

High Income Adv. Trust II (YLT)

Fund Update

Stock Rating: **HOLD**
Industry Rating: **NA**
Stock Risk: **Moderate**

Kristoph J. Rollenhagen (212) 778-2305
John P. Dunleavy (212) 778-2638
Maureen T. Sokolowski (212) 778-6469

The senior analyst does not have a material position in YLT.*

YLT (\$1.65)—NYSE

August 2, 2001

	Past-12-Mos. Distributions					52-Week Range		
	NAV**	P/D	Capital Gain	Current Inc.***	Yield	High	NAV	P/D
Current	\$1.51	9.27%	\$0.000	\$0.255	15.45%		\$4.25	51.87%
YE 2000	2.05	15.85				Low	1.60	6.58
52-Wk. NAV Return To 07/27/01:				(43.74)%		Avg.	—	24.51
52-Wk. Mkt. Return To 07/27/01:				(51.59)				

S&P 500: 1211.23

Priced as of the close, July 31, 2001.

**As of July 27, 2001. Net asset values (NAVs) are compiled every Friday by Wiesenberger and published in *Barron's* and *The Wall Street Journal*. The NAV-based figures in the 52-week-range categories are keyed to weekly data as of each Friday's close. * Based on monthly dividend of \$0.0213 per share; dividend subject to change.

High Income Advantage Trust II (YLT) began investment operations in 1988. The fund invests in high-yield corporate bonds and is managed by Morgan Stanley Dean Witter Advisors, Inc.

High Income Advantage Trust II's Recent Underperformance Worse Than Expected—Maintaining Hold Rating

Despite a material reduction in valuation, we have remained suspicious about High Income Advantage Trust II's (YLT) net asset value (NAV) and dividend sustainability over the long term, principally on the basis of our conclusions regarding its financials and portfolio composition, as we have mentioned in past reports.

Since management has effected large dividend reductions for the past couple of cuts, we have elected to maintain our conservative stance, and maintain our Hold rating, which is warranted, in our view, by the fund's (expected) longer-term performance plus its continued NAV deterioration.

The cumulative magnitude of the two most recent dividend cuts was worse than we had feared, and the resulting market price decline was drastic. The horse is now, in our view, "out of the barn" and, in our view, material downside is somewhat constrained, so we maintain our Hold rating, although we contend now—as in the past—that there are funds with more balanced and appropriate risk/reward profiles available.

We believe management is pointed in the right direction based on recent statements in the semi-annual report dated March 31, 2001. Management cited (not surprisingly) an over-weighting in telecom and rising default rates as the prime culprits in the fund's falling NAV. Management stated its intention to move into

Research

higher-credit-quality names targeting sectors such as health care.

We believe this to be the correct move; however, we remain skeptical on performance because, as evidenced by the dividend cuts and NAV erosion, management was clearly late to the dance. From our analysis of other high-yield funds within our universe, we have found this flight to quality to insulate the portfolio from rising default rates to be the current trend. We believe YLT's attempt to shed the almost 29.6% telecom-related weighting (as of January 31, 2001), which has been riddled with defaults, could be a Herculean task. In light of the current high-yield market, we have assumed a "wait and see" posture and are not fully confident the NAV has completed its erosion.

YLT's Excessive Valuation Has Dramatically Narrowed.

As recently as May 29, 2001, YLT's premium reached 51.87%, more than four times the fund's premium of 12.67% recorded on July 20, 2001. We acknowledge the substantial decrease; however, a relatively small move in a \$1.50 stock is magnified. In our view, this volatility continues to warrant our conservative approach.

The fund's historical valuations have been excessive most of the time. The premium reached its widest mark for the year, a staggering 76.7%, on January 22, 2001, in contrast to its lowest premium level of 4.55% on June 27, 2001. This further supports our conservative stance and we thus maintain our Hold rating.

YLT's Current Yield Spreads Narrow... The fund's current yield as of July 27, 2001, was 15.31%, compared to the peer group average of 12.36%. The fund maintains a substantial yield advantage to the 30- and ten-year Treasury, yielding 5.56% and 5.11%, respectively. This represents extremely wide spreads of 975 and 1,020 basis-point advantages, respectively. We acknowledge this substantial spread, but believe there may be further market price erosion, as the lack of faith in the fund—and sell off—could persist.

...And YLT's Market Returns Continue To Underperform On A Long-Term Basis... We acknowledge that YLT has until recently consistently provided high current income. However, with regard to market return, YLT has consistently underperformed versus

its peer group's averages. For the one-year period ended June 29, 2001, the fund returned -49.80% versus the peer group's -20.43%. For the three-year period, the fund returned -25.17% versus the peer group's -12.39%, and for the five-year period YLT returned -11.64% compared with the peer group's -2.79%, which validates our long-standing sentiments regarding YLT.

