent such consent is required under the Related Documents (as defined in the Articles Supplementary).

#### 10. TERMINATION, POSTPONEMENT AND WAIVERS.

(a) Notwithstanding anything contained in this Agreement to the contrary, this Agreement may be terminated and the Reorganization abandoned at any time (whether before or after adoption thereof by the shareholders of the Target Fund and the Acquiring Fund) prior to the Closing Date, or the Closing Date may be postponed, (i) by mutual consent of the Boards of Directors of the Acquiring Fund and the Target Fund; (ii) by the Board of Directors of the Target Fund if any condition of Target Fund's obligations set forth in Section 8 of this Agreement has not been fulfilled or waived by such Board of Directors; and (iii) by the Board of Directors of the Acquiring Fund if any condition of the Acquiring Fund's obligations set forth in Section 9 of this Agreement has not been fulfilled or waived by such Board of Directors.

(b) If the transactions contemplated by this Agreement have not been consummated by December 31, 2016, this Agreement automatically shall terminate on that date, unless a later date is mutually agreed to by the Boards of Directors of the Acquiring Fund and the Target Fund.

(c) In the event of termination of this Agreement pursuant to the provisions hereof, the same shall become void and have no further effect, and there shall not be any liability on the part of any Fund or its respective directors, trustees, officers, agents or shareholders in respect of this Agreement other than with respect to Section 11 and payment by each Fund of its respective expenses incurred in connection with the Reorganization.

(d) At any time prior to the Closing Date, any of the terms or conditions of this Agreement may be waived by the Board of Directors of the Acquiring Fund or the Target Fund (whichever is entitled to the benefit thereof), if, in the judgment of such Board of Directors after consultation with its counsel, such action or waiver will not have a material adverse effect on the benefits intended under this Agreement to the shareholders of their respective Fund, on behalf of which such action is taken.

(e) The respective representations and warranties contained in Sections 1 and 2 of this Agreement shall expire with, and be terminated by, the consummation of the Reorganization, and neither the Funds, nor any of their respective officers, directors, trustees, agents or shareholders shall have any liability with respect to such

representations or warranties after the Closing Date. This provision shall not protect any officer, director, trustee, agent or shareholder of either of the Funds against any liability to the entity for which that officer, director, trustee, agent or shareholder so acts or to its shareholders, to which that officer, director, trustee, agent or shareholder otherwise would be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of his or her duties in the conduct of such office.

(f) If any order or orders of the SEC with respect to this Agreement shall be issued prior to the Closing Date and shall impose any terms or conditions which are determined by action of the Board of Directors of the Acquiring Fund and the Target Fund to be acceptable, such terms and conditions shall be binding as if a part of this Agreement without further vote or approval of the Target Fund Shareholders and the Acquiring Fund Shareholders unless such terms and conditions shall result in a change in the method of computing the number of Acquiring Fund Shares to be issued to the Target Fund Shareholders, in which event, unless such terms and conditions shall have been included in the proxy solicitation materials furnished to the Target Fund Shareholders prior to the meeting at which the Reorganization shall have been approved, this Agreement shall not be consummated and shall terminate unless the Target Fund promptly shall call a special meeting of the Target Fund Shareholders at which such conditions so imposed shall be submitted for approval.

#### 11. INDEMNIFICATION.

(a) Each party (an Indemnitor ) shall indemnify and hold the other and its officers, directors, trustees, agents and persons controlled by or controlling any of them (each an Indemnified Party ) harmless from and against any and all losses, damages, liabilities, claims, demands, judgments, settlements, deficiencies, taxes, assessments, charges, costs and expenses of any nature whatsoever (including reasonable attorneys fees) including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonably incurred by such Indemnified Party in connection with the defense or disposition of any claim, action, suit or other proceeding, whether civil or criminal, before any court or administrative or investigative body in which such Indemnified Party may be or may have been involved as a party or otherwise or with which such Indemnified Party may be or may have been threatened (collectively, the Losses ) arising out of or related to any claim of a breach of any representation, warranty or covenant made herein by the Indemnitor; provided, however, that no Indemnified Party shall be indemnified hereunder against any Losses arising directly from such Indemnified Party's (i) willful misfeasance, (ii) bad faith, (iii) gross negligence or (iv) reckless disregard of the duties involved in the conduct of such Indemnified Party's position.

(b) The Indemnified Party shall use its best efforts to minimize any liabilities, damages, deficiencies, claims, judgments, assessments, costs and expenses in respect of which indemnity may be sought hereunder. The Indemnified Party shall give written notice to Indemnitor within the earlier of ten (10) days of receipt of written notice to the Indemnified Party or thirty (30) days from discovery by the Indemnified Party of any matters which may give rise to a claim for indemnification or reimbursement under this Agreement. The failure to give such notice shall not affect the right of the Indemnified Party to indemnity hereunder unless such failure has materially and adversely affected the rights of the Indemnitor. At any time after ten (10) days from the giving of such notice, the Indemnified Party may, at its option, resist, settle or otherwise compromise, or pay such claim unless it shall have received notice from the Indemnitor that the Indemnitor intends, at the Indemnitor's sole cost and expense, to assume the defense of any such matter, in which case the Indemnified Party shall have the right, at no cost or expense to the Indemnitor, to participate in such defense. If the Indemnitor does not assume the defense of such matter, and in any event until the Indemnitor states in writing that it will assume the defense, the Indemnitor shall pay all costs of the Indemnified Party arising out of the defense until the defense is assumed; provided, however, that the Indemnified Party shall consult with the Indemnitor and obtain indemnitor's prior written consent to any payment or settlement of any such claim. The Indemnitor shall keep the Indemnified Party fully apprised at all times as to the status of the defense. If the Indemnitor does not assume the defense, the Indemnified Party shall keep the Indemnitor apprised at all times as to the status of the defense. Following indemnification as provided for hereunder, the Indemnitor shall be subrogated to all rights of the Indemnified Party with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made.

12. OTHER MATTERS.

(a) All covenants, agreements, representations and warranties made under this Agreement and any certificates delivered pursuant to this Agreement shall be deemed to have been material and relied upon by each of the parties, notwithstanding any investigation made by them or on their behalf.

(b) All notices hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered personally or sent by registered mail or certified mail, postage prepaid. Notice to the Target Fund shall be addressed to BlackRock MuniYield Michigan Quality Fund II, Inc. c/o BlackRock Advisors, LLC, 40 East 52nd Street, New York, New York 10022, Attention: Janey Ahn, Secretary of the Target Fund, or at such other address as the Target Fund may designate by written notice to the Acquiring Fund. Notice to the Acquiring Fund shall be addressed to BlackRock MuniYield Michigan Quality Fund, Inc. c/o BlackRock Advisors, LLC, 40 East 52nd Street New York, New York 10022, Attention: Janey Ahn, Secretary of the Acquiring Fund, or at such other address and to the attention of such other person as the Acquiring Fund may designate by written notice to the Target Fund. Any notice shall be deemed to have been served or given as of the date such notice is delivered personally or mailed.

(c) This Agreement supersedes all previous correspondence and oral communications between the Funds regarding the Reorganization, constitutes the only understanding with respect to the Reorganization, may not be changed except by a letter of agreement signed by each Fund and shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said state.

(d) This Agreement may be amended or modified by the parties hereto prior to the Closing Date, by action taken or authorized by their respective Boards of Directors at any time before or after adoption of this Agreement and approval of the Reorganization by the Target Fund Shareholders or the Acquiring Fund Shareholders, but, after any such adoption and approval, no amendment or modification shall be made which by law requires further approval by such shareholders without such further approval. This Agreement may not be amended or modified except by an instrument in writing signed on behalf of each of the Funds.

(e) This Agreement is not intended to confer upon any person other than the parties hereto (or their respective successors and assigns) any rights, remedies, obligations or liabilities hereunder. If any provision of this Agreement shall be held or made invalid by statute rule, regulation, decision of a tribunal or otherwise, the remainder of this Agreement shall not be affected thereby and, to such extent, the provisions of this Agreement shall be deemed severable provided that this Agreement shall be deemed modified to give effect to the fullest extent permitted under applicable law to the intentions of the party as reflected by this Agreement prior to the invalidity of such provision.

(f) It is expressly agreed that the obligations of the Funds hereunder shall not be binding upon any of their respective directors, trustees, shareholders, nominees, officers, agents, or employees personally, but shall bind only the property of the respective Fund. The execution and delivery of this Agreement has been authorized by the Boards of Directors of the Acquiring Fund and the Target Fund and signed by an authorized officer of each of the Acquiring Fund and the Target Fund, acting as such, and neither such authorization by such Board of Directors nor such execution and delivery by such officer shall be deemed to have been made by any of them individually or to impose any liability on any of them personally, but shall bind only the trust property of each Fund.

