

CORNERSTONE PROGRESSIVE RETURN FUND

Form 497

April 06, 2011

Cornerstone Progressive Return Fund  
9,381,702 Rights for 3,127,234 Shares of Beneficial Interest

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Cornerstone Progressive Return Fund (the "Fund") is issuing non-transferable rights ("Rights") to its holders of record of shares of beneficial interest ("Shares") (such holders herein defined as "Shareholders"). These Rights will allow Shareholders to subscribe for new Shares. For every three (3) Rights a Shareholder receives, such Shareholder will be entitled to buy one (1) new Share. Each Shareholder will receive one Right for each outstanding Share it owns on April 1, 2011 (the "Record Date"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Shareholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Shareholders on the Record Date may purchase Shares not acquired by other Shareholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its sole discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor oversubscription requests. See "The Offering" below.

The Rights are non-transferable, and may not be purchased or sold. Rights will expire without residual value at the Expiration Date (defined below). The Rights will not be listed for trading on the NYSE Amex, and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE Amex LLC ("NYSE Amex"), subject to the NYSE Amex being officially notified of the issuance of those Shares. On April 1, 2011, the last reported net asset value ("NAV") per Share was \$5.79 and the last reported sales price per Share on the NYSE Amex was \$7.36, which represents a 27.12% premium to the Fund's NAV per Share. The subscription price per Share (the "Subscription Price") will be the greater of (i) 102% of NAV per Share as calculated at the close of trading on the date of expiration of the Offering and (ii) 90% of the market price per Share at such time. The considerable number of Shares that may be issued as a result of the Offering may cause the premium above NAV at which the Fund's Shares are currently trading to decline, especially if Shareholders exercising the Rights attempt to sell sizeable numbers of Shares immediately after such issuance.

**SHAREHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS BECAUSE THE OFFERING WILL EXPIRE (I.E., CLOSE) PRIOR TO THE AVAILABILITY OF THE FUND'S NAV AND OTHER RELEVANT MARKET INFORMATION ON THE EXPIRATION DATE. ONCE A SHAREHOLDER SUBSCRIBES FOR SHARES AND THE FUND RECEIVES PAYMENT, SUCH SHAREHOLDER WILL NOT BE ABLE TO CHANGE HIS, HER OR ITS DECISION. THE OFFERING WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MAY 6, 2011 (THE "EXPIRATION DATE"), UNLESS EXTENDED BY THE FUND.**

The Fund is a diversified, closed-end management investment company. The Fund's investment objective is to provide total return. The Fund pursues its investment objective through investing primarily in the equity securities of U.S. and non-U.S. companies. There can be no assurance that the Fund's objective will be achieved.

For more information, please call The Altman Group (the "Information Agent") toll free at (800) 581-4001.

(continued on following page)

Investing in the Fund involves risks. See "Risk Factors" on page 36 of this prospectus.

Estimated Sales Load Estimated Proceeds

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	Estimated Subscription Price(1)		to the Fund(2)
Per Share	\$6.62	None	\$6.62
Total	\$20,702,289	None	\$20,702,289

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(1) Because the Subscription Price will not be determined until after printing and distribution of this Prospectus, the "Estimated Subscription Price" above is an estimate of the subscription price based on the Fund's per-Share NAV and market price at the close of trading on April 1, 2011. See "The Offering - Subscription Price" and "The Offering - Payment for Shares."

(2) Proceeds to the Fund are before deduction of expenses incurred by the Fund in connection with the Offering, estimated to be approximately \$77,000. Funds received prior to the final due date of this Offering will be deposited in a segregated account pending allocation and distribution of Shares. Interest, if any, on subscription monies will be paid to the Fund regardless of whether Shares are issued by the Fund; interest will not be used as credit toward the purchase of Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 6, 2011.

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The Fund's Shares are listed on the NYSE Amex under the ticker symbol "CFP."

Investment Adviser. Cornerstone Advisors, Inc. (the "Adviser") acts as the Fund's investment adviser. See "Management of the Fund." As of December 31, 2010, the Adviser managed two other closed-end funds with combined assets with the Fund of \$145,455,907. The Adviser's address is 1075 Hendersonville Road, Suite 250, Asheville, North Carolina, 28803.

This prospectus sets forth concisely the information about the Fund that you should know before deciding whether to invest in the Fund. A Statement of Additional Information, dated April 6, 2011 (the "Statement of Additional Information"), and other materials, containing additional information about the Fund, have been filed with the Securities and Exchange Commission (the "SEC"). The Statement of Additional Information is incorporated by reference in its entirety into this prospectus, which means it is considered to be part of this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 54 of this prospectus, and other information filed with the SEC, by calling collect (513) 326-3597 or by writing to the Fund c/o Ultimius Fund Solutions, LLC, 350 Jericho Turnpike, Suite 206, Jericho, NY 11753. The Fund files annual and semi-annual shareholder reports, proxy statements and other information with the SEC. The Fund does not have an Internet website. You can obtain this information or the Fund's Statement of Additional Information or any information regarding the Fund filed with the SEC from the SEC's web site (<http://www.sec.gov>).

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

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus. The Fund will amend this prospectus if, during the period this prospectus is required to be delivered, there are any material changes to the facts stated in this prospectus subsequent to the date of this prospectus.

## TABLE OF CONTENTS

SUMMARY	4
SUMMARY OF FUND EXPENSES	16
THE FUND	16
THE OFFERING	16
FINANCIAL HIGHLIGHTS	25
USE OF PROCEEDS	26
INVESTMENT OBJECTIVE AND POLICIES	26
RISK FACTORS	36
LISTING OF SHARES	41
MANAGEMENT OF THE FUND	41
DETERMINATION OF NET ASSET VALUE	43
DISTRIBUTION POLICY	43
DIVIDEND REINVESTMENT PLAN	45
FEDERAL INCOME TAX MATTERS	47
DESCRIPTION OF CAPITAL STRUCTURE	49
LEGAL MATTERS	52
REPORTS TO SHAREHOLDERS	52
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	53
ADDITIONAL INFORMATION	53
TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION	54
THE FUND'S PRIVACY POLICY	55

## SUMMARY

This summary does not contain all of the information that you should consider before investing in the Fund. You should review the more detailed information contained or incorporated by reference in this prospectus and in the Statement of Additional Information, particularly the information set forth under the heading "Risk Factors."

**The Fund** Cornerstone Progressive Return Fund is a diversified, closed-end management investment company. The Fund is an unincorporated statutory trust established under the laws of the State of Delaware upon the filing of a Certificate of Trust with the Secretary of State of the State of Delaware on April 26, 2007. The Fund commenced investment operations on September 10, 2007. The Fund's shares of beneficial interest ("Shares") are traded on the NYSE Amex under the ticker symbol "CFP." As of April 1, 2011, the Fund had 9,381,702 Shares issued and outstanding.