...With Considerably Higher Risk Levels. YLT's poor market returns were coupled with substantially more risk as measured by standard deviation. The fund's market standard deviation for the one-year period ended June 29, 2001, was 53.72 compared to the peer group average of 38.50. YLT continued this trend over the three- and five-year periods ended June 29, 2001, with market return standard deviations of 36.98 and 29.75, respectively, compared to the peer group's average market return standard deviations for the same periods of 28.64 and 23.00, respectively.

Additional Rate Cuts On The Horizon. In response to the Federal Reserve lowering rates by another 25 basis points on June 27, 2001, Prudential Securities Chief Economist Richard D. Rippe, Ph.D. wrote on June 27, 2001, "The Fed has eased by 25 basis points and has retained the bias towards ease. They did not include the statement about monitoring the economy closely, which has been the hint in the past that they would be poised to make an inter-meeting move. There is very little new here, the explanation for the action is exactly what happened last time, the worries of the weakness in capital spending brought about by weaker profits, the equity market weakness hurting consumer spending, and the foreign economies that are weak. They also mentioned that they expect inflation to remain well contained. That is exactly what they said the last time, they feel that the long-term productivity trends are favorable and that is positive for the long-run economic outlook."

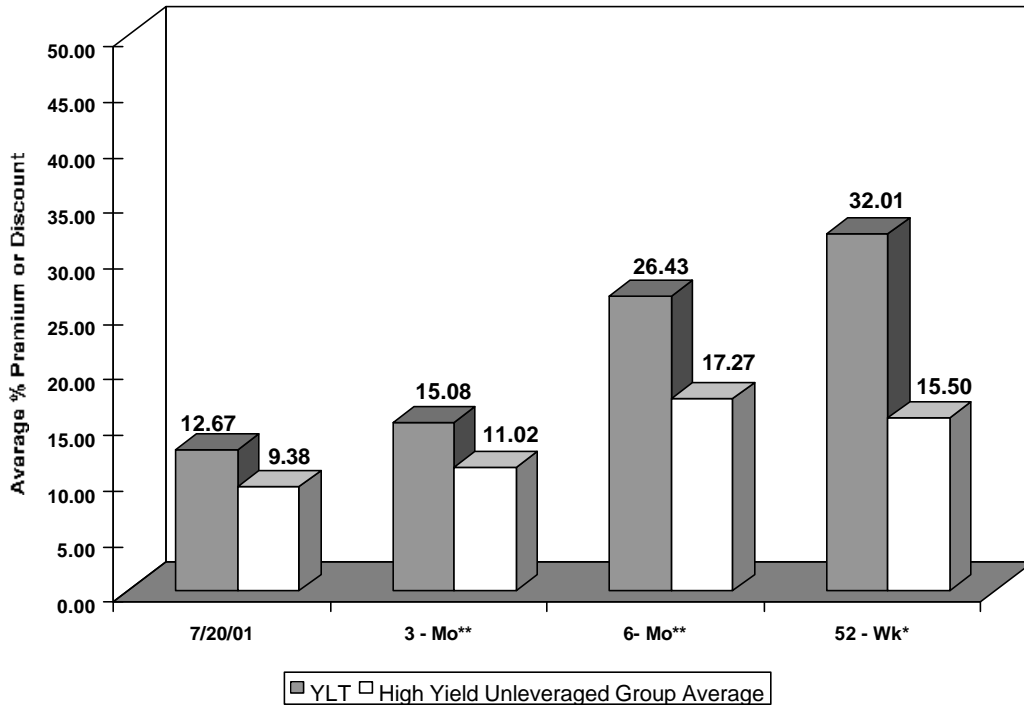
Dr. Rippe continued, "We have moved 270 basis points this year, five moves of 50 and now this 25 basis point move. The next meeting is on August 21. There is two months of data between now and then, but the best guess is the Fed will ease another 25 points then and take away the bias, at that point being in a more neutral stance going forward. The judgment about what they do will be affected by what we learn in the new data."

Funds Such As YLT Could Benefit From The Rate Cuts.

The bond market as a whole responded very well to the Fed's earlier rate cuts, especially the high-yield market, which had languished under difficult circumstances for approximately the previous three years. The sector's response was particularly evident in the surge in high-yield fund premiums. Yet the lower short rates do not benefit unleveraged funds to the same degree as their counterparts on the leveraged side.