(g) This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be deemed to be an original but all such counterparts together shall constitute but one instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have hereunto caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first written above.

BLACKROCK MUNIYIELD MICHIGAN QUALITY  
FUND, INC.

By:  
Name:  
Title:

BLACKROCK MUNIYIELD MICHIGAN QUALITY  
FUND II, INC.

By:  
Name:  
Title:

A-19



**APPENDIX B**

**FACTORS AFFECTING MUNICIPAL SECURITIES IN MICHIGAN**

The following information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal bonds held by BlackRock MuniYield Michigan Quality Fund, Inc. (the Fund) are subject. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal bonds, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal bonds acquired by the Fund to pay interest on or principal of the municipal securities. This information has not been independently verified.

The Fund invests a high proportion of its assets in Michigan municipal securities. The Fund's performance is directly tied to the ability of Michigan issuers and/or obligors of state, municipal and public authority debt obligations issued in the State to continue to make principal and interest payments on their securities, which in turn depends on economic and other conditions within the State. In addition to general economic pressures, certain Michigan constitutional, statutory and charter provisions could adversely affect a Michigan issuer's ability to raise revenues to meet its financial obligations.

The following information provides only a summary of (and does not purport to explain, predict, or fully describe) the complex factors, including economic conditions, affecting the financial situation in the State and is based on information in publicly available documents as of the Statement of Additional Information. This information has not been independently verified. The information provided below is subject to change rapidly, substantially, and without notice, and the inclusion of such information herein shall not under any circumstances create any implication that there has been no change in the affairs of the State or any issuers in the State since the date hereof. Any such change(s) may adversely affect the State's and applicable issuer's cash flows, expenditures, or revenues, or otherwise negatively impact the current or projected State financial situation, which in turn could hamper the Fund's performance. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal bonds, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal bonds acquired by the Fund to pay interest on or principal of the municipal securities.

**Michigan State Economic Conditions**

The State of Michigan is slowly emerging from the economic and fiscal challenges brought on by the Great Recession. The Michigan economy and its general fiscal condition affect the ability of the State and local governments to raise and redistribute revenues to assist issuers of municipal securities to make timely payments on their obligations. The following is a brief summary of current employment, housing market and personal income statistics in Michigan that are set forth in the Consensus Revenue Agreement Final Report, dated January 16, 2015, Economic Outlook and Revenue Estimates for Michigan dated May 13, 2015, and the Administration Estimates Michigan Economic and Revenue Outlook each prepared by the Michigan Department of Treasury in connection with the January 16, 2015 and May 15, 2015 Consensus Revenue Estimating Conferences described below or in recent official statements of the State.

*Employment.* Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Michigan's automotive industry continues to rebound after facing challenges

in 2009, which challenges included labor disputes, national and international events impacting energy prices, declines in market share and bankruptcy filings by Chrysler, General Motors and several automotive suppliers, all headquartered in Michigan.

From Michigan's employment peak in June 2000 to July 2003, Michigan lost 314,000 jobs (-6.7%). For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent job losses. Throughout the 2000s, job losses in Michigan continued to mount.

In 2009, Michigan's unemployment rate rose to 13.7 percent- the State's highest rate since 1983. However, in each year between 2010 and 2014, inclusive, the State's unemployment rate declined. Over the past five years, Michigan's unemployment rate dropped a combined 6.4 percentage points with the largest decline occurring in 2011 (-2.2 points). Michigan's 2014 unemployment rate stood at 7.3 percent, the State's lowest annual unemployment rate since 2007. Michigan's unemployment rate fell to 5.4% in April, and in doing so marked the first time in nearly 15 years that the State's and the U.S. unemployment rate were the same.

*Housing Market.* Despite not being a major participant in the housing boom, with sharply rising home prices and rising housing starts, Michigan was hit disproportionately hard from the housing bust due to sharply declining employment and property values. Nevertheless, the State's housing market has recently seen signs of improvement.

In February 2015, according to Case-Shiller house price measures (seasonally adjusted), the Detroit MSA recorded a 3.7% year-over-year house price increase, compared to a 4.2% average increase for the 20 U.S. metro areas surveyed for the measure. Detroit's 3.6% year-over-year increase ranked 14<sup>th</sup> among metro areas.

According to CoreLogic, Michigan ranked second behind Florida with the highest number of completed foreclosures for the twelve months ending February 2015 (50,000 completed foreclosures). Michigan's share of mortgage properties underwater (negative equity) is higher than the national average. In Michigan, 13.9% of residential properties with mortgages were underwater- ranking Michigan seventh highest among the fifty states behind Nevada (24.2%), Florida (23.2%), Arizona (18.7%), Illinois (16.2 %), Rhode Island (15.8%) and Ohio (15.2%).

*Personal Income.* In 2009, Michigan personal income fell 4.4%- marking the first annual Michigan personal income drop since 1958 and the largest annual decline since 1938. However, over the past five years, personal income has increased- 2.3% in 2010, 5.9% in 2011, 3.9% in 2012, 1.4% in 2013 and 4.0% in 2014. Michigan personal income is forecast to increase again in 2015.

After year-over-year declines in twelve straight quarters from the second quarter 2007 to the first quarter 2010, Michigan manufacturing wages and salaries experienced nineteen consecutive quarters of year-over-year increases. Michigan manufacturing wages have outpaced overall U.S. manufacturing sector wages for 19 straight quarters. In the fourth quarter 2014, Michigan manufacturing wages and salaries grew 0.3 percentage points faster than manufacturing wages and salaries nationally.

### **Michigan State Budgetary Considerations**

The State finances its operations through its General Fund and special revenue funds. The Michigan Constitution provides that proposed expenditures from, and revenues of, any fund must be in balance and that any prior year's surplus or deficit in any fund must be included in the succeeding year's budget for that fund.

The State has slowly emerged from the economic slow-down which began nationally in 2000-01, and resulted in reductions in anticipated State revenues. To deal with the economic slow-down and in order to maintain balanced operations, the State has been forced to make difficult budget decisions. A structural imbalance is created when on-going spending exceeds on-going revenues. Since November 2001, the State has been forced to take a variety of measures to balance its General Fund and School Aid Fund budgets each year. The actions taken have included some revenue enhancements and large number of expenditure cuts, as well as some one time measures, including use of the State's Budget Stabilization Fund, accounting adjustments,

securitizations and changing the timing of revenue receipts. However, for the last three budgets beginning with fiscal year 2012, the State used no one time measures to balance its budget.

On February 11, 2015, the Governor delivered his proposed budget to the Legislature which included significant reductions in State expenditures. After several months of debate, the Legislature approved a modified version of the fiscal year 2016 budget, sending Senate Bill 133 ( SB 133 ) to the Governor's desk. The Governor may approve SB 133 in whole or veto any distinct item or items. As of June 12, 2015, SB 133 remains on the Governor's desk. It is anticipated that the fiscal year 2016 budget will be finalized in the upcoming weeks. Further information on the Governor's budget and budget process can be found at [www.michigan.gov/budget](http://www.michigan.gov/budget).

Legislation requires that the administration and legislative fiscal agencies prepare two economic forecasts and revenue estimates each year. These are presented to a Consensus Revenue Estimating Conference in January and May of each year. In addition, any one of the three conference principals may call a special revenue conference at any time during the year. The May 2015 conference was held on May 15, 2015. The executive summary from the May 2015 conference is available at [www.michigan.gov/treasury](http://www.michigan.gov/treasury). The May 2015 forecast and revenue estimate is summarized below.

Fiscal Year 2014 General Purpose revenue generated from enacted ongoing sources was \$9,826.0 million and \$442.4 after tax adjustments.

Fiscal Year 2015 General Fund General Purpose revenue is forecast to be \$9,720.2 million, a 7.1% baseline increase, and a 7.8% increase after tax adjustments, from Fiscal Year 2014. State Aid Fund revenue is forecast to be \$11,897.2 million, a 3.5% baseline revenue increase, and a 3.3% increase after tax adjustments, from Fiscal Year 2014.

Fiscal Year 2016 General Fund General Purpose revenue is estimated to be \$9,874.7 million, a 3.3% baseline increase, and a 1.6% increase after tax adjustments, over Fiscal Year 2015. State Aid Fund revenue is forecast to be \$12,301.9 million; a 3.0% baseline increase, and a 3.4% increase after tax adjustments, over Fiscal Year 2015.

Michigan employment increased 2.3% or 88,500 jobs in 2011- marking the first increase since 2000. Employment grew again in 2012 by 2.1% or 81,500 jobs and in 2013 by 1.9% or 76,000 jobs. In 2014, Michigan wage and salary employment grew by 71,400 (1.7%). Michigan wage and salary employment is forecast to increase 2.1% in 2015, 1.4% in 2016 and 1.2% in 2017.