**The Offering** The Fund is offering non-transferable rights ("Rights") to its Shareholders as of the close of business on April 1, 2011. These Rights will allow Shareholders to subscribe for an aggregate of 3,127,234 Shares. For every three (3) Rights a Shareholder receives, such Shareholder will be entitled to buy one (1) new Share at a subscription price equal to the greater of (i) 102% of NAV of a share of beneficial interest of the Fund as calculated on the Expiration Date and (ii) 90% of the market price at the close of trading on such date. Each Shareholder will receive one Right for each outstanding Share he or she owns on the Record Date (the "Basic Subscription"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Shareholder as of the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Shareholders as of the Record Date may purchase Shares not acquired by other Shareholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor oversubscription requests.

Shares will be issued within the 15-day period immediately following the record date of the Fund's monthly's distribution and Shareholders exercising rights will not be entitled to receive such dividend with respect to the Shares issued pursuant to such exercise.

**Purpose of the Offering** The Board of Trustees of the Fund has determined that it would be in the best interests of the Fund and its Shareholders to increase the assets of the Fund. The primary reasons include:

- The Basic Subscription will provide existing Shareholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges.
- Raising more cash will better position the Fund to take advantage of investment opportunities that exist or may arise.



- Increasing the Fund's assets will provide the Fund additional flexibility in maintaining the Distribution Policy (see discussion below), which seeks to provide Shareholders a predictable level of cash flow and some liquidity periodically with respect to their Shares without having to sell Shares.
- Increasing Fund assets may lower the Fund's expenses as a proportion of net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered.
- Because the Offering will increase the Fund's outstanding Shares, it may increase the number of Shareholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE Amex.
- The Offering is expected to be anti-dilutive to all Shareholders, including those electing not to participate, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Shareholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Shareholders is not materially less than a full exercise of the Basic Subscription amount.

Investment Objective and Policies

The Fund's investment objective is to provide total return. The Fund pursues its investment objective through investing primarily in the equity securities of U.S. and non-U.S. companies. The Fund invests primarily all of its assets in equity securities of U.S. issuers, non-U.S. issuers whose securities trade on a U.S. securities exchange or over the counter or as ADRs or other forms of depositary receipts, such as IDRs, which trade in the United States, closed-end investment companies and ETFs. The Fund pursues current income, as a component of total return, by investing in dividend-paying equity securities and U.S. dollar-denominated debt securities.

There is no assurance that the Fund will achieve its investment objective. The Fund's investment objective is a non-fundamental policy, which means that it may be changed by the Board of Trustees without Shareholder approval if the Board believes that it is in the best interests of the Fund and its Shareholders to do so. Some of the Fund's investment policies are considered fundamental policies and may not be changed without Shareholder approval. The Statement of Additional Information contains a list of the fundamental and non-fundamental investment policies of the Fund under the heading "Investment Restrictions."

During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its net assets in cash or cash equivalents.

#### Investment Strategies

The Fund's portfolio, under normal market conditions, will consist principally of the equity securities of U.S. and non-U.S. companies. In general, the Fund invests primarily in common stocks, closed-end investment companies, preferred stocks, convertible securities, warrants and other securities having the characteristics of common stocks, such as ADRs and IDRs, and ETFs. The Fund may, however, invest a portion of its assets in U.S. dollar-denominated debt securities when the Adviser believes that it is appropriate to do so to earn current income. For example, when interest rates are high in comparison to anticipated returns on equity investments, the Adviser may determine to invest in U.S. dollar-denominated debt securities. Debt securities in which the Fund may invest include U.S. dollar-denominated bank, corporate or government bonds, notes, and debentures that the Adviser determines are suitable investments for the Fund. Such determination may be made regardless of the maturity, duration or rating of any such debt security, provided, however, that the Fund may not invest in debt securities that are rated below "BBB" by S&P or "Baa" by Moody's at the time the investment is made. Other than this policy with respect to the rating of debt securities, the Adviser does not have a policy with respect to the maturity or duration of the debt securities in which the Fund may invest.

The Fund invests without limitation in the securities of other closed-end investment companies and ETFs, provided that, in accordance with Section 12(d)(1)(F) of the 1940 Act, and in reliance upon Rule 12d-3 promulgated thereunder, the Fund limits the amount invested in any single investment company to no more than 3% of the voting stock of the acquired investment company. As a shareholder in any investment company, the Fund will bear its ratable share of the investment company's expenses and would remain subject to payment of the Fund's advisory and administrative fees with respect to the assets so invested.

The Fund's management utilizes a balanced approach, including "value" and "growth" investing by seeking out companies at reasonable prices, without regard to sector or industry, which demonstrate favorable long-term growth characteristics. Valuation and growth characteristics may be considered for purposes of selecting potential investment securities. In general, valuation analysis is used to determine the inherent value of the company by analyzing financial information such as a company's price to book, price to sales, return on equity, and return on assets ratios; and growth analysis is used to determine a company's potential for long-term dividends and earnings growth due to market-oriented factors such as growing market share, the launch of new products or services, the strength of its management and market demand. Fluctuations in these characteristics may trigger trading decisions to be made by the Adviser with respect to the Fund's portfolio.

To comply with provisions of the 1940 Act, on any matter upon which the Fund is solicited to vote as a shareholder in an





investment company in which it invests, the Adviser votes such shares in the same general proportion as shares held by other shareholders of that investment company. The Fund does not and will not invest in any closed-end funds managed by the Adviser.

Generally, securities will be purchased or sold by the Fund on national securities exchanges and in the over-the-counter market. From time to time, securities may be purchased or sold in private transactions, including securities that are not publicly traded or that are otherwise illiquid. The Adviser does not expect investments in illiquid securities to comprise more than 10% of the Fund's net assets (determined at the time the investment is made). The Fund will invest only in illiquid securities that the Adviser believes provide opportunities for substantial growth over a period of two to five years.

The Fund may invest up to 15% of its assets in illiquid U.S. and non-U.S. securities, provided that the Fund may not invest more than 3% of the Fund's assets in the securities of companies that, at the time of investment, had less than a year of operations, including operations of predecessor companies. The Fund will invest only in such illiquid securities that, in the opinion of Fund management, present opportunities for substantial growth over a period of two to five years.

The Fund may, without limitation, hold cash or invest in assets in money market instruments, including U.S. and non-U.S. government securities, high grade commercial paper and certificates of deposit and bankers' acceptances issued by U.S. and non-U.S. banks having deposits of at least \$500 million.

Investment Adviser and Fee

Cornerstone Advisors, Inc. (the "Adviser"), the investment adviser of the Fund, is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended. As of December 31, 2010, the Adviser managed two other closed-end funds with combined assets with the Fund of \$145,455,907 under management.

The Adviser is entitled to receive a monthly fee at the annual rate of 1.00% of the Fund's average weekly net assets. See "Management of the Fund."