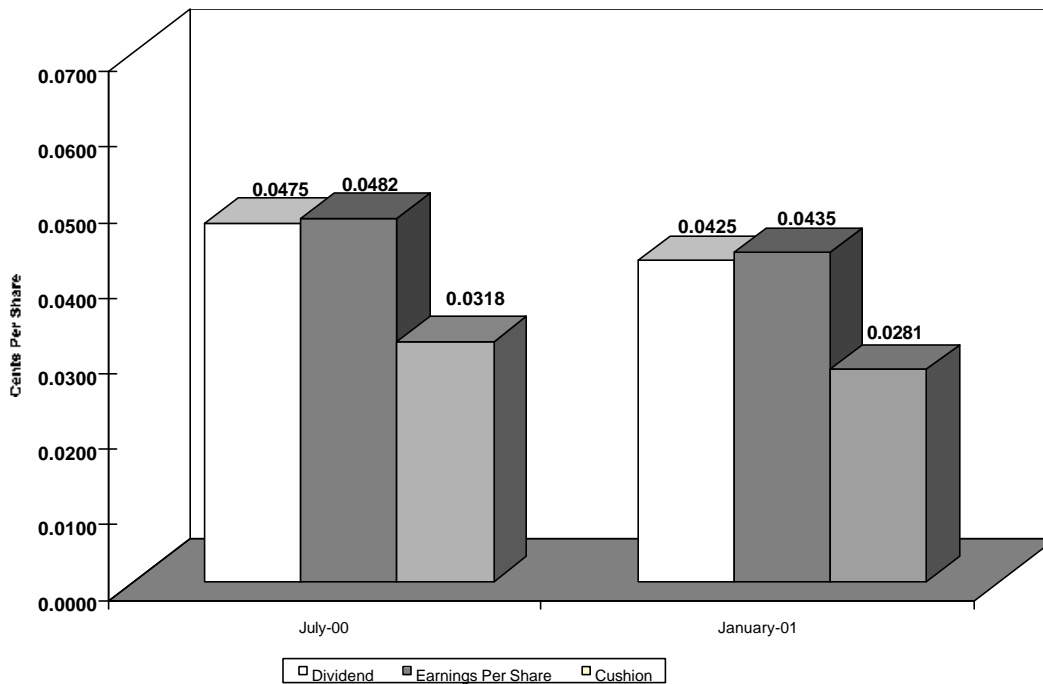
Risks Are Involved In Owning YLT. Several risks are involved with the ownership of YLT, certain of which we have discussed herein such as prepayments and dividend stability. Other risks include, but are not limited to credit risks, continuity of management, and economic and interest rate risk.

Figure 1. YLT's Valuation Gap Versus Its Peer Group Has Narrowed Substantially



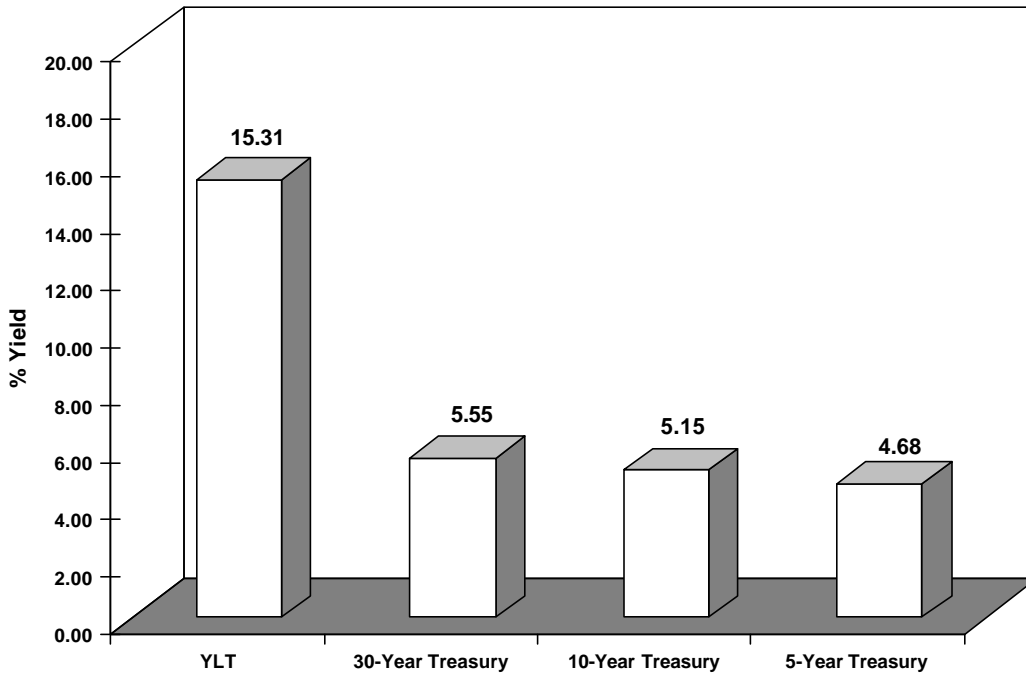
Note: *Periods ended July 20, 2001. **Periods ended June 29, 2001.
 Source: Wiesenberger, Prudential Securities.