The Michigan unemployment rate dropped from 12.6% in 2010 to 10.4% in 2011. The rate declined sharply in 2012 to 9.1% before falling to 8.9% in 2013. In 2014, the Michigan unemployment rate fell to 7.3% and is forecast to continue to decline each year with the rate falling to 5.8% in 2015, 5.4% in 2016, and 5.0% in 2017. Michigan's unemployment rate for March 2015 was 5.63% and 5.4% for April 2015.

Michigan wages and salaries increased an estimated 4.3% in 2014 and are forecast to increase 4.6% in 2015, 3.6% in 2016 and 3.5% in 2017. Personal income increased to 4.0% in 2014 and is forecast to increase 4.6% in 2015, 4.5% in 2016 and 4.3% in 2017.

The overall Calendar Year price level, as measured by the Detroit CPI, is forecast to decline to 0.5% in 2015, with increases of 1.9% in 2016 and 2.14% in 2017. After slowing to 1.4% in 2014, State income grew 4.0% in 2014. Michigan personal income is forecast to increase 4.6% in 2015, 4.5% in 2016, and 4.3% in 2017.

Michigan wages and salaries are expected to increase in 2015 by 4.0% and 3.6% in 2016.

Disposable income rose 2.3% in 2014. Disposable income is forecast to rise 4.1% in Fiscal Year 2015, 4.3% in Fiscal Year 2016 and 4.1% in 2017.

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These forecasts are based on certain assumptions relating to the national and Michigan economy, including assumptions relating to improvements in certain of the major factors that precipitated the recent recession: the housing market, the roiled financial markets and accompanying credit crunch and the improving light vehicle sales market.

**Certain Statutory and Constitutional Debt Provisions Relating to State Indebtedness**

The State Constitution limits State general obligation debt to (i) short term debt for State operating purposes, (ii) short and long term debt for the purpose of making loans to school districts, and (iii) long term debt for voter approved purposes.

Short term debt for operating purposes is limited to an amount not to exceed 15% of undedicated revenues received during the preceding fiscal year. Under the State Constitution as implemented by statutory provisions, such debt must be authorized by the State Administrative Board and issued only to meet obligations incurred pursuant to appropriation and must be repaid during the fiscal year in which incurred. Such debt does not require voter approval.

The amount of debt incurred by the State for the purpose of making loans to school districts is recommended by the State Treasurer, who certifies the amounts necessary for loans to school districts. The bonds may be issued in whatever amount is required without voter approval. All other general obligation bonds issued by the State must be approved as to amount, purpose and method of repayment by a two thirds vote of each house of the Legislature and by a majority vote of the public at a general election. There is no limitation as to number or size of such general obligation issues.

**General Obligation Bonds and Notes of the State**

The State has issued and has outstanding general obligation full faith and credit bonds and notes for environmental and natural resource protection, recreation and school loan purposes.

On April 22, 2010, the State issued \$60.0 million in general obligation school loan bonds. On October 20, 2010, the State issued \$219.4 million of general obligation school loan bonds and environmental bonds, part of which refunded \$158.9 million of outstanding general obligation bonds, including \$123 million that matured in Fiscal Year 2010-11. On April 20, 2011, the State issued \$150.0 million in general obligation school loan bonds. On October 19, 2011, the State issued \$139.5 million of general obligation school loan bonds and environmental bonds, part of which refunded \$33.7 million of outstanding general obligation bonds maturing in the Fiscal Year 2011-12. On April 12, 2012, the State issued \$225.0 million in general obligation school loan bonds, part of which refunded \$60.0 million of outstanding general obligation school loan bonds maturing in Fiscal Year 2011-12. On November 28, 2012, the State issued \$92.3 million in general obligation environmental program refunding bonds. On April 18, 2013, the State issued \$200.0 million in general obligation school loan bonds. On November 20, 2013, the State issued \$30.0 million in general obligation environmental program refunding bonds. On July 1, 2014, the State issued \$85.3 million in general obligation environmental program bonds.

On December 10, 2009, the State issued \$1,255 million in general obligation notes for cash flow purposes, which matured and were paid on September 30, 2010. On November 4, 2010, the State issued \$1,085.4 million in general obligation notes for cash flow purposes, which matured and were paid on September 30, 2011. For fiscal years 2012, 2013 and 2014, the State did not issue general obligation notes for cash flow purposes. To date, no general obligation notes for cash flow purposes have been issued.

The State Administrative Board has authorized the issuance of Multi-Modal General Obligation School Loan Bonds in the amount of \$600.0 million, of which \$200.0 million is outstanding.

### **General Obligation Bond Ratings**

As of April 6, 2015, Moody's Investors Service, Inc. ( Moody's ) and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ( S&P ) have assigned Michigan's long term general obligation bonds ratings of Aa2 and AA- respectively. These ratings reflect the State's credit quality only and do not indicate the creditworthiness of other tax-exempt securities in which the Fund may invest. Moreover, the creditworthiness of obligations issued by local Michigan issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation by the State to make payment on such local obligations in the event of default.

### **Constitutional Provisions Affecting State Revenues and Expenditures**

In 1978 the State Constitution was amended to limit the amount of total State revenues raised from taxes and other sources. State revenues (excluding federal aid and revenues for payment of principal and interest on general obligation bonds) in any fiscal year are limited to a fixed percentage of State personal income in the prior calendar year or average of the prior three calendar years, whichever is greater. The percentage is fixed by the amendment to equal the ratio of the 1978-79 fiscal year revenues to total 1977 State personal income. If any fiscal year revenues exceed the revenue limitation by one percent or more, the entire amount of such excess shall be rebated in the following fiscal year's personal income tax or business tax. Any excess of less than one percent may be transferred to the State's Budget Stabilization Fund.

The State may raise taxes in excess of the limit for emergencies when deemed necessary by the Governor and two-thirds of the members of each house of the Legislature.

The State Constitution provides that the proportion of State spending paid to all units of local government to total State spending may not be reduced below the proportion in effect in the 1978-79 fiscal year. The State originally determined that proportion to be 41.6%. Effective with fiscal year 1992-93, a recalculation was made of the base year proportion as a consequence of a settlement agreement reached in the County of Oakland v. State of Michigan lawsuit, which was settled in 1991. The recalculated base year proportion is 48.97%. If such spending does not meet the required level in a given year, an additional appropriation for local governmental units is required by the following fiscal year, which means the year following the determination of the shortfall, according to an opinion issued by the State's Attorney General. The State Constitution also requires the State to finance any new or expanded activity of local governments mandated by State law. Any expenditures required by this provision would be counted as State spending for local units of government for purposes of determining compliance with the provision cited above.

### **Issues Affecting Property Valuations and Taxes**

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value, except as described below. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as Taxable Value. Beginning in 1995, taxable property has two valuations: State equalized valuation ( SEV ) and Taxable Value. Property taxes are levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses and additions, and increased or reduced by the lesser of the inflation rate or 5%, or (b) the property's current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property's SEV.

When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the local assessing officer of each township and city. Any property owner may appeal the assessment to the local assessor, to the local board of review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government within a county are responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal assessments are then equalized to the 50% levels as determined by the county's department of equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

There has been a broad based decline in the market prices of residential real estate in the United States since the beginning of calendar year 2006, resulting in a slowing in appreciation and declines in residential and other real property assessed valuations. A decline in assessed valuation of any individual residential or non-residential real property will result in a reduction in the individual SEV for that property. If the SEV of an individual parcel of real property falls below the Taxable Value for that real property for the same year, the reduced SEV will become the Taxable Value for that real property. All such individual reductions, in the aggregate, negatively affect the local unit of government's total SEV and total Taxable Value. Each mill, then, that the municipality levies against the reduced Taxable Value will produce less property tax receipts than the same mill levied the prior year. Municipalities throughout Michigan have had to make changes to current and future fiscal year budgets to adjust municipal expenditures as a result of reduced property tax receipts resulting from the downturn in the real estate market. As property values have recovered, the Michigan Constitution caps the rate of increase in the Taxable Value for each parcel.

Under the Michigan Constitution, the total amount of general ad valorem taxes imposed on taxable property in any year cannot exceed certain millage limitations specified by the Constitution, statute or charter. The Michigan Constitution was amended by popular vote in November 1978 (effective December 23, 1978 and commonly called the Headlee Amendment) to prohibit local units of government from levying any tax not authorized by law or charter, or from increasing the rate of an existing tax above the rate authorized by law or charter, at the time the amendments were ratified, without the approval of a majority of the electors of the local unit voting on the question.

Local units of government and local authorities are authorized to issue bonds and other evidences of indebtedness in a variety of situations without the approval of electors, but their ability to levy taxes for the payment of such obligations is subject to the foregoing limitations unless the obligations were authorized before December 23, 1978 or approved by the electors.