Administrator and Fund Accounting Agent      Ultimus Fund Solutions, LLC (“Ultimus”), 350 Jericho Turnpike, Suite 206, Jericho, NY 11753, serves as administrator and accounting agent to the Fund. Under the administration agreement with the Fund, Ultimus is responsible for generally managing the administrative affairs of the Fund, including supervising the preparation of reports to Shareholders, reports to and filings with the SEC and materials for meetings of the Board, and is entitled to receive a monthly fee at the annual rate of 0.10% of the Fund's average daily net assets up to \$250 million and 0.075% of such assets in excess of \$250 million, subject to a minimum annual fee of \$50,000. Under the Fund Accounting Agreement, Ultimus calculates the net asset value per share and maintains the financial books and records of the Fund. For the performance of these services, Ultimus is entitled to receive a base fee of \$2,500 per month plus an asset based fee of 0.010% of the first \$500 million of average daily net assets and 0.005% of such assets in excess of \$500 million. See “Management of the Fund.”

Closed-End Fund Structure      Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds do not redeem their shares at the option of the shareholder and generally list their shares for trading on a securities exchange. By comparison, mutual funds issue securities that are redeemable daily at net asset value at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund’s investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities.

Although the Fund’s Shares have typically traded at a premium to its net asset value during the past several years, shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of the possibility that the Fund’s Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Shareholders, the Fund’s Board of Trustees, in consultation with the Adviser, may, from time to time, review possible actions to reduce any such discount, including that the Board of Trustees may consider open market repurchases or tender offers for Fund Shares. There can be no assurance that the Board of Trustees will decide to undertake any of these actions or that, if undertaken, such actions would result in the Fund’s Shares trading at a price equal to or close to net asset value per share.

In addition, the Fund’s distribution policy may continue to be an effective action to counter a trading discount. See “Distribution Policy.”

The Board of Trustees might also consider the conversion of the Fund to an open-end investment company. The Board of Trustees believes, however, that the closed-end structure is desirable, given



the Fund's investment objective and policies. Investors should assume, therefore, that it is highly unlikely that the Board of Trustees would vote to convert the Fund to an open-end investment company.

Summary of Principal Risks

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following principal risks that you assume when you invest in the Fund.

**Stock Market Volatility.** Stock markets can be volatile. In other words, the prices of stocks can rise or fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Fund is subject to the general risk that the value of its investments may decline if the stock markets perform poorly. There is also a risk that the Fund's investments will underperform either the securities markets generally or particular segments of the securities markets.

**Issuer Specific Changes.** Changes in the financial condition of an issuer, changes in the specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer's securities. Lower-quality debt securities tend to be more sensitive to these changes than higher-quality debt securities.

**Other Investment Company Securities Risk.** The Fund invests in the securities of other closed-end investment companies and in ETFs. Investing in other investment companies and ETFs involves substantially the same risks as investing directly in the underlying instruments, but the total return on such investments at the investment company level may be reduced by the operating expenses and fees of such other investment companies, including advisory fees. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities, and a Shareholder in the Fund will bear not only his proportionate share of the expenses of the Fund, but also, indirectly, the expenses of the purchased investment company. There can be no assurance that the investment objective of any investment company or ETF in which the Fund invests will be achieved.

**Common Stock Risk.** The Fund will invest a significant portion of its net assets in common stocks. Common stocks represent an ownership interest in a company. The Fund may also invest in securities that can be exercised for or converted into common stocks (such as convertible preferred stock). Common stocks and similar equity securities are more volatile and more risky than some other forms of investment. Therefore, the value of your investment in the Fund may sometimes decrease instead of increase. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer, the general condition of the



relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise for issuers. Because convertible securities can be converted into equity securities, their values will normally increase or decrease as the values of the underlying equity securities increase or decrease. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and assets and, therefore, will be subject to greater risk than the preferred securities or debt instruments of such issuers.

**Emerging Markets Securities Risk.** The Fund may invest up to 20% of its net assets in securities of issuers located in "emerging markets" through its investments in ETFs, other investment companies and depository receipts and may invest up to 5% of its net assets directly in emerging market securities. Because of less developed markets and economies and, in some countries, less mature governments and governmental institutions, the risks of investing in foreign securities can be intensified in the case of investments in issuers domiciled or doing substantial business in emerging market countries. These risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; lack of liquidity and greater price volatility due to the smaller size of the market for such securities and lower trading volume; political and social uncertainties; national policies that may restrict the Fund's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; greater risks of expropriation, confiscatory taxation and nationalization; over-dependence on exports, especially with respect to primary commodities, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; and less reliable custodial services and settlement practices. Dividends paid by issuers in emerging market countries will generally not qualify for the reduced federal income tax rates applicable to qualified dividends under the Code. See "Federal Income Tax Matters."

**Foreign Securities Risk.** Investments in securities of non-U.S. issuers involve special risks not presented by investments in securities of U.S. issuers, including the following: less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices; the impact of political, social or diplomatic events, including war; possible seizure, expropriation or nationalization of the company or its assets; possible imposition of currency exchange controls; and changes in foreign currency exchange rates. These risks are more pronounced to the extent that the Fund invests a significant amount of its investments in companies located in one region. These risks may be greater in emerging markets and in less developed countries. For example, prior

governmental approval for foreign investments may be required in some emerging market countries, and the extent of foreign investment may be subject to limitation in other emerging countries. With respect to risks associated with changes in foreign currency exchange rates, the Fund does not expect to engage in foreign currency hedging transactions. See “Foreign Currency Risk”.

**Market Discount From Net Asset Value.** Shares of closed-end investment companies frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that the Fund’s net asset value could decrease as a result of its investment activities and may be greater for investors expecting to sell their Shares in a relatively short period following completion of this Offering. The net asset value of the Shares may be reduced immediately following the Offering as a result of the payment of certain Offering costs. Whether investors will realize gains or losses upon the sale of the Shares will depend not upon the Fund’s net asset value but entirely upon whether the market price of the Shares at the time of sale is above or below the investor’s purchase price for the Shares. Because the market price of the Shares will be determined by factors such as relative supply of and demand for the Shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Shares will trade at, below or above net asset value.

**Defensive Positions.** During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its assets in cash or cash equivalents. The Fund would not be pursuing its investment objective in these circumstances and could miss favorable market developments.

**Management Risk.** The Fund is subject to management risk because it is an actively managed portfolio. The Fund’s successful pursuit of its investment objective depends upon the Adviser’s ability to find and exploit market inefficiencies with respect to undervalued securities. Such situations occur infrequently and sporadically and may be difficult to predict, and may not result in a favorable pricing opportunity that allows the Adviser to fulfill the Fund’s investment objective. The Adviser’s security selections and other investment decisions might produce losses or cause the Fund to underperform when compared to other funds with similar investment goals. If one or more key individuals leave the employ of the Adviser, the Adviser may not be able to hire qualified replacements, or may require an extended time to do so. This could prevent the Fund from achieving its investment objective. The Adviser may also benefit from the Offering because its fee is based on the assets of the Fund, which could be perceived as a conflict of interest.