Figure 2. Earnings, Not Surprisingly, Have Shown A Decline



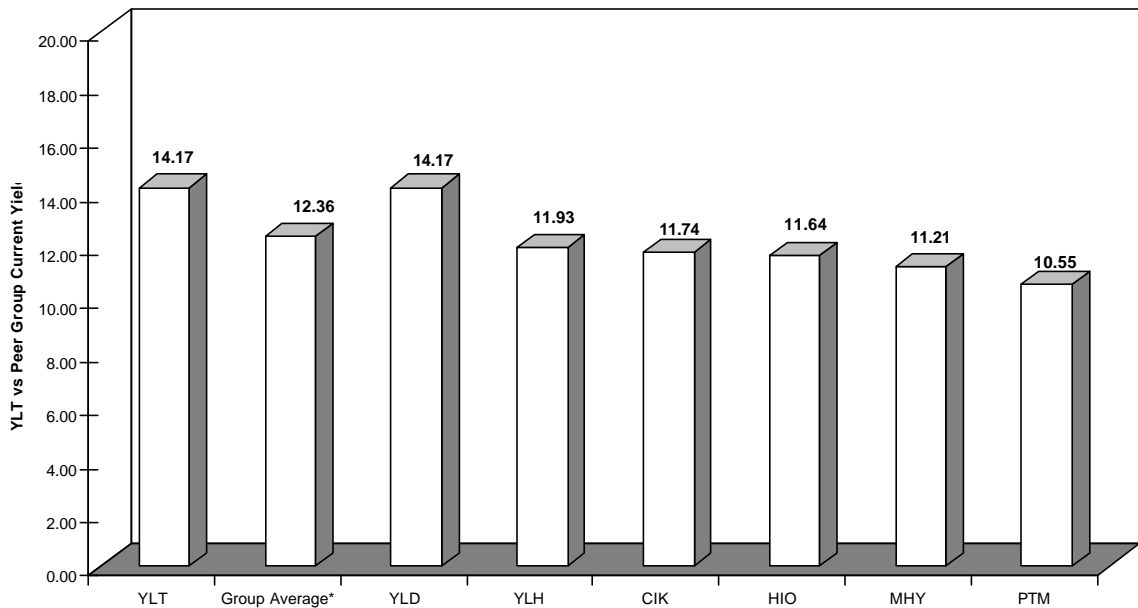
Source: Company reports, Prudential Securities.

Figure 3. We Have Always Acknowledged YLT's Yield Advantages, But That Remains Just One Element Of A Fund's Risk/Reward Profile



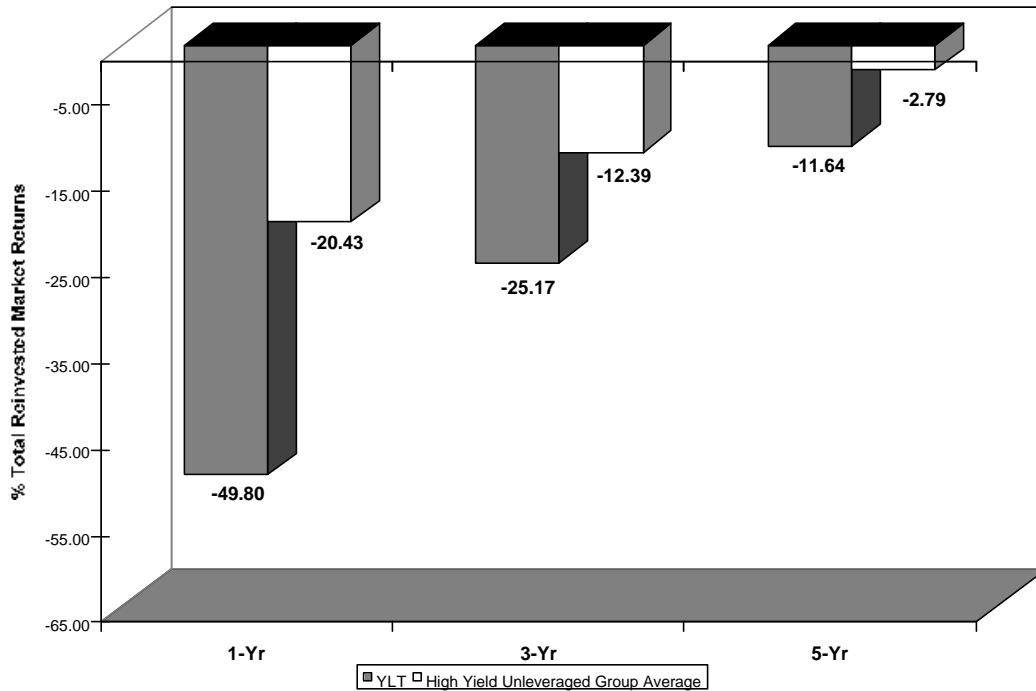
Data as of the close on July 20, 2001.
Source: Wiesenberger, Prudential Securities.