The 1978 amendments to the State Constitution also contain millage reduction provisions. Under such provisions, should the value of taxable property (exclusive of new construction and improvements) increase at a percentage greater than the percentage increase in the Consumer Price Index, the maximum authorized tax rate would be reduced by a factor which would result in the same maximum potential tax revenues to the local taxing unit as if the valuation of taxable property (less new construction and improvements) had grown only at the Consumer Price Index rate instead of at the higher actual growth rate. Thus, if Taxable Values rise faster than consumer prices, the maximum authorized tax rate would be reduced accordingly.

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**Revenue Sharing from the State of Michigan**

Counties, townships, cities and villages receive revenue sharing payments from the State under the State Constitution and the State Revenue Sharing Act of 1971, as amended. These revenues are derived from the State's sales tax revenues. The sales tax revenues come from a 6% State tax levy on retail sales (other than sales of certain exempt items such as food and drugs). The State Constitution limits the rate of sales tax to 6% and dedicates 100% of the revenues of sales tax imposed at a rate of 2% to the State School Aid Fund. The State Constitution further mandates that 15% of the total revenues collected from sales taxes levied at the remaining 4% be distributed to townships, cities and villages. The Revenue Sharing Act distributes an additional 21.3% of those revenues to Michigan municipalities, including counties.

The State's ability to make revenue sharing payments to municipalities in the amounts and at the times specified in the Revenue Sharing Act is subject to the State's overall financial condition and its ability to finance any temporary cash flow deficiencies. Revenue sharing payments and other monies paid to municipalities (other than the portion which is mandated by the State constitution) are subject to annual appropriation by the State Legislature, and may be reduced or delayed by Executive Order during any fiscal year in which the Governor, with the approval of the legislature's appropriation committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based.

Since December of 2002, the Governor and the Legislature have taken action, through executive orders and the adoption of new laws, to reduce or delay State revenue sharing payments to local governmental units. In 2012, the State eliminated statutory revenue sharing payments to cities, villages and townships based on a population basis and instead established an incentive-based revenue sharing program that distributed revenue sharing payments to local governmental units that complied with "best practices" such as increasing transparency and consolidating services. The following year, the Legislature replaced a portion of the statutory revenue sharing payments to counties with a new incentives based program. On June 30, 2014, the Governor signed into law the budget for fiscal year 2015 which returned population based statutory revenue sharing to cities, villages and townships.

Both the Governor's proposed budget and SB 133 increase the constitutional revenue sharing payments to local governmental units slightly upward from fiscal year 2015. The Governor's proposed budget increased revenue sharing payments to cities, villages, townships and counties from the prior fiscal year. SB 133 maintains revenue sharing payments to cities, villages, townships and counties at fiscal year 2014-2015 levels. Further information on the budget can be found at [www.michigan.gov/budget](http://www.michigan.gov/budget). In addition to the foregoing, legislation can be introduced at any time and from time to time which could modify the amount of tax revenues available for distribution or otherwise modify the distributions described above.

**School Districts**

Beginning in 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution to increase the sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for school operating purposes and to reduce the per pupil finance resource disparities among school districts. The State school aid package passed by the legislature as part of the school finance reform legislation instituted a per pupil foundation allowance. The foundation allowance is funded by locally raised property taxes plus State aid. All local school boards levy, with voter approval, up to the lesser of 18 mills or the number of mills levied in 1993 for school operating purposes on non-homestead property and non-qualified agricultural property. The revenues for the State's contribution to the foundation allowance are derived from a mix of taxing sources, including but not limited to, a statewide property tax of 6 mills on all taxable property, a State sales and use tax, a real estate transfer tax and a cigarette tax.

The net effect of the school finance reform legislation described above has been to shift significant portions of the costs of local school operations from local school districts to the State and to raise additional State



revenues to fund those additional State expenses. State aid appropriations and the payment schedule of state aid can be changed by the Legislature at any time. After making substantial reductions in state aid payments due to budget constraints caused by declining revenues, the State provided modest increases in state aid payments during fiscal years 2013, 2014 and 2015. Both the Governor's proposed budget and SB 133 contain a modest increase for fiscal year 2016. These increases included a per pupil increase in the state aid component of the foundation allowance.

#### **Effect of Limitations on Ability to Pay Bonds**

The ability of the State of Michigan to pay the principal and interest on its general obligation bonds may be affected by the limitations described above under Constitutional Provisions Affecting Revenues and Expenditures. Similarly, the ability of local units of government to levy taxes to pay the principal and interest on their general obligation bonds is subject to the constitutional, statutory, and charter limitations described above under Issues Affecting Property Valuations and Taxes.

In general, revenue bonds issued by the State, by local units of government, or by authorities created by the State or local units of government are payable solely from such specified revenues (other than tax revenues) as are pledged for that purpose, and such authorities generally have no taxing power. To the degree that the Fund contains private activity bonds or other revenue securities, a decline in economic conditions, as a separate matter, may adversely affect the capacity of users of the facilities constructed or acquired through the proceeds of such bonds to make periodic payments for the use of those facilities.

#### **State Litigation**

*In the Official Statement dated March 26, 2015 relating to the Michigan Strategic Fund Limited Obligation Revenue Bonds (Community Colleges Skilled Trades Equipment Program) Series 2015, the following disclosure was made by the State of Michigan relating to litigation:*

The State is a party to various legal proceedings seeking damages or injunctive or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect State programs or finances. These lawsuits involve programs generally in the areas of corrections, tax collection, commerce and budgetary reductions to school districts and governmental units. Relief sought includes damages in tort cases generally, alleviation of prison overcrowding, improvement of prison medical and mental health care and refund claims under state taxes. The State is also a party to various legal proceedings which, if resolved in the State's favor, would result in contingency gains to the State's General Fund balance, but without material effect upon Fund balance. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of any single proceeding or all legal proceedings collectively should not themselves, except as listed below, in the opinion of the Attorney General of the State, have a material adverse effect on the security for the bonds; provided, however, that no opinion is expressed with respect to the ultimate disposition and consequences of any litigation in combination with any State revenue loss, the implementation of any tax reduction proposal or the failure of the State to realize any budget assumption.

On November 15, 2000, more than 365 Michigan school districts and individuals filed *Adair, et al., v. State, et al.* ( *Adair* ) in the Michigan Court of Appeals. In an amended complaint, the school district plaintiffs increased their number to 463.

The *Adair* plaintiffs asserted that the State had, by operation of law, increased the level of various specified public school activities and services beyond that which was required by State law as of December 23, 1978 and, subsequent to that date, added various specified new public school activities or services, including recordkeeping requirements imposed on them by MCL 388.1752 and Executive Order 2000-9, all in violation of a December 23, 1978 amendment to the State Constitution commonly called the Headlee Amendment. The *Adair* plaintiffs requested declaratory relief, attorneys' fees and litigation costs, but did not seek a money judgment.

On July 14, 2010, the Michigan Supreme Court reversed and remanded the Michigan Court of Appeals July 3, 2008 decision denying the Adair plaintiffs request for attorney fees. The amount of those fees has not yet been determined. The Michigan Supreme Court also affirmed the Court of Appeals July 3, 2008 decision that the State must appropriate funds sufficient to enable the Adair plaintiff school districts to comply with recordkeeping requirements imposed on them by MCL 388.1752 and Executive Order 2000-9.

The Michigan Legislature appropriated \$25,624,500 for 2010-2011, to fund compliance with the imposed record keeping requirements. That amount was appropriated from the initial appropriation of discretionary State Aid to be received.

On November 6, 2012, on remand, the Court of Appeals denied the Adair plaintiffs request for attorney fees, because of an inability to accurately identify the appropriate amount of fees to be awarded. That ruling remained subject to further appeal. On May 24, 2013 the Michigan Supreme Court remanded to the Court of Appeals to determine reasonable attorney fees. On August 9, 2013, the Court of Appeals issued its Order on Fourth Remand awarding plaintiffs attorney fees in the amount of \$1,348,677.60. The Plaintiffs filed an application for leave, but the Michigan Supreme Court denied leave to appeal on December 23, 2013.

On January 19, 2011, the Adair plaintiffs filed a new complaint seeking, among other things, a declaratory judgment that the appropriation is insufficient to pay the full costs of the imposed record keeping requirements, and that the new requirements for teacher and administrator evaluations enacted in the Race to the Top legislation, 2009 Public Acts 201-205, also violate the Headlee Amendment. The complaint also sought compensable damages for the amount of costs incurred by the school districts to provide required data and attorney fees, injunctive relief to cease requiring school districts from complying with the record keeping requirements, and injunctive relief to enjoin Defendants from enforcing the Race to the Top legislation.