**Distribution Policy Risk.** The Fund seeks to make distributions to Shareholders on a monthly basis. Such distributions are not tied to the Fund’s investment income and capital gains and do not represent yield or investment return on the Fund’s portfolio. To the extent that the amount distributed in





cash exceeds the total net investment income of the Fund, the assets of the Fund will decline. Accordingly, a decline in Fund assets may result in an increase in the Fund's expense ratio. In addition, the maintenance of the Fund's distribution policy may cause the Fund's assets to be less fully invested than would otherwise be the case, which could reduce the Fund's total investment return. Furthermore, the Fund may need to raise additional capital in order to maintain the distribution policy.

**Preferred Securities Risk.** Investment in preferred securities carries risks including credit risk, deferral risk, redemption risk, limited voting rights, risk of subordination and lack of liquidity. Fully taxable or hybrid preferred securities typically contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. Traditional preferreds also contain provisions that allow an issuer, under certain conditions to skip (in the case of "noncumulative preferreds") or defer (in the case of "cumulative preferreds"), dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases when dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as U.S. government securities, corporate debt or common stocks. Dividends paid on preferred securities will generally not qualify for the reduced federal income tax rates applicable to qualified dividends under the Code. See "Federal Income Tax Matters."

**Convertible Securities Risk.** The value of a convertible security, including, for example, a warrant, is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the

market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objective.

**Repurchase Agreement Risk.** The Fund could suffer a loss if the proceeds from a sale of the securities underlying a repurchase agreement to which it is a party turns out to be less than the repurchase price stated in the agreement. In addition, repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

#### Distribution Policy

The Fund seeks to make a distribution to Shareholders each month. These distributions are not tied to the Fund's investment income and capital gains and do not represent yield or investment return on the Fund's portfolio. The distribution rate may be modified by the Board of Trustees from time to time. If, for any monthly distribution, investment company taxable income, if any (which term includes net short-term capital gain), and net tax-exempt income, if any, is less than the amount of the distribution, the difference will generally be a tax-free return of capital distributed from the Fund's assets. The Fund's final distribution for each calendar year is expected to include any remaining investment company taxable income and net tax-exempt income undistributed during the year, as well as all net capital gain realized during the year. However, if it determines it is appropriate to do so, the Board of Trustees may elect to not distribute realized gains and to pay taxes incurred. In general, the total distributions made in any taxable year (other than distributions of net capital gain or return of capital) would be treated as ordinary dividend income to the extent of the Fund's current and accumulated earnings and profits. Distributions in excess of the earnings and profits would first be a tax-free return of capital to the extent of the adjusted tax basis in the Shares. Shareholders are advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund. This distribution policy may, under certain circumstances, have adverse consequences to the Fund and the Shareholders because it may result in a return of capital resulting in less of a Shareholder's assets being invested in the Fund and, over time, increase the Fund's expense ratio.

Unless the registered owner of Shares elects to receive cash, all

distributions declared on Shares will be automatically reinvested in additional Shares of the Fund. See "Dividend Reinvestment Plan".

The Board may determine in the future to authorize the filing of an exemptive application with the SEC seeking an order under the 1940 Act to exempt the Fund from the requirements of Section 19(b) of the 1940 Act and Rule 19b-1 thereunder, permitting the Fund to make periodic distributions of long-term capital gains, provided that the distribution policy of the Fund with respect to its Shares calls for periodic (for example, quarterly/monthly) distributions in an amount equal to a fixed percentage of the Fund's average net asset value over a specified period of time or market price per Share at or about the time of distribution or pay-out of a level dollar amount. The Board of Trustees continues to monitor whether such relief is needed. In the event the Board determines to authorize the filing of such an exemptive application, there can be no assurance that the staff of the SEC will grant such relief to the Fund or, if granted, that the Board will determine to implement a managed distribution plan. No assurance can be given that the SEC will grant the exemption to the Fund. This Offering is not contingent upon the receipt of such exemption nor upon the application for such exemption.

The monthly distribution described above would result in the payment of approximately the same amount or percentage to the Shareholders each month. These distributions will not be tied to the Fund's investment income and capital gains and will not represent yield or investment return on the Fund's portfolio. Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide a written statement accompanying any such payment that adequately discloses its source or sources, other than net investment income. Thus, if the source of some or all of the dividend or other distribution were the original capital contribution of the Shareholder, and the payment amounted to a return of capital, the Fund would be required to provide written disclosure to that effect. Nevertheless, persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Shareholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net profit.

The Board of Trustees reserves the right to change the Distribution Policy from time to time.

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|-----------------------------|---|
| Dividend Reinvestment Plan  | Unless a Shareholder elects otherwise, the Shareholder's distributions will be reinvested in additional Shares under the Fund's dividend reinvestment plan. Shareholders who elect not to participate in the Fund's dividend reinvestment plan will receive all distributions in cash paid to the Shareholder of record (or, if the Shares are held in street or other nominee name, then to such nominee). See "Dividend Reinvestment Plan." |
| Stock Purchases and Tenders | The Board of Trustees may consider repurchasing the Fund's  |



Shares in the open market or in private transactions, or tendering for Shares, in an attempt to reduce or eliminate a market value discount from net asset value, if one should occur. There can be no assurance that the Board of Trustees will determine to effect any such repurchase or tender or that it would be effective in reducing or eliminating any market value discount.

Custodian and Transfer Agent

U.S. Bank National Association serves as the Fund's custodian and American Stock Transfer and Trust Company serves as the Fund's transfer agent. See "Management of the Fund".

- 15 -

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SUMMARY OF FUND EXPENSES

The following table shows Fund expenses as a percentage of net assets attributable to the Fund’s shares of beneficial interest (“Shares”).

Shareholder Transaction Expenses	
Sales load	None
Dividend Reinvestment Plan fees	None
Annual Expenses (as a percentage of net assets attributable to Shares)	
Management fees	1.00%
Other expenses (1)	0.61%
Acquired Fund fees and expenses (2)	1.15%
Total Annual Expenses	2.76%

Example (3)

The following example illustrates the hypothetical expenses that you would pay on a \$1,000 investment in Shares, assuming (i) annual expenses of 2.76% of net assets attributable to Shares and (ii) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$28	\$86	\$147	\$312

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- (1) “Other Expenses” are based upon gross estimated amounts for the current fiscal year and include, among other expenses, administration and fund accounting fees. The Fund has no current intention to borrow money for investment purposes and has adopted a fundamental policy against selling securities short.
  - (2) The Fund invests in other closed-end investment companies and ETFs (collectively, the “Acquired Funds”). The Fund’s Shareholders indirectly bear a pro rata portion of the fees and expenses of the Acquired Funds in which the Fund invests. Acquired Fund fees and expenses are based on estimated amounts for the current fiscal year.
  - (3) The example assumes that the estimated “Other Expenses” set forth in the Annual Expenses table remain the same each year and that all dividends and distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. The example further assumes that the Fund uses no leverage, as currently intended. Moreover, the Fund’s actual rate of return will vary and may be greater or less than the hypothetical 5% annual return.