Figure 4. YLT's Yield Remains Highly Competitive



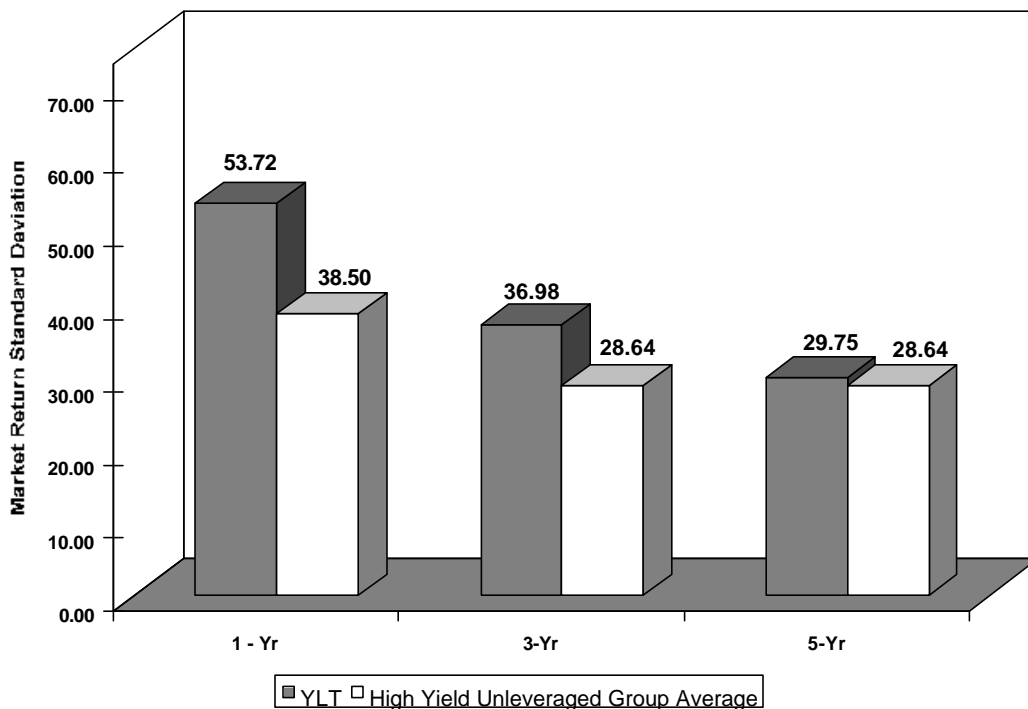
Data as of the close on July 20, 2001, * Average as of close on July 27, 2001.
Source: Wiesenberger, Prudential Securities.

Figure 5. YLT's Market Returns Have Lagged Far Behind The Peer Group...



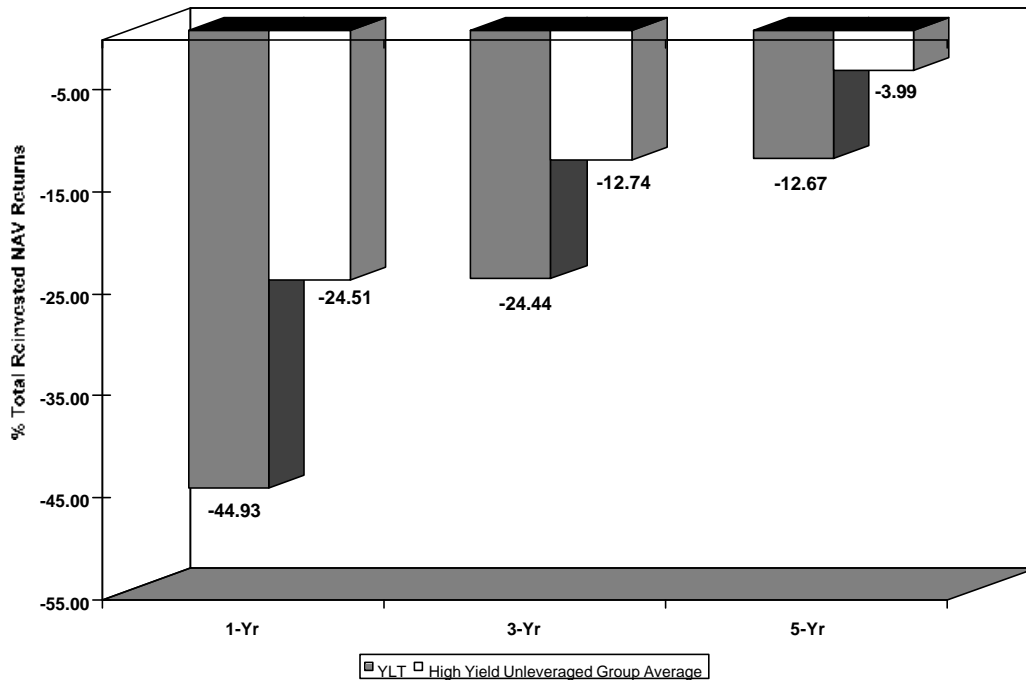
Periods ended June 29, 2001
 Source: Wiesenberger, Prudential Securities.