On September 18, 2012, trial was scheduled to begin. During opening statements, the Districts announced that they had no intention of presenting any affirmative evidence that there was any discrepancy between the amount the Districts actually spent, or ever would spend, on the allegedly new activities and the amount they received in funding from the State. Recognizing this fatal flaw to the Districts claims, Defendants moved for directed verdict or, alternatively, involuntary dismissal. The Special Master granted Defendants motion and issued his report and recommendation on October 2, 2012 recommending dismissal of all of the Districts claims because the Districts conceded their inability to prove their case and because their teacher evaluation claims were not new activities under Headlee. Both parties filed objections to the special master report and responses in the Court of Appeals. The Districts have also filed procedural motions attempting to disqualify the Judge from serving on the Court of Appeals panel that will decide the case. The Court of Appeals denied the Districts motion challenging re-assignment of the panel. The Judge denied the request that he recuse himself from the panel. and the Chief Judge denied the subsequent motion to disqualify the Judge.

On August 10, 2012, the Adair plaintiffs filed a new original action in the Court of Appeals seeking, among other things, a declaratory judgment that the appropriation for 2012-13 in 2012 PA 201 is insufficient to pay the full costs of the imposed record keeping requirements adding allegations concerning information collected or reported in the Michigan Electronic Information System ( MEIS ). As with the 2011 case, the complaint again alleges that the current funding method improperly reduced aid to districts. The complaint again alleges that the requirements for teacher and administrator evaluations enacted in the Race to the Top legislation, 2009 Public Acts 201-205, and 2011 PA 100-102, the July 2011 amendments to section 1249 of the School Code, MCL 380.1249, as well as the changes to the Tenure Act, violate the Headlee Amendment and alternatively that the definitions of activity and service in the MCL 21.232(1) and MCL 21.234(1) are unconstitutional and contrary to the intent of the voters. Plaintiffs allege this is occurring in direct violation of the provisions of the second sentence of Const 1963, art 9, § 29, the Headlee Amendment. The complaint seeks declaratory relief, injunctive relief to cease requiring school districts from complying with the record keeping requirements, and injunctive relief to enjoin Defendants from enforcing the educator evaluation provisions. The complaint also seeks compensatory damages related the funding mechanism and the educator evaluation claims.

On August 22, 2013, the Court of Appeals affirmed dismissal of the evaluation claims because they were not new activities under Headlee. But the Court of Appeals reversed the directed verdict portion of the special master's decision, stating that the correct burden of proof was whether the methodology employed by the Legislature to determine the amount of the appropriation was so flawed that it fails to reflect the actual cost to the state if the state were to provide the activity or service mandated as a state requirement. The Court of Appeals also rejected the State Defendants' argument that the \$3 billion appropriation in § 22b of the State School Aid Act satisfied the State's Headlee funding obligations related to the entire Adair litigation. Both parties filed applications for leave to appeal in the Michigan Supreme Court. The Michigan Supreme Court granted the State's application for leave to appeal on the burden of proof and the nature of the proof issues. The court denied the Districts application for leave to appeal the determination that the educator evaluation claims were not new activities under the Headlee Amendment.

On December 22, 2014, the Michigan Supreme Court reversed the Court of Appeals and reinstated the special master's involuntary dismissal of the case. The Court concluded that in a case alleging underfunding of a Headlee mandate the plaintiff must allege and prove the specific amount of the funding shortfall, i.e., the extent of the necessary increased costs of the new or increased activity or service, in order to establish the extent of the harm caused by the Legislature's inadequate funding. The decision did not disturb the balance of the Court of Appeals' holdings not addressed in the decision. On January 12, 2015 the Plaintiffs filed a motion for rehearing requesting remand for trial under the standard enunciated by the Michigan Supreme Court rather than dismissal. The motion for rehearing was denied.

On February 9, 2015, the Michigan Court of Appeals vacated the order holding the original August 10, 2012 action in abeyance, and directed the clerk to select a random panel to commence proceedings. The panel will decide among several options, including whether to deny the relief sought, grant peremptory relief, schedule arguments on the legal merits, or refer the matter to the circuit court to decide any remaining factual issues. Although this is a declaratory judgment action, if the suit is sustained plaintiffs are entitled to costs including attorney fees currently estimated between \$1.2 million and \$4 million. Plaintiffs claim the cost of compliance with the reporting is over \$50 million annually.

None of the outcomes of the above-related cases, including neither decisions on legal fees or increased costs, nor their effects on the State's budget or specifically on the amount of available State Aid, can presently be determined.

In 2011 International Business Machines ( IBM ) filed a complaint in the Michigan Court of Claims seeking a refund of Michigan Business Taxes, *International Business Machines v State of Michigan, Department of Treasury*, 2011-33-MT. IBM is an out of state Business Tax taxpayer and the central issue in the IBM case was which apportionment factors a taxpayer could use. IBM asserted it was allowed to elect to use either the apportionment factors as stated in the Multistate Tax Compact ( MTC ) and Treasury asserted that IBM was only allowed to utilize the factors as stated in the Michigan Business Tax ( MBT ). By utilizing the MTC factors out of state taxpayers significantly reduced their respective MBT tax liability.

Over the following months numerous taxpayers filed cases seeking refunds or cancellation of assessments in the Michigan Court of Claims and the Michigan Tax Tribunal. The IBM case became the lead case regarding the apportionment factor issue. Most of the cases were held in abeyance pending resolution of the IBM decision. Treasury successfully convinced the tribal court and the court of appeals that taxpayers could only file their MBT returns utilizing the MBT apportionment factors. But in a plurality decision the Michigan Supreme Court disagreed and in mid-September 2014 issued its decision allowing taxpayers to file using the MTC apportionment factors and awarding IBM is requested refund. The potential impact on Michigan's budget was \$1.1 billion.

In response to the decision the legislature passed 2014 PA 282, which retroactively repealed the MTC and clarified the legislature's intent that the MBT apportionment factors be used when calculating the filing MBT

returns. Upon a review of briefs filed by the parties the court of claims granted Treasury summary disposition in the apportionment cases found that the passage of 2014 PA 282 was a proper use of legislative power and that taxpayers may only use MBT apportionment factors when calculating their MBT liability. The cases are now moving to the court of appeals and through the appellant process to ultimate resolution sometime within the next year or two. At this point in time IBM and the associated three factor apportionment cases do not cause a budgetary impact, however, until final resolution there is a continuing risk to the State of Michigan from this litigation.

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APPENDIX C

RATINGS OF INVESTMENTS

**Standard & Poor's Corporation** A brief description of the applicable Standard & Poor's Corporation (S&P) rating symbols and their meanings (as published by S&P) follows:

A S&P issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P's view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. Medium-term notes are assigned long-term ratings.

*Long-Term Issue Credit Ratings*

Issue credit ratings are based, in varying degrees, on S&P's analysis of the following considerations:

likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;

nature of and provisions of the obligation, and the promise S&P imputes; and

protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

AAA An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the

obligation.

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Obligations rated BB, B, CCC, CC and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

- BB An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
- B An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
- CCC An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
- CC An obligation rated CC is currently highly vulnerable to nonpayment. The CC rating is used when a default has not yet occurred, but S&P expects default to be a virtual certainty, regardless of the anticipated time to default.
- C A C rating is assigned to obligations that are currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.
- D An obligation rated D is in default or in breach of an imputed promise. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to D if it is subject to a distressed exchange offer.
- NR This indicates that no rating has been requested, or that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

*Short-Term Issue Credit Ratings*

- A-1 A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
- A-2 A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

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A-3 A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

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- B A short-term obligation rated B is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.
- C A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.
- D A short-term obligation rated D is in payment default. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to D if it is subject to a distressed exchange offer.

*Active Qualifiers (Currently applied and/or outstanding)*

- L Ratings qualified with L apply only to amounts invested up to federal deposit insurance limits.
- p This suffix is used for issues in which the credit factors, the terms, or both, that determine the likelihood of receipt of payment of principal are different from the credit factors, terms or both that determine the likelihood of receipt of interest on the obligation. The p suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.
- pi Ratings with a pi suffix are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management and therefore may be based on less comprehensive information than ratings without a pi suffix. Ratings with a pi suffix are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality.
- prelim Preliminary ratings, with the prelim suffix, may be assigned to obligors or obligations, including financial programs, in the circumstances described below. Assignment of a final rating is conditional on the receipt by S&P of appropriate documentation. S&P reserves the right not to issue a final rating. Moreover, if a final rating is issued, it may differ from the preliminary rating.

Preliminary ratings may be assigned to obligations, most commonly structured and project finance issues, pending receipt of final documentation and legal opinions.

Preliminary ratings are assigned to Rule 415 Shelf Registrations. As specific issues, with defined terms, are offered from the master registration, a final rating may be assigned to them in accordance with Standard & Poor's policies.

Preliminary ratings may be assigned to obligations that will likely be issued upon the obligor's emergence from bankruptcy or similar reorganization, based on late-stage reorganization plans, documentation and discussions with the obligor. Preliminary ratings may also be assigned to the obligors. These ratings consider the anticipated general credit quality of the reorganized or post-bankruptcy issuer as well as attributes of the anticipated obligation(s).