The purpose of the above table is to help a holder of Shares understand the fees and expenses that such holder would bear directly or indirectly. The example should not be considered a representation of actual future expenses. Actual expenses may be higher or lower than those shown.

THE FUND

The Fund is a diversified, closed-end management investment company. The Fund is an unincorporated statutory trust established under the laws of the State of Delaware upon the filing of a Certificate of Trust with the Secretary of State of Delaware on April 26, 2007. The Fund’s principal office is located c/o Ultimus Fund Solutions, LLC at 350 Jericho Turnpike, Suite 206, Jericho, NY 11753, and its telephone number is (513) 326-3597.

THE OFFERING

Terms of the Offering. The Fund is issuing to Record Date Shareholders (i.e., Shareholders who hold Shares on the Record Date) non-transferable Rights to subscribe for Shares. Each Record Date Shareholder is being issued one non-transferable Right for every one Share owned on the Record Date. The Rights entitle a Record Date Shareholder to acquire one Share at the Subscription Price for every three Rights held. Fractional Shares will not be

- 16 -

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issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Record Date Shareholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Rights may be exercised at any time during the Subscription Period, which commences on April 6, 2011 and ends at 5:00 p.m., New York City time, on May 6, 2011, unless extended by the Fund. See "Expiration of the Offering." The right to acquire one additional Share for every three Rights held during the Subscription Period at the Subscription Price is hereinafter referred to as the "Basic Subscription."

In addition to the Basic Subscription, Record Date Shareholders who exercise all of their Rights are entitled to subscribe for Shares which were not otherwise subscribed for by others in the Basic Subscription (the "Additional Subscription Privilege"). If sufficient Shares are not available to honor all requests under the Additional Subscription Privilege, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering (or 3,127,234 Shares for a total of 6,254,468 Shares) (the "Over-Allotment Shares") to honor over-subscription requests, with such Shares subject to the same terms and conditions of this Offering. See "Additional Subscription Privilege" below. For purposes of determining the maximum number of Shares a Shareholder may acquire pursuant to the Offering, broker-dealers whose Shares are held of record by any Nominee will be deemed to be the holders of the Rights that are issued to such Nominee on their behalf. The term "Nominee" shall mean, collectively, CEDE & Company ("Cede"), as nominee for the Depository Trust Company ("DTC"), or any other depository or nominee. Shares acquired pursuant to the Additional Subscription Privilege are subject to allotment, which is more fully discussed below under "Additional Subscription Privilege."

**SHARES WILL BE ISSUED WITHIN THE 15-DAY PERIOD IMMEDIATELY FOLLOWING THE RECORD DATE OF THE FUND'S MONTHLY DISTRIBUTION AND SHAREHOLDERS EXERCISING RIGHTS WILL NOT BE ENTITLED TO RECEIVE SUCH DIVIDEND WITH RESPECT TO THE SHARES ISSUED PURSUANT TO SUCH EXERCISE.**

Rights will be evidenced by Subscription Certificates. The number of Rights issued to each Record Date Shareholder will be stated on the Subscription Certificates delivered to the Record Date Shareholder. The method by which Rights may be exercised and Shares paid for is set forth below in "Method of Exercising Rights" and "Payment for Shares." **A RIGHTS HOLDER WILL HAVE NO RIGHT TO RESCIND A PURCHASE AFTER THE SUBSCRIPTION AGENT HAS RECEIVED PAYMENT.** See "Payment for Shares" below.

The Rights are non-transferable and may not be purchased or sold. Rights will expire without residual value at the Expiration Date. The Rights will not be listed for trading on the NYSE Amex, and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE Amex, subject to the NYSE Amex being officially notified of the issuance of those Shares.

The Offering is the first rights offering conducted by the Fund.

**Purpose of the Offering.** At a meeting held on February 11, 2011, the Board approved the Offering and determined that it would be in the best interests of the Fund and its existing Shareholders to increase the assets of the Fund. The primary reasons include:

- The Basic Subscription will provide existing Shareholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges.
- Raising more cash will better position the Fund to take advantage of investment opportunities that exist or may arise.

- Increasing the Fund's assets will provide the Fund additional flexibility in maintaining its distribution policy, which seeks to provide Shareholders some liquidity periodically with respect to their Shares without having to sell Shares.
- Increasing Fund assets may lower the Fund's expenses as a proportion of net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered.

- 17 -

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- Because the Offering will increase the Fund's outstanding Shares, it may increase the number of Shareholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE Amex.

- The Offering is expected to be anti-dilutive to all Shareholders, including those electing not to participate, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Shareholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Shareholders is not materially less than a full exercise of the Basic Subscription amount.

**Board Considerations in Approving the Offering.** At a meeting held on February 11, 2011, the Board considered the approval of the Offering. In considering whether or not to approve the Offering, the Board relied on materials and information prepared and presented by the Fund's management at such meeting and discussions at that time. Based on such materials and their deliberations at this meeting, the Board determined that it would be in the best interests of the Fund and its Shareholders to conduct the Offering in order to increase the assets of the Fund available for current and future investment opportunities. In making its determination, the Board considered the various factors set forth in "The Offering - Purpose of the Offering". The Board also considered a number of other factors, including the ability of the Adviser to invest the proceeds of the Offering and the potential effect of the Offering on the Fund's stock price. When considering the potential effect of the Offering on the Fund's stock price, the Board concluded that the impact on the Fund's price was uncertain and, regardless of the potential impact, the Offering was in the best interest of the Shareholders.

The Board voted unanimously to approve the terms of the Offering. One of the Fund's Trustees who voted to authorize the Offering is affiliated with the Adviser and, therefore, could benefit indirectly from the Offering. The other five Trustees are not "interested persons" of the Fund within the meaning of the 1940 Act. The Adviser may also benefit from the Offering because its fee is based on the assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser might receive as a result of the Offering because it is not known how many Shares will be subscribed for and because the proceeds of the Offering will be invested in additional portfolio securities, which will fluctuate in value. It is likely that affiliates of the Adviser who are also Shareholders will participate in the Offering along with the other Shareholders and, accordingly, will receive the same benefits of acquiring Shares as other Shareholders.

The Fund may, in the future, choose to make additional rights offerings from time to time for a number of Shares and on terms that may or may not be similar to this Offering. Any such future rights offerings will be made in accordance with the then applicable requirements of the 1940 Act and the Securities Act. If Fund Shares begin to trade at a discount, the Board may make a determination whether to discontinue the Offering.