Figure 6. ...Accompanied By Considerably Higher Risk



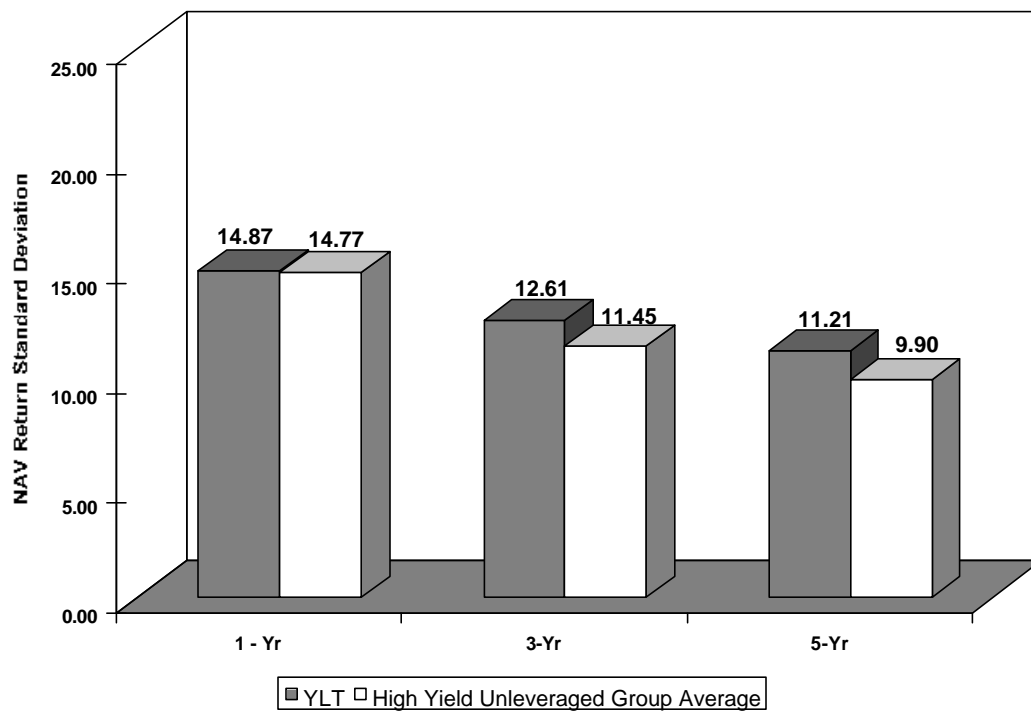
Note: Periods ended June 29, 2001.
 Source: Wiesenberger, Prudential Securities.

Figure 7. NAV Returns Have Followed Suit...



Note: Periods ended June 29, 2001.
Source: Wiesenberger, Prudential Securities.

Figure 8. ...But With More Moderate Risk Levels, At Times



Note: Periods ended June 29, 2001.
Source: Wiesenberger, Prudential Securities.

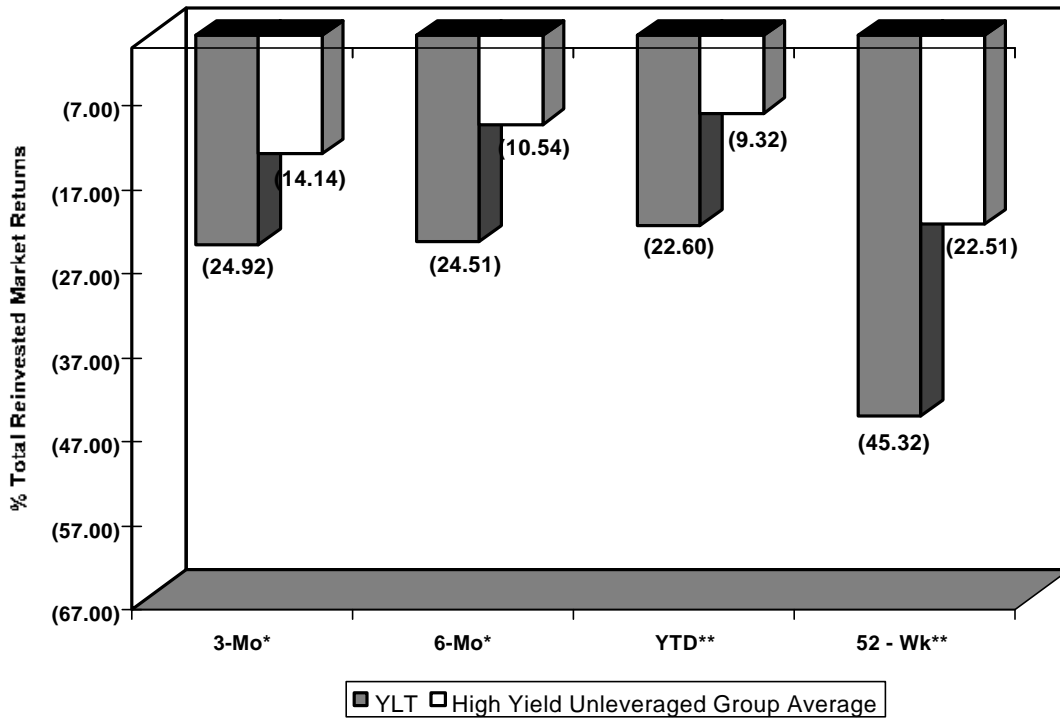
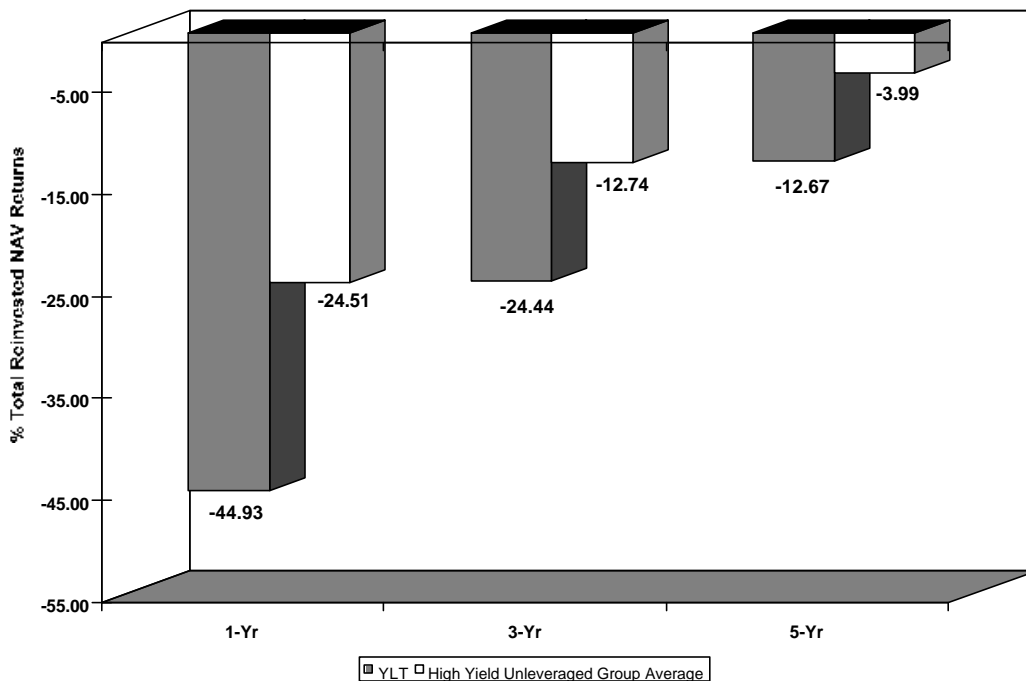


