

REAL ESTATE INCOME FUND INC
Form DEFA14A
October 06, 2005

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material Pursuant to sec. 240.14a-12.

Real Estate Income Fund Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment Of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

REAL ESTATE INCOME FUND INC.

125 Broad Street, 10th Floor

New York, New York 10004

October 6, 2005

Dear Shareholder:

As a shareholder of Real Estate Income Fund, Inc. (the **Fund**), it is important that you vote on a new management agreement between your Fund and your Fund's current investment adviser, Citi Fund Management Inc. (**CFM**) and a new subadvisory agreement between your Fund and your Fund's current subadviser, AEW Management & Advisors LP (**AEW**). **Your Fund's Board of Directors, including all the Independent Directors, recommends that you vote FOR approval of the new management agreement and FOR approval of the new subadvisory agreement on the enclosed WHITE proxy card.**

Your vote **FOR** approval of the new management agreement and the new subadvisory agreement is especially important because of the actions of Karpus Management Inc. d/b/a Karpus Investment Management (**Karpus**). Karpus may be communicating with you in a self-serving attempt to convince you to vote against the new management agreement and the new subadvisory agreement. In considering Karpus' statements, please keep in mind the following important information.

KARPUS IS LOOKING OUT ONLY FOR ITS OWN SHORT-TERM INTERESTS

Karpus does not tell you that voting against the new management agreement may create significant uncertainty for the Fund and its investors. Citigroup Inc., the parent company of CFM, has entered into an agreement to sell its asset management business, which includes CFM, to Legg Mason, Inc. Upon the closing of this transaction, your Fund's current management agreement with CFM and your Fund's current subadvisory agreement with AEW will, by law, automatically terminate. If a new management agreement with CFM or a new subadvisory agreement with AEW is not approved by shareholders of the Fund, there will likely be a protracted period of significant uncertainty for the Fund. The absence of suitable advisory arrangements, even for a short period of time, could disrupt the Fund's ability to actively manage its investments. Your Fund's Directors, including all of the Independent Directors, have approved the new management agreement and the new subadvisory agreement and recommend you vote **FOR** the new management agreement and the new subadvisory agreement to avoid any discontinuity of management of your Fund.

In pursuing its own short-term interests, Karpus ignores the benefits that may be realized by the Fund's

shareholders as a result of CFM joining the Legg Mason family. Upon completion of the Legg Mason transaction, CFM will be able to continue managing the Fund as part of an organization with an excellent reputation, which is focused solely on asset management. Being part of a pure play asset manager is attractive because the sole focus is on investment management excellence. Management fees will remain the same, and you will continue to receive the same excellent service. Your Board of Directors has confidence in CFM and Legg Mason and has determined that the proposed new management agreement between your Fund and CFM is in the best interest of the Fund and *all* of its shareholders. Again, Karpus' pursuit of its own short-term interests disregards the impact of its efforts on the Fund's other shareholders.

Remember: Your Fund's Board of Directors has a fiduciary duty to act in the interests of *all*, not just some, of your Fund's shareholders. Karpus has no such responsibility.

We believe that Karpus' short-term interests are directly opposed to your interests as a shareholder. Karpus wants your Fund to take unspecified action to eliminate the discount to net asset value at which its shares trade. But Karpus does not tell you that there is no guarantee that various measures that may allow some shareholders to realize close to net asset value for their shares will reduce or eliminate the discount over the long term. Rather, any one-time windfall would be at the expense of shareholders who purchased shares with the intention of obtaining income and growing their long-term investment in accordance with your Fund's investment objectives.

The Fund's primary investment objective is high current income, and capital appreciation is a secondary objective. **CFM has enabled your Fund to pursue these objectives successfully, and even Karpus admits in its proxy statement that: We believe the Fund's current portfolio management team has performed well.** For the three-year period ended August 31, 2005, the Fund's annualized return was 23.56% based on net asset value and 18.28%¹ based on market value, both of which exceeded the 15.25%¹ annualized return of the Lipper Sector Equity Closed-End Funds Category Average, based on each fund's net asset value per share, during the same period.

Your Fund's Board has closely monitored the discount, and continues to do so. We also continue to review possible steps to address the discount, consistent with the interests of the Fund and all of its shareholders. Under the Fund's dividend reinvestment plan, when Fund shares are trading below 98% of net asset value, the plan agent purchases shares for plan participants in the open market rather than having the Fund issue new shares. This has the effect of periodically increasing demand for Fund shares. The Board continues actively to consider whether taking other actions with respect to the discount would be in the best interests of your Fund and all of its shareholders. We also believe that the existing closed-end fund structure contributes to the Fund's performance by allowing the Fund to have greater flexibility to invest and to maintain a longer investment horizon.

**DO NOT LET KARPUS FOOL YOU! KARPUS DOES NOT HAVE THE
INTERESTS OF ALL FUND INVESTORS IN MIND.**

Whether or not you plan to attend the meeting, and regardless of the number of shares you own, your Board urges you to vote **FOR** the new management agreement and **FOR** the new subadvisory agreement on the enclosed **WHITE** proxy card. If you hold your shares in a brokerage account, your broker can vote your shares **ONLY** if you give instructions to do so. To instruct your broker, simply sign and date the enclosed **WHITE** proxy card and return it in the enclosed postage-paid envelope or follow the instructions for phone or internet voting on the enclosed proxy card. Your Board strongly urges you to discard and not sign any green proxy card that may be sent to you by Karpus.

We thank you for your continued trust and support. If you need any assistance, or have any questions regarding the Fund's proposal or how to vote your shares, please call our proxy solicitor, Georgeson Shareholder Communications Inc., at 1-888-293-6728.

Sincerely,

R. Jay Gerken

Chairman

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PLEASE SIGN, DATE AND RETURN YOUR WHITE PROXY CARD AND DO NOT RETURN ANY GREEN PROXY CARD. ONLY YOUR LATEST DATED, SIGNED PROXY CARD WILL BE COUNTED, AND ANY GREEN PROXY CARD YOU SIGN FOR ANY REASON COULD INVALIDATE PREVIOUS WHITE PROXY CARDS SENT BY YOU TO SUPPORT THE FUND.

YOUR VOTE IS IMPORTANT. PLEASE ACT TODAY. IF YOU HAVE QUESTIONS OR NEED ASSISTANCE IN VOTING YOUR SHARES, PLEASE CALL:

17 State Street, 10th Floor

New York, NY 10004

(888) 293-6728 (Toll Free)

Banks and Brokerage Firms please call:

(212) 440-9800

¹ Source: Lipper Analytical Services.