There can be no assurance that the Fund or its Shareholders will achieve any of the foregoing objectives or benefits through the Offering.

**The Subscription Price.** The Subscription Price for the Shares to be issued under the Offering will be equal to the greater of (i) 102% of NAV per Share as calculated at the close of trading on the Expiration Date or (ii) 90% of the market price per Share at such time. For example, if the Offering were held using the "Estimated Subscription Price" (i.e., an estimate of the Subscription Price based on the Fund's per-share NAV and market price at the end of business on April 1, 2011 (\$5.79 and \$7.36, respectively), the Subscription Price would be \$6.62 per share (90% of \$7.36).

**Additional Subscription Privilege.** If all of the Rights initially issued are not exercised, any Shares for which subscriptions have not been received will be offered, by means of the Additional Subscription Privilege, to Record Date Shareholders who have exercised all of the Rights initially issued to them and who wish to acquire more than the

number of Shares for which the Rights held by them are exercisable. Record Date Shareholders who exercise all of their Rights will have the opportunity to indicate on the Subscription Certificate how many unsubscribed Shares they are willing to acquire pursuant to the Additional Subscription Privilege.

If enough unsubscribed Shares remain after the Basic Subscriptions have been exercised, all over-subscription requests will be honored in full. If there are not enough unsubscribed Shares to honor all over-

- 18 -

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subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of Shares available in the Offering to honor Additional Subscription Privilege requests (defined above as the "Over-Allotment Shares"), with such Shares subject to the same terms and conditions of this Offering. In the event that the Subscription Price is less than the Estimated Subscription Price, Over-Allotment Shares may be used by the Fund to fulfill any Shares subscribed for under the Basic Subscription. The method by which any unsubscribed Shares or Over-Allotment Shares (collectively, the "Excess Shares") will be distributed and allocated pursuant to the Additional Subscription Privilege is as follows:

(i) If there are sufficient Excess Shares to satisfy all additional subscriptions by Shareholders exercising their rights under the Additional Subscription Privilege, each such Shareholder shall be allotted the number of Shares which the Shareholder requested.

(ii) If the aggregate number of Shares subscribed for under the Additional Subscription Privilege exceeds the number of Excess Shares, the Excess Shares will be allocated to Record Date Shareholders who have exercised all of their Rights in accordance with their Additional Subscription Privilege request.

(iii) If there are not enough Excess Shares to fully satisfy all Additional Subscription Privilege requests by Record Date Shareholders pursuant to paragraph (2) above, the Excess Shares will be allocated among Record Date Shareholders who have exercised all of their Rights in proportion, not to the number of Shares requested pursuant to the Additional Subscription Privilege, but to the number of Rights exercised by them; provided, however, that no Shareholder shall be allocated a greater number of Excess Shares than such Record Date Shareholder paid for and in no event shall the number of Shares allocated in connection with the Additional Subscription Privilege exceed 100% of the Shares available in the Offering. The formula to be used in allocating the Excess Shares under this paragraph is as follows: (Rights Exercised by over-subscribing Record Date Shareholder divided by Total Rights Exercised by all over-subscribing Record Date Shareholders) multiplied by Excess Shares Remaining.

The percentage of Excess Shares each over-subscriber may acquire will be rounded up to result in delivery of whole Shares (fractional Shares will not be issued).

The forgoing allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscription are distributed on a pro-rata basis. The Fund will not offer or sell any Shares which are not subscribed for under the Basic Subscription or the Additional Subscription Privilege. The Additional Subscription Privilege may result in additional dilution of a Shareholder's ownership percentage and voting rights.

The Fund will not offer or sell any Shares which are not subscribed for under the Basic Subscription or the Additional Subscription Privilege.

Expiration of the Offering. The Offering will expire at 5:00 p.m., New York City time, on the Expiration Date (May 6, 2011), unless extended by the Fund (the "Extended Expiration Date"). Rights will expire on the Expiration Date (or Extended Expiration Date as the case may be) and thereafter may not be exercised.

Method of Exercising Rights. Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Rights may also be exercised through a Rights holder's broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date (or Extended Expiration Date as the case may be). The Subscription Certificate and

payment should be delivered to the Subscription Agent at the following address:

- 19 -

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If by first class mail:

The Colbent Corporation  
Cornerstone Progressive Return Fund  
Rights Offering  
Att: Corporate Actions  
P.O. Box 859208  
Braintree, MA 02185-9208

If by mail or overnight courier:

The Colbent Corporation  
Cornerstone Progressive Return Fund  
Rights Offering  
Att: Corporation Actions  
161 Bay State Drive  
Braintree, MA 02184

Subscription Agent. The Subscription Agent is The Colbent Corporation, with an address at 161 Bay State Drive, Braintree, MA 02184. The Subscription Agent will receive from the Fund an amount estimated to be \$12,500, comprised of the fee for its services and the reimbursement for certain expenses related to the Offering. **INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO THE INFORMATION AGENT, THE ALTMAN GROUP, AT (800) 581-4001; HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.**

Payment for Shares. Payment for Shares shall be calculated by multiplying the Estimated Subscription Price by the sum of (i) the number of Shares intended to be purchased in the Basic Subscription (e.g., the number of Rights exercised divided by three), plus (ii) the number of additional Shares intended to be over-subscribed under the Additional Subscription Privilege. For example, based on the Estimated Subscription Price of \$6.62 per Share, if a Shareholder receives 300 Rights and wishes to subscribe for 100 Shares in the Basic Subscription, and also wishes to over-subscribe for 50 additional Shares under the Additional Subscription Privilege, such Shareholder would remit payment in the amount of \$993 (\$662 plus \$331).

Record Date Shareholders who wish to acquire Shares in the Basic Subscription or pursuant to the Additional Subscription Privilege must, together with the properly completed and executed Subscription Certificate, send payment for the Shares acquired in the Basic Subscription and any additional Shares subscribed for pursuant to the Additional Subscription Privilege, to the Subscription Agent based on the Estimated Subscription Price of \$6.62 per Share. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date (or Extended Expiration Date as the case may be).

If the Estimated Subscription Price is greater than the actual per Share purchase price, the excess payment will be applied toward the purchase of Unsubscribed Shares to the extent that there remain sufficient unsubscribed Shares available after the Basic Subscription and Additional Subscription Privilege allocations are completed. To the extent that sufficient Unsubscribed Shares are not available to apply all of the excess payment toward the purchase of Unsubscribed Shares, available Shares will be allocated in the manner consistent with that described in the section entitled "Additional Subscription Privilege" above.