Figure 9. YLT's Market Returns Have Also Been Poor Over The Near Term...

Note: *Periods ended June 29, 2001. **Periods ended July 20, 2001.

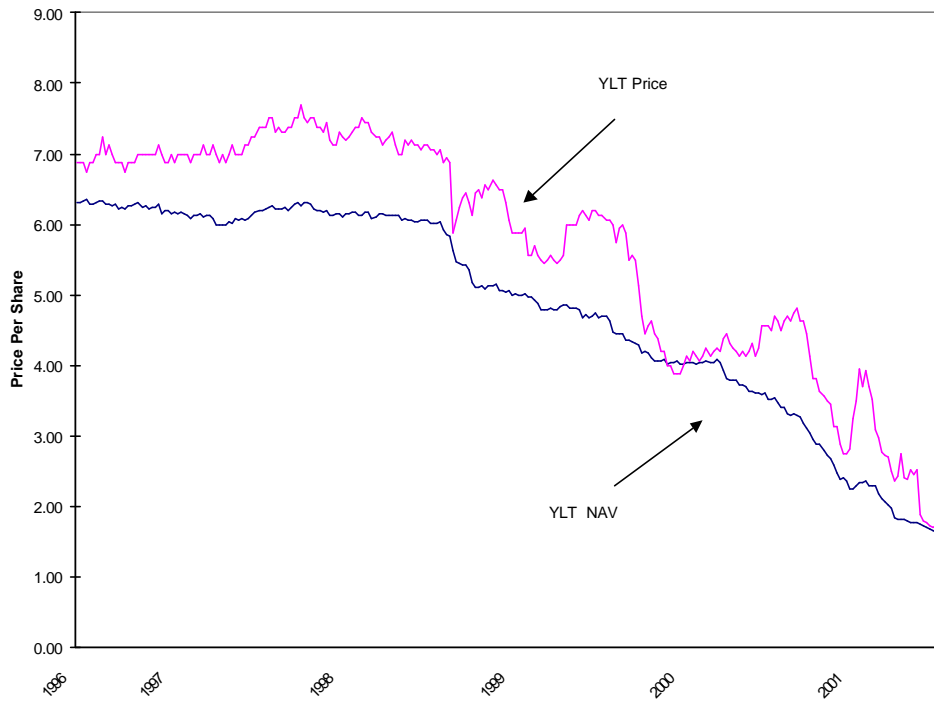
Source: Wiesenberger, Prudential Securities.