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Preliminary ratings may be assigned to entities that are being formed or that are in the process of being independently established when, in S&P's opinion, documentation is close to final. Preliminary ratings may also be assigned to the obligations of these entities.

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Preliminary ratings may be assigned when a previously unrated entity is undergoing a well-formulated restructuring, recapitalization, significant financing or other transformative event, generally at the point that investor or lender commitments are invited. The preliminary rating may be assigned to the entity and to its proposed obligation(s). These preliminary ratings consider the anticipated general credit quality of the obligor, as well as attributes of the anticipated obligation(s), assuming successful completion of the transformative event. Should the transformative event not occur, S&P would likely withdraw these preliminary ratings.

A preliminary recovery rating may be assigned to an obligation that has a preliminary issue credit rating.

t This symbol indicates termination structures that are designed to honor their contracts to full maturity or, should certain events occur, to terminate and cash settle all their contracts before their final maturity date.

#### *Municipal Short-Term Note Ratings Definitions*

A S&P U.S. municipal note rating reflects S&P's opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, S&P's analysis will review the following considerations:

Amortization schedule the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and

Source of payment the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.  
Municipal Short-Term Note Rating symbols are as follows:

SP-1 Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.

SP-2 Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3 Speculative capacity to pay principal and interest.

**Moody's Investors Service, Inc.** A brief description of the applicable Moody's Investors Service, Inc. (Moody's) rating symbols and their meanings (as published by Moody's) follows:

#### *Moody's Global Rating Scales*

Moody's global long-term and short-term ratings are forward-looking opinions of the relative credit risk of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

The Moody's Global Long-Term Ratings Scale is as follows:

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Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

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- Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
- A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
- Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
- Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
- B Obligations rated B are considered speculative and are subject to high credit risk.
- Caa Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
- Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest. Note: Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a (hyb) indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.

The Moody's Global Short-Term Ratings Scale is as follows:

- P-1 Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
- P-2 Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
- P-3 Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

NP Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.  
*US Municipal Short-Term Obligation Ratings*

The Municipal Investment Grade (MIG) scale is used to rate US municipal bond anticipation notes of up to three years maturity. Municipal notes rated on the MIG scale may be secured by either pledged revenues or proceeds of a financing received prior to note maturity. MIG ratings expire at the maturity of the obligation, and the issuer's long-term rating is only one consideration in assigning the MIG rating. MIG ratings are divided into three levels MIG 1 through MIG 3 while speculative grade short-term obligations are designated SG.

MIG1

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This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.

- MIG2 This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.
- MIG3 This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.
- SG This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

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*Other Ratings Symbols*

- e Expected ratings. To address market demand for timely information on particular types of credit ratings, Moody's has licensed to certain third parties the right to generate Expected Ratings. Expected Ratings are designated by an 'e' after the rating code, and are intended to anticipate Moody's forthcoming rating assignments based on reliable information from third party sources (such as the issuer or underwriter associated with the particular securities) or established Moody's rating practices (i.e., medium term notes are typically, but not always, assigned the same rating as the note's program rating). Expected Ratings will exist only until Moody's confirms the Expected Rating, or issues a different rating for the relevant instrument. Moody's encourages market participants to contact Moody's Ratings Desk or visit [www.moody.com](http://www.moody.com) if they have questions regarding Expected Ratings, or wish Moody's to confirm an Expected Rating.
- (P) Provisional Ratings. As a service to the market and at the request of an issuer, Moody's will often assign a provisional rating when the assignment of a final rating is subject to the fulfillment of contingencies but it is highly likely that the rating will become definitive after all documents are received or an obligation is issued into the market. A provisional rating is denoted by placing a (P) in front of the rating. Such ratings are typically assigned to shelf registrations under SEC rule 415 or transaction-based structures that require investor education. When a transaction uses a well-established structure and the transaction's structure and terms are not expected to change prior to sale in a manner that would affect the rating, a definitive rating may be assigned directly.
- # Refundeds. Issues that are secured by escrowed funds held in trust, reinvested in direct, non-callable US government obligations or non-callable obligations unconditionally guaranteed by the US Government or Resolution Funding Corporation are identified with a # (hatch mark) symbol, (e.g. #Aaa).
- WR Withdrawn. When Moody's no longer rates an obligation on which it previously maintained a rating, the symbol WR is employed. Please see Moody's Guidelines for the Withdrawal of Ratings, available on [www.moody.com](http://www.moody.com).
- NR Not Rated. NR is assigned to an unrated issuer, obligation and/or program.
- NAV Not Available. An issue that Moody's has not yet rated is denoted by the NAV symbol.

TWR Terminated Without Rating. The symbol TWR applies primarily to issues that mature or are redeemed without having been rated. **Fitch Ratings, Inc.** A brief description of the applicable Fitch Ratings, Inc. (Fitch) ratings symbols and meanings (as published by Fitch) follows:

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns and insurance companies, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity's relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default. For historical information on the default experience of Fitch-rated issuers, please consult the transition and default performance studies available from the Fitch website.

*Long-Term Credit Ratings Scales*

- AAA Highest Credit Quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
- AA Very High Credit Quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- A High Credit Quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
- BBB Good Credit Quality. BBB ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
- BB Speculative. BB ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
- B Highly speculative. B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
- CCC Substantial credit risk. Default is a real possibility.
- CC Very high levels of credit risk. Default of some kind appears probable.
- C Exceptionally high levels of credit risk. Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a C category rating for an issuer include:
- a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation;
  - b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or
  - c. Fitch Ratings otherwise believes a condition of RD or D to be imminent or inevitable, including through the formal announcement of a distressed debt exchange.



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- RD Restricted default. RD ratings indicate an issuer that in Fitch Ratings opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating. This would include:
- a. the selective payment default on a specific class or currency of debt;
  - b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;
  - c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or
  - d. execution of a coercive debt exchange on one or more material financial obligations.
- D Default. D ratings indicate an issuer that in Fitch Ratings opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a distressed debt exchange.

Imminent default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a distressed debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency's opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer's financial obligations or local commercial practice.

Note: The modifiers + or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA Long-Term IDR category, or to Long-Term IDR categories below B.

Specific limitations relevant to the issuer credit rating scale include:

The ratings do not predict a specific percentage of default likelihood over any given time period.

The ratings do not opine on the market value of any issuer's securities or stock, or the likelihood that this value may change.

The ratings do not opine on the liquidity of the issuer's securities or stock.

The ratings do not opine on the possible loss severity on an obligation should an issuer default.

The ratings do not opine on the suitability of an issuer as a counterparty to trade credit.

The ratings do not opine on any quality related to an issuer's business, operational or financial profile other than the agency's opinion on its relative vulnerability to default.

Ratings assigned by Fitch articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader's convenience.

#### **Short-Term Ratings Assigned to Obligations in Corporate, Public and Structured Finance**

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as short term based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

F1 Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.

F2 Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments.

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- F3 Fair short-term credit quality. The intrinsic capacity for timely payment of financial commitments is adequate.
  
- B Speculative short-term credit quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

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C High short-term default risk. Default is a real possibility.

RD Restricted default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Typically applicable to entity ratings only.

D Default. Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.  
Specific limitations relevant to the short-term ratings scale include:

The ratings do not predict a specific percentage of default likelihood over any given time period.

The ratings do not opine on the market value of any issuer's securities or stock, or the likelihood that this value may change.

The ratings do not opine on the liquidity of the issuer's securities or stock.

The ratings do not opine on the possible loss severity on an obligation should an obligation default.

The ratings do not opine on any quality related to an issuer or transaction's profile other than the agency's opinion on the relative vulnerability to default of the rated issuer or obligation.

Ratings assigned by Fitch articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader's convenience.

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## APPENDIX D

### PROXY VOTING POLICIES

#### I. INTRODUCTION

The Trustees/Directors ( Directors ) of the BlackRock Closed-End Funds (the Funds ) have the responsibility for voting proxies relating to portfolio securities of the Funds, and have determined that it is in the best interests of the Funds and their shareholders to delegate that responsibility to BlackRock Advisors, LLC and its affiliated U.S. registered investment advisers ( BlackRock ), the investment adviser to the Funds, as part of BlackRock's authority to manage, acquire and dispose of account assets. The Directors hereby direct BlackRock to vote such proxies in accordance with this Policy, and any proxy voting guidelines that the Adviser determines are appropriate and in the best interests of the Funds' shareholders and which are consistent with the principles outlined in this Policy. Individual series of the Funds may be specifically excluded from this Policy by the Directors by virtue of the adoption of alternative proxy voting policy for such series. The Directors have authorized BlackRock to utilize unaffiliated third-parties as its agents to vote portfolio proxies in accordance with this Policy and to maintain records of such portfolio proxy voting.