**PAYMENT MUST ACCOMPANY ANY SUBSCRIPTION CERTIFICATE FOR SUCH SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.**

Within five (5) business days following the Expiration Date (or Extended Expiration Date as the case may be), a confirmation will be sent by the Subscription Agent to each Shareholder (or, if the Shares on the Record Date are held by CEDE or any other depository or nominee, to CEDE or such other depository or nominee). The date of the confirmation is referred to as the "Confirmation Date." The confirmation will show (i) the number of Shares acquired pursuant to the Basic Subscription; (ii) the number of Shares, if any, acquired pursuant to the Additional Subscription Privilege; (iii) the per Share and total purchase price for the Shares; and (iv) any additional amount payable by such Shareholder to the Fund (e.g., if the Estimated Subscription Price was less than the Subscription Price on the

Expiration Date) or any excess to be refunded by the Fund to such Shareholder (e.g., if the Estimated Subscription Price was more than the Subscription Price on the Expiration Date). Any additional payment required from a Shareholder must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the date specified as the deadline for final payment for Shares, and any excess payment to be refunded by the Fund to such Shareholder will be mailed by the Subscription Agent within ten (10) business days after the Confirmation Date. All payments by a Shareholder must be made in United States Dollars by money order or by checks drawn on banks located in the continental United States payable to "Cornerstone Progressive Return Fund".

- 20 -

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Issuance and delivery of certificates for the Shares subscribed for are subject to collection of funds and actual payment by the subscribing Shareholder.

The Subscription Agent will deposit all checks received by it prior to the final due date into a segregated account pending distribution of the Shares from the Offering. Any interest earned on such account will accrue to the benefit of the Fund and investors will not earn interest on payments submitted nor will interest be credited toward the purchase of Shares.

**YOU WILL HAVE NO RIGHT TO RESCIND YOUR SUBSCRIPTION AFTER THE SUBSCRIPTION AGENT HAS RECEIVED THE SUBSCRIPTION CERTIFICATE.**

If a Record Date Shareholder who acquires Shares pursuant to the Basic Subscription or the Additional Subscription Privilege does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Shares which could be acquired by such holder upon exercise of the Basic Subscription or the Additional Subscription Privilege; (iii) sell all or a portion of the Shares actually purchased by the holder in the open market, and apply the proceeds to the amounts owed; or (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares and to enforce the relevant guaranty of payment.

Holders who hold Shares for the account of others, such as brokers, trustees, or depositories for securities, should notify the respective beneficial owners of the Shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment. In addition, beneficial owners of Shares or Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. **DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND OR THE ADVISER.**

The method of delivery of Subscription Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment prior to 5:00 p.m., New York City time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, each Record Date Shareholder participating in the Offering is strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. If the Fund elects in its sole discretion to waive any defect or irregularity, it may do so on a case-by-case basis which means that not all defects or irregularities may be waived, if at all, or waived in the same manner as with other defects or irregularities. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Subscription Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Delivery of the Shares. The Shares purchased pursuant to the Basic Subscription will be delivered to subscribers in book-entry form as soon as practicable after the corresponding Rights have been validly exercised and full payment for the Shares has been received and cleared. The Shares purchased pursuant to the Additional Subscription Privilege will be delivered to subscribers in book-entry form as soon as practicable after the Expiration Date and after all allocations have been conducted.

- 21 -

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**Foreign Restrictions.** Subscription Certificates will only be mailed to Record Date Shareholders whose addresses are within the United States (other than an APO or FPO address). Record Date Shareholders whose addresses are outside the United States or who have an APO or FPO address will receive written notice of the Offering and those who wish to subscribe to the Offering either in part or in full should contact the Subscription Agent by written instruction no later than three business days prior to the Expiration Date. The Fund will determine whether the Offering may be made to any such Record Date Shareholder. If no instructions have been received by the Expiration Date, the Rights of those foreign Record Date Shareholders will expire.

**Federal Income Tax Consequences Associated with the Offering.** The following is a general summary of the significant federal income tax consequences of the receipt of Rights by a Record Date Shareholder and a subsequent lapse or exercise of such Rights. The discussion is based upon applicable provisions of the Code, the Treasury Regulations promulgated thereunder, and other authorities currently in effect but does not address any state, local, or foreign tax consequences of the Offering. Each Shareholder should consult its own tax advisor regarding specific questions as to federal, state, local, or foreign taxes. Each Shareholder should also review the discussion of certain tax considerations affecting it and the Fund set forth under "Federal Income Tax Matters."

For purposes of the following discussion, the term "Old Share" shall mean a currently outstanding Share with respect to which a Right is issued and the term "New Share" shall mean a newly issued Share that Record Date Shareholders receive upon the exercise of their Rights.

For all Record Date Shareholders:

Neither the receipt nor the exercise of Rights by a Record Date Shareholder will result in taxable income to such Shareholder for federal income tax purposes regardless of whether or not the Shareholder makes the below-described election which is available under Section 307(b)(2) of the Code (a "Section 307(b)(2) Election").

If the fair market value of the Rights distributed to all of the Record Date Shareholders is more than 15% of the total fair market value of all of the Fund's outstanding Shares as of the Record Date, or if a Record Date Shareholder makes a Section 307(b)(2) Election for the taxable year in which such Rights were received, the Record Date Shareholder's federal income tax basis in any Right received pursuant to the Offering will be equal to a portion of the Record Date Shareholder's existing federal income tax basis in the related Old Share. If made, a Section 307(b)(2) Election is effective with respect to all Rights received by a Record Date Shareholder. A Section 307(b)(2) Election is made by attaching a statement to the Record Date Shareholder's federal income tax return for the taxable year of the Record Date (which is the same as the year as when the Rights were received). Record Date Shareholders should carefully review the differing federal income tax consequences described below before deciding whether or not to make a Section 307(b)(2) Election.

**For Record Date Shareholders When the Fair Market Value of Rights Distributed Exceed 15% of the Total Fair Market Value of the Fund's Shares or When Making a 307(b)(2) Election:**

**Lapse of Rights.** If the fair market value of rights distributed exceed 15% of the total fair market value of the Shares or if a Record Date Shareholder makes a Section 307(b)(2) Election, no taxable loss will be realized for federal income tax purposes if the Record Date Shareholder retains a Right but allows it to lapse without exercise. Moreover, the existing federal income tax basis of the related Old Share will not be reduced if such lapse occurs.

**Exercise of Rights.** If a Record Date Shareholder exercises a Right, the Record Date Shareholder's existing federal income tax basis in the related Old Share must be allocated between such Right and the Old Share in proportion to their respective fair market values as of the Record Date (effectively reducing the Record Date Shareholder's basis in his Old Share). Upon such exercise of the Record Date Shareholder's Rights, the New Shares received by the Record

Date Shareholder pursuant to such exercise will have a federal income tax basis equal to the sum of the basis of such Rights as described in the previous sentence and the Subscription Price paid for the New Shares (as increased by any servicing fee charged to the Record Date Shareholder by his broker, bank or trust company and other similar costs). If the Record Date Shareholder subsequently sells such New Shares (and holds such Shares as capital assets at the time of their sale), the Record Date Shareholder will recognize a capital gain or loss equal to the difference between the amount received from the sale of the New Shares and the Record Date Shareholder's federal income tax basis in the New Shares as described above. Such capital gain or loss will be long-

- 22 -

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term capital gain or loss if the New Shares are sold more than one year after the date that the New Shares are acquired by the Record Date Shareholder.