Figure 10. ...With NAV Returns Faring Only Somewhat Better



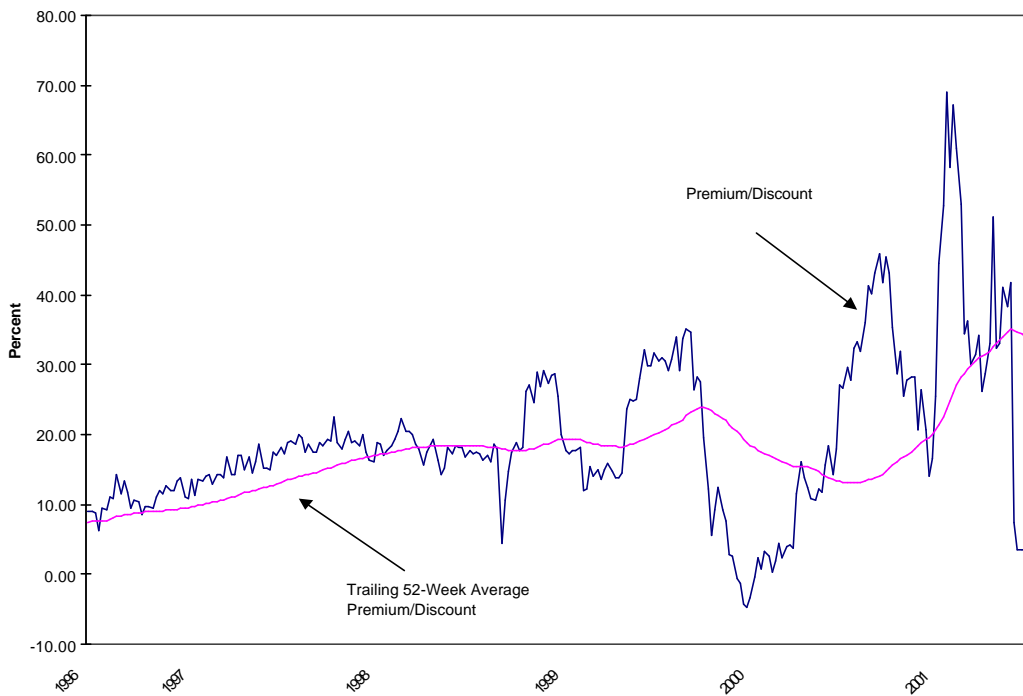
Note: *Periods ended June 29, 2001. **Periods ended July 20, 2001.
Source: Wiesenberger, Prudential Securities.

Figure 11. High Income Adv. Trust (YLT)—NAV Versus Price



Source: Wiesenberger, Prudential Securities.

Figure 12. Premium/Discount History Versus 52-Week Average



Source: Wiesenberger, Prudential Securities.

Figure 13. YLT Top Ten Holdings At March 31, 2001

Issue	Coupon	Maturity	Market Value (\$000)	% of Net Portfolio Assets
Aladdin Gaming HL	?	1-Mar-10	2,250	3%
JB Williams HLDGS	12.00	1-Mar-04	1,974	3%
Mosler Inc	11.00	15-Apr-03	1,760	2%
Birch Telecom Inc.	14.00	15-Jun-08	1,650	2%
MSDW Joint Repo-B	5.30	2-Apr-01	1,593	2%
Samsonite Corp	10.75	15-Jun-08	1,308	2%
Jordan Inds Inc-STE	0.00	1-Apr-09	1,292	2%
FRD Acquisition Corp.	12.50	15-Jul-04	1,200	2%
HCA-The HEALTHCA	8.75	1-Sep-10	550	1%
Envirodyne Inds In	10.25	1-Dec-01	1,035	1%

Source: Company reports.

Figure 14. YLT Selected Portfolio Characteristics At March 31, 2001

Shares Outstanding (millions)	35
Leverage	No
Number Of Issues In Portfolio*	102
Open-End Provision	Yes
Share Repurchase	Yes
Portfolio Turnover	22%
Expense Ratio	1.03%
Management Tenure	Jan-01
Total Net Assets (millions)	\$76
Average Daily Volume	95,000

* Excluding short-term investments.

Source: Company reports.

Figure 15. YLT 24-Month Dividend History

Date	Per Share	Date	Per Share
Aug-99	0.0475	Aug-00	0.0475
Sep-99	0.0475	Sep-00	0.0475
Oct-99	0.0475	Oct-00	0.0425
Nov-99	0.0475	Nov-00	0.0425
Dec-99	0.0475	Dec-00	0.0425
Jan-00	0.0475	Jan-01	0.0425
Feb-00	0.0475	Feb-01	0.0425
Mar-00	0.0475	Mar-01	0.0298
Apr-00	0.0475	Apr-01	0.0298
May-00	0.0475	May-01	0.0298
Jun-00	0.0475	Jun-01	0.0213
Jul-00	0.0475	Jul-01	0.0213

Source: Bloomberg, Prudential Securities.

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* "Material" is defined as an equity or equity derivative position greater than \$10,000 in any of the senior analyst's or household member's account(s).

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