Rule 206(4)-6 under the Investment Advisers Act of 1940 requires, among other things, that an investment adviser that exercises voting authority over clients' proxy voting adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of clients, discloses to its clients information about those policies and procedures and also discloses to clients how they may obtain information on how the adviser has voted their proxies.

BlackRock has adopted guidelines and procedures that are consistent with the principles of this Policy. BlackRock's corporate governance committee structure (the Committee ), oversees the proxy voting function on behalf of BlackRock and its clients, including the Funds. The Committee is comprised of senior members of BlackRock's Portfolio Management and Administration Groups and is advised by BlackRock's Legal and Compliance Department.

BlackRock votes (or refrains from voting) proxies for each Fund in a manner that BlackRock, in the exercise of its independent business judgment, concludes is in the best economic interests of such Fund. In some cases, BlackRock may determine that it is in the best economic interests of a Fund to refrain from exercising the Fund's proxy voting rights (such as, for example, proxies on certain non-U.S. securities that might impose costly or time-consuming in-person voting requirements). With regard to the relationship between securities lending and proxy voting, BlackRock's approach is also driven by our clients' economic interests. The evaluation of the economic desirability of recalling loans involves balancing the revenue producing value of loans against the likely economic value of casting votes. Based on our evaluation of this relationship, BlackRock believes that the likely economic value of casting a vote generally is less than the securities lending income, either because the votes will not have significant economic consequences or because the outcome of the vote would not be affected by BlackRock recalling loaned securities in order to ensure they are voted. Periodically, BlackRock analyzes the process and benefits of voting proxies for securities on loan, and will consider whether any modification of its proxy voting policies or procedures are necessary in light of any regulatory changes.

BlackRock will normally vote on specific proxy issues in accordance with BlackRock's proxy voting guidelines; provided, however, that in the case of securities held by the Funds of closed-end funds that have or propose to adopt classified board, BlackRock will typically (a) vote in favor of classification and against proposals to eliminate classification, and (b) not vote against directors as a result of their adoption of a classified board structure. BlackRock's proxy voting guidelines provide detailed guidance as to how to vote proxies on certain important or commonly raised issues. BlackRock may, in the exercise of its business judgment, conclude that the proxy voting guidelines do not cover the specific matter upon which a proxy vote is requested, or that an exception to the proxy voting guidelines would be in the best economic interests of a Fund. BlackRock votes (or refrains from voting) proxies without regard to the relationship of the issuer of the proxy (or any shareholder of

such issuer) to the Fund, the Fund's affiliates (if any), BlackRock or BlackRock's affiliates. When voting proxies, BlackRock attempts to encourage companies to follow practices that enhance shareholder value and increase transparency and allow the market to place a proper value on their assets.

## **II. PROXY VOTING POLICIES**

### **A. Boards of Directors**

The Funds generally support the board's nominees in the election of directors and generally support proposals that strengthen the independence of boards of directors. As a general matter, the Funds believe that a company's board of directors (rather than shareholders) is most likely to have access to important, nonpublic information regarding a company's business and prospects, and is therefore best-positioned to set corporate policy and oversee management. The Funds therefore believe that the foundation of good corporate governance is the election of responsible, qualified, independent corporate directors who are likely to diligently represent the interests of shareholders and oversee management of the corporation in a manner that will seek to maximize shareholder value over time. In individual cases, consideration may be given to a director nominee's history of representing shareholder interests as a director of the company issuing the proxy or other companies, or other factors to the extent deemed relevant by the Committee.

### **B. Auditors**

These proposals concern those issues submitted to shareholders related to the selection of auditors. As a general matter, the Funds believe that corporate auditors have a responsibility to represent the interests of shareholders and provide an independent view on the propriety of financial reporting decisions of corporate management. While the Funds anticipate that BlackRock will generally defer to a corporation's choice of auditor, in individual cases, consideration may be given to an auditor's history of representing shareholder interests as auditor of the company issuing the proxy or other companies, to the extent deemed relevant.

### **C. Compensation and Benefits**

These proposals concern those issues submitted to shareholders related to management compensation and employee benefits. As a general matter, the Funds favor disclosure of a company's compensation and benefit policies and oppose excessive compensation, but believe that compensation matters are normally best determined by a corporation's board of directors, rather than shareholders. Proposals to micro-manage a company's compensation practices or to set arbitrary restrictions on compensation or benefits should therefore generally not be supported.

### **D. Capital Structure**

These proposals relate to various requests, principally from management, for approval of amendments that would alter the capital structure of a company, such as an increase in authorized shares. As a general matter, the Funds expect that BlackRock will support requests that it believes enhance the rights of common shareholders and oppose requests that appear to be unreasonably dilutive.

### **E. Corporate Charter and By-Laws**

These proposals relate to various requests for approval of amendments to a corporation's charter or by-laws. As a general matter, the Funds generally vote against anti-takeover proposals and proposals that would create additional barriers or costs to corporate transactions that are likely to deliver a premium to shareholders.

### **F. Environmental and Social Issues**

These are shareholder proposals addressing either corporate social and environmental policies or requesting specific reporting on these issues. The Funds generally do not support proposals on social issues that lack a

demonstrable economic benefit to the issuer and the Fund investing in such issuer. BlackRock seeks to make proxy voting decisions in the manner most likely to protect and promote the long-term economic value of the securities held in client accounts. We intend to support economically advantageous corporate practices while leaving direct oversight of company management and strategy to boards of directors. We seek to avoid micromanagement of companies, as we believe that a company's board of directors is best positioned to represent shareholders and oversee management on shareholders behalf. Issues of corporate social and environmental responsibility are evaluated on a case-by-case basis within this framework.

### **III. CONFLICTS MANAGEMENT**

BlackRock maintains policies and procedures that are designed to prevent any relationship between the issuer of the proxy (or any shareholder of the issuer) and a Fund, a Fund's affiliates (if any), BlackRock or BlackRock's affiliates, from having undue influence on BlackRock's proxy voting activity. In certain instances, BlackRock may determine to engage an independent fiduciary to vote proxies as a further safeguard against potential conflicts of interest or as otherwise required by applicable law. The independent fiduciary may either vote such proxies or provide BlackRock with instructions as to how to vote such proxies. In the latter case, BlackRock votes the proxy in accordance with the independent fiduciary's determination.

### **IV. REPORTS TO THE BOARD**

BlackRock will report to the Directors on proxy votes it has made on behalf of the Funds at least annually.

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**PART C: OTHER INFORMATION**

**ITEM 15. Indemnification**

Article VI of the Registrant's Articles of Incorporation, a copy of which was filed as an exhibit to the Registrant's N-14 on October 5, 1999, and Article IV of the Registrant's Amended and Restated Bylaws, a copy of which was filed as an exhibit to the Registrant's 8-K filed on September 21, 2010, provides for indemnification, as set forth below:

Article VI (Provisions for Defining, Limiting and Regulating Certain Powers of the Corporation and of the Directors and Stockholders) of the Registrant's Articles of Incorporation provides as follows:

(3) Each director and each officer of the Corporation shall be indemnified by the Corporation to the full extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended. No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

(4) To the fullest extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended, no director or officer of the Corporation shall be personally liable to the Corporation or its security holders for money damages. No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

Article IV of the Registrant's Amended and Restated Bylaws provides as follows:

Section 1. No Personal Liability of Directors or Officers. No Director, advisory board member or officer of the Fund shall be subject in such capacity to any personal liability whatsoever to any Person, save only liability to the Fund or its shareholders arising from bad faith, willful misfeasance, gross negligence or reckless disregard for his or her duty to such Person; and, subject to the foregoing exception, all such Persons shall look solely to the assets of the Fund for satisfaction of claims of any nature arising in connection with the affairs of the Fund. If any Director, advisory board member or officer, as such, of the Fund, is made a party to any suit or proceeding to enforce any such liability, subject to the foregoing exception, such person shall not, on account thereof, be held to any personal liability. Any repeal or modification of the Charter or this Article IV Section 1 shall not adversely affect any right or protection of a Director, advisory board member or officer of the Fund existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

Section 2. Mandatory Indemnification.

(a) The Fund hereby agrees to indemnify each person who is or was a Director, advisory board member or officer of the Fund (each such person being an Indemnitee) to the full extent permitted under the Charter. In addition, the Fund may provide greater but not lesser rights to indemnification pursuant to a contract approved by at least a majority of Directors between the Fund and any Indemnitee. Notwithstanding the foregoing, no Indemnitee shall be indemnified hereunder against any liability to any person or any expense of such Indemnitee arising by reason of (i) willful misfeasance, (ii) bad faith, (iii) gross negligence, or (iv) reckless disregard of the duties involved in the conduct of the Indemnitee's position (the conduct referred to in such clauses (i) through (iv) being sometimes referred to herein as Disabling Conduct). Furthermore, with respect to any action, suit or other proceeding voluntarily prosecuted by any Indemnitee as plaintiff, indemnification shall be mandatory only if the prosecution of such action, suit or other proceeding by such Indemnitee (A) was authorized by a majority of the Directors or (B) was instituted by the Indemnitee to enforce his or her rights to indemnification hereunder in a case in which the Indemnitee is found to be entitled to such indemnification.