For Record Date Shareholders Not Making a Section 307(b)(2) Election When the Fair Market Value of the Rights Distributed are Less than 15% of the Total Fair Market Value of the Fund's Outstanding Shares:

**Lapse of Rights.** If the fair market value of the Rights distributed are less than 15% of the total fair market value of the outstanding Shares and a Record Date Shareholder does not make a Section 307(b)(2) Election for the taxable year in which such Rights were received, no taxable loss will be realized for federal income tax purposes if the Record Date Shareholder retains a Right but allows it to lapse without exercise. Moreover, the federal income tax basis of the related Old Share will not be reduced if such lapse occurs.

**Exercise of Rights.** If a non-electing Record Date Shareholder exercises his Rights, the federal income tax basis of the related Old Shares will remain unchanged and the New Shares will have a federal income tax basis equal to the Subscription Price paid for the New Shares (as increased by any servicing fee charged to the Record Date Shareholder by his broker, bank or trust company and other similar costs). If the Record Date Shareholder subsequently sells such New Shares (and holds such Shares as capital assets at the time of their sale), the Record Date Shareholder will recognize a capital gain or loss equal to the difference between the amount received from the sale of the New Shares and the Shareholder's federal income tax basis in the New Shares as described above. Such capital gain or loss will be long-term capital gain or loss if the New Shares are sold more than one year after the Record Date Shareholder acquires the New Shares through the Offering.

**Employee Plan Considerations.** Record Date Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including corporate savings and 401(k) plans, Keogh Plans of self-employed individuals and Individual Retirement Accounts ("IRA") (each a "Benefit Plan" and collectively, "Benefit Plans"), should be aware that additional contributions of cash in order to exercise Rights may be treated as Benefit Plan contributions and, when taken together with contributions previously made, may subject a Benefit Plan to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Code, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Benefit Plans contemplating making additional cash contributions to exercise Rights should consult with their counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income ("UBTI") under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor.

ERISA contains prudence and diversification requirements and ERISA and the Code contain prohibited transaction rules that may impact the exercise of Rights. Among the prohibited transaction exemptions issued by the Department of Labor that may exempt a Benefit Plan's exercise of Rights are Prohibited Transaction Exemption 84-24 (governing purchases of shares in investment companies) and Prohibited Transaction Exemption 75-1 (covering sales of securities).

Due to the complexity of these rules and the penalties for noncompliance, Benefit Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

**Benefit to the Adviser.** The Adviser will benefit from the Offering because its fees are based on the average total net assets of the Fund. It is not possible to state precisely the amount of additional compensation the Adviser will receive as a result of the Offering because the proceeds of the Offering will be invested in additional portfolio securities that

will fluctuate in value. However, if all Rights are exercised at the Estimated Subscription Price of \$6.62, the annual compensation to be received by the Adviser would be increased by approximately \$207,023. If the Fund issues all of the Over-Allotment Shares, the annual compensation to be received by the Adviser would be increased by an additional \$414,046. One of the Fund's Trustees who voted to approve the Offering is an "interested person" of the Adviser within the meaning of the 1940 Act. This Trustee, Ralph Bradshaw, could benefit indirectly from the Offering because of his beneficial interest in the Adviser. The other

- 23 -

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Trustees were aware of the potential benefit to the Adviser (and indirectly to Mr. Bradshaw), but nevertheless concluded that the Offering was in the best interest of the Fund's Shareholders.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Shares and on terms which may or may not be similar to the Offering. Any such future rights offerings will be made in accordance with the 1940 Act. Under the laws of the State of Delaware, the state in which the Fund is organized, under certain circumstances, the Board is authorized to approve rights offerings without obtaining shareholder approval. The staff of the SEC has interpreted the 1940 Act as not requiring shareholder approval of a rights offering at a price below the then current NAV so long as certain conditions are met, including a good faith determination by the fund's board of directors that such offering would result in a net benefit to the Fund's existing Shareholders.

- 24 -

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## FINANCIAL HIGHLIGHTS

Set forth below is per share operating performance data for a Share outstanding, total investment return, ratios to average net assets and other supplemental data for each year indicated. This information has been derived from the financial statements and market price data for the Fund's Shares. The financial highlights for the fiscal year ended December 31, 2010 have been audited by Tait, Weller & Baker LLP, independent registered public accounting firm. The financial statements and notes thereto for the fiscal year ended December 31, 2010, together with the report thereon of the independent accountants, are incorporated by reference in the SAI and are available without charge by calling collect (513) 326-3597 or by writing to the Fund c/o Ultimus Fund Solutions, LLC, 350 Jericho Turnpike, Suite 206, Jericho, NY 11753.

	For the Years Ended December 31,			
	2010	2009	2008	2007*
<b>PER SHARE OPERATING PERFORMANCE</b>				
Net asset value, beginning of period	\$ 6.28	\$ 7.16	\$ 14.10	\$ 14.96 ^
Net investment income#	0.13	0.16	0.16	0.06
Net realized and unrealized gain/(loss) on investments	1.03	1.42	(4.64 )	(0.35 )
Net increase/(decrease) in net assets resulting from operations	1.16	1.58	(4.48 )	(0.29 )
Dividends and distributions to shareholders:				
Net investment income	(1.14 )	(0.16 )	(0.16 )	(0.06 )
Net realized capital gains	—	—	—	(0.15 )
Return-of-capital	(0.40 )	(2.30 )	(2.30 )	(0.41 )
Total dividends and distributions to shareholders	(1.54 )	(2.46 )	(2.46 )	(0.62 )
Capital stock transactions:				
Anti-dilutive effect due to issuance of Shares	—	—	—	0.05
Anti-dilutive effect due to shares issued in reinvestment of dividends and distributions	— +	—	—	— +
Total capital stock transactions	—	—	—	0.05
Net asset value, end of period	\$ 5.90	\$ 6.28	7.16	14.10
Market value, end of period	\$ 7.46	\$ 8.90	\$ 7.10	\$ 16.75
Total investment return	4.73%	65.40%	(47.53% )	16.02% (b)
<b>RATIOS/SUPPLEMENTAL DATA</b>				
Net assets, end of year (000 omitted)	\$ 55,277	\$ 58,738	\$ 66,811	\$ 131,628
Ratio of expenses to average net assets, net of fee waivers, if any (c) (d)	1.47%	1.39%	1.25%	1.29% (e)
Ratio of expenses to average net assets, excluding fee waivers, if any (d) (f)	1.61%	1.54%	1.32%	1.42% (e)
Ratio of expenses to average net assets,	1.61%	1.54%	1.32%	



net of fee waivers, if any (d) (f)