(b) Notwithstanding the foregoing, unless otherwise provided in any agreement relating to indemnification between an Indemnitee and the Fund, no indemnification shall be made hereunder unless there has been a determination (i) by a final decision on the merits by a court or other body of competent jurisdiction before whom the issue of entitlement to indemnification hereunder was brought that such Indemnitee is entitled to indemnification hereunder or, (ii) in the absence of such a decision, by (A) a majority vote of a quorum of those Directors who are both Independent Directors and not parties to the proceeding ( Independent Non-Party Directors ), that the Indemnitee is entitled to indemnification hereunder, or (B) if such quorum is not obtainable or even if obtainable, if such majority so directs, a Special Counsel in a written opinion concludes that the Indemnitee should be entitled to indemnification hereunder.

(c) Subject to any limitations provided by the 1940 Act and the Charter, the Fund shall have the power and authority to indemnify and provide for the advance payment of expenses to employees, agents and other Persons providing services to the Fund or serving in any capacity at the request of the Fund to the full extent permitted for corporations organized under the corporations laws of the state in which the Fund was formed, provided that such indemnification has been approved by a majority of the Directors.

(d) Any repeal or modification of the Charter or Section 2 of this Article IV shall not adversely affect any right or protection of a Director, advisory board member or officer of the Fund existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

Section 3. Good Faith Defined; Reliance on Experts. For purposes of any determination under this Article IV, a person shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in the best interests of the Fund, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such person's conduct was unlawful, if such person's action is based on the records or books of account of the Fund, or on information supplied to such person by the officers of the Fund in the course of their duties, or on the advice of legal counsel for the Fund or on information or records given or reports made to the Fund by an independent certified public accountant or by an appraiser or other expert or agent selected with reasonable care by the Fund. The provisions of this Article IV Section 3 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in this Article IV. Each Director and officer or employee of the Fund shall, in the performance of his or her duties, be fully and completely justified and protected with regard to any act or any failure to act resulting from reliance in good faith upon the books of account or other records of the Fund, upon an opinion of counsel selected by the Board of Directors or a committee of the Directors, or upon reports made to the Fund by any of the Fund's officers or employees or by any advisor, administrator, manager, distributor, dealer, accountant, appraiser or other expert or consultant selected with reasonable care by the Board of Directors or a committee of the Directors, officers or employees of the Fund, regardless of whether such counsel or expert may also be a Director.

Section 4. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IV shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 5. Insurance. The Directors may maintain insurance for the protection of the Fund's property, the shareholders, Directors, officers, employees and agents in such amount as the Directors shall deem adequate to cover possible tort liability, and such other insurance as the Directors in their sole judgment shall deem advisable or is required by the 1940 Act.

Section 6. Subrogation. In the event of payment by the Fund to an Indemnitee under the Charter or these Bylaws, the Fund shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute such documents and do such acts as the Fund may reasonably request to secure such rights and to enable the Fund effectively to bring suit to enforce such rights.

The Registrant has also entered into an agreement with directors and officers of the Registrant entitled to indemnification under the charter of the Registrant pursuant to which the Registrant has agreed to advance expenses and costs incurred by the indemnitee in connection with any matter in respect of which indemnification might be sought pursuant to the charter of the Registrant to the maximum extent permitted by law.

Reference is also made to Sections 10 and 11 of the Registrant's Investment Management Agreement.

Additionally, the Registrant and the other funds in the BlackRock Closed-End Fund Complex jointly maintain, at their own expense, E&O/D&O insurance policies for the benefit of its Directors, officers and certain affiliated persons. The Registrant pays a pro rata portion of the premium on such insurance policies.

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

**ITEM 16. Exhibits**

The agreements included or incorporated by reference as exhibits to this registration statement contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of materiality that are different from materiality under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement. The Registrant acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this registration statement not misleading.

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
(1)(a)	Articles of Incorporation, dated June 30, 1992 (a)
(b)	Articles of Amendment, dated August 1992*
(c)	Certificate of Correction, dated December 6, 1994 (b)
(d)	Articles of Transfer, dated March 2, 2000 (c)
(e)	Articles of Amendment, dated September 14, 2006*
(f)	Articles Supplementary, dated September 21, 2010*
(g)	Articles of Amendment, dated November 9, 2010*
(h)	Preferred Stock Organizational Documents*
(2)	Amended and Restated Bylaws of the Registrant, dated September 17, 2010 (d)
(3)	Voting Trust Agreement of VRDP Holder*

Exhibit No.	Description of Exhibit
(4)	Form of Agreement and Plan of Reorganization (e)
(5)(a)	Selected Provisions of the Articles of Incorporation and the Amended and Restated Bylaws of the Registrant Defining the Rights of Shareholders*
(6)	Investment Management Agreement*
(7)	Not applicable
(8)	Form of Second Amended and Restated Deferred Compensation Plan*
(9)	Custodian Agreement*
(10)	Not applicable
(11)	Opinion and Consent of Special Counsel for the Registrant**
(12)	Tax opinion of Skadden, Arps, Slate, Meagher & Flom LLP***
(13)	Other Material Agreements*
(14)	Consent of the Independent Registered Public Accounting Firm for the Registrant and BlackRock MuniYield Michigan Quality Fund II, Inc.**
(15)	Not applicable
(16)	Power of Attorney*
(17)	Form of Proxy Cards for the Funds*

\* Filed as an exhibit to the Registrant's Registration Statement on Form N-14 filed on May 8, 2015.

\*\* Filed herewith.

\*\*\* To be filed by further amendment.

- (a) Incorporated by reference to Exhibit 1(a) to the Registrant's Registration Statement on Form N-14, filed on October 5, 1999.
- (b) Incorporated by reference to Exhibit 1(f) to the Registrant's Registration Statement on Form N-14, filed on October 5, 1999.
- (c) Incorporated by reference to Exhibit (a)(2) to the Registrant's Registration Statement on Form N-2, filed on October 8, 2004.
- (d) Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on September 21, 2010.
- (e) Incorporated by reference to Appendix A of the Statement of Additional Information.

**ITEM 17. Undertakings**

(1) The undersigned Registrant agrees that prior to any public reoffering of the securities registered through use of a prospectus which is part of this Registration Statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) of the Securities Act of 1933, as amended, the reoffering prospectus will contain information called for by the applicable Exchange registration form for reoffering by persons who may be deemed underwriters, in addition to the information called for by other items of the applicable form.

(2) The undersigned Registrant agrees that every prospectus that is filed under paragraph (1) above will be filed as part of an amendment to the registration statement and will not be used until the amendment is effective, and that, in determining any liability under the Securities Act of 1933, as amended, each post-effective amendment shall be deemed to be a new registration statement for the securities offered therein, and the offering of securities at that time shall be deemed to be the initial bona fide offering of them.

(3) The undersigned Registrant agrees to file, by post-effective amendment, opinions of counsel supporting the tax consequences of the Reorganization within a reasonably prompt time after receipt of such opinions.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York and the State of New York on the 16<sup>th</sup> day of June, 2015.

**BLACKROCK MUNIYIELD MICHIGAN  
QUALITY FUND, INC.**

BY: /s/ John M. Perlowski  
Name: **John M. Perlowski**  
Title: **President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated and on the 16<sup>th</sup> day of June, 2015.

Signature	Title
/s/ John M. Perlowski	
<b>John M. Perlowski</b>	Director, President and Chief Executive Officer
/s/ Neal J. Andrews	
<b>Neal J. Andrews</b>	Chief Financial Officer
*	Director
<b>Michael J. Castellano</b>	
*	Director
<b>Richard E. Cavanagh</b>	
*	Director
<b>Frank J. Fabozzi</b>	
*	Director
<b>Kathleen F. Feldstein</b>	
*	Director
<b>James T. Flynn</b>	
*	Director
<b>Jerrold B. Harris</b>	
*	Director
<b>R. Glenn Hubbard</b>	
*	Director
<b>W. Carl Kester</b>	
*	Director
<b>Karen P. Robards</b>	
*	Director
<b>Barbara G. Novick</b>	

\*By: /s/ John M. Perlowski  
**John M. Perlowski**  
Attorney-in-Fact

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
11	Opinion and Consent of Special Counsel for the Registrant
14	Consent of the Independent Registered Public Accounting Firm for the Registrant and BlackRock MuniYield Michigan Quality Fund II, Inc.