

NUVEEN INSURED DIVIDEND ADVANTAGE MUNICIPAL FUND  
Form N-2  
July 17, 2009

As filed with the Securities and Exchange Commission on July 17, 2009

1933 Act File No. 333-

1940 Act File No. 811-09475

## U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.

Post-Effective Amendment No.

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 7

## Nuveen Insured Dividend Advantage Municipal Fund

Exact Name of Registrant as Specified in Declaration of Trust

333 West Wacker Drive, Chicago, Illinois 60606

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(800) 257-8787

Registrant's Telephone Number, including Area Code

**Kevin J. McCarthy**

**Vice President and Secretary**

**333 West Wacker Drive**

**Chicago, Illinois 60606**

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

*Copies of Communications to:*

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1601 K Street, N.W.  
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425 Lexington Ave  
New York, NY 10017**

**Approximate Date of Proposed Public Offering:**

As soon as practicable after the effective date of this Registration Statement

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

It is proposed that this filing will become effective (check appropriate box)

" when declared effective pursuant to section 8(c)

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price  Per Unit(2)</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration  Fee</b>
MuniFund Term Preferred Shares, Series 2012, 2013 and 2014	1,000 Shares <sup>(1)</sup>	\$ 10	\$ 10,000	\$ .56

(1) The Fund will offer, in the aggregate, up to 1,000 shares of MuniFund Term Preferred Shares, % Series 2012, 2013 and 2014, at an offering price of \$10 per share.

(2) Estimated solely for the purpose of calculating the registration fee.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

*PROSPECTUS (Subject to Completion)*

*Issued*                      *2009*

\$

*Nuveen Insured Dividend Advantage Municipal Fund*

*MUNIFUND TERM PREFERRED SHARES*

*Shares,            % Series 2012*

*Shares,            % Series 2013*

*Shares,            % Series 2014*

*Liquidation Preference \$10 Per Share*

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**The Fund.** Nuveen Insured Dividend Advantage Municipal Fund (the Fund) is a diversified, closed-end management investment company. The Fund's investment objectives are to provide current income exempt from regular federal income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Under normal market conditions, the Fund will invest at least 80% of its net assets in a portfolio of municipal bonds that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon. Under normal circumstances, the Fund will invest at least 80% of its managed assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Aa or AA or better by a nationally recognized statistical rating organization (NRSRO) at the time of purchase, (ii) rated Aa or AA or better by an NRSRO or that are unrated but judged to be of comparable quality by the Fund's investment adviser, at the time of purchase, or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest. Under

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normal circumstances, the Fund may invest up to 20% of its managed assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Baa or BBB or better by an NRSRO or (ii) rated at least Baa or BBB or better by an NRSRO, or that are unrated but judged to be of comparable quality by the Fund's investment adviser, at the time of purchase. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. There is no assurance that the Fund will achieve its investment objectives. See The Fund's Investments.

**The Offering.** The Fund is offering MuniFund Term Preferred Shares, ( Series 2013 MTP Shares ) % Series 2012 ( Series 2012 MTP Shares ), MuniFund Term Preferred Shares, % Series 2013 and MuniFund Term Preferred Shares, % Series 2014 ( Series 2014 MTP Shares ), each with a liquidation preference of \$10 per share (collectively, MTP Shares ). Each such series is referred to as a Series. The offering of each Series is independent of the offering of the other Series, and no offering is contingent upon the completion of the offering of the other Series. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all or a portion of the Fund's outstanding Municipal Auction Rate Cumulative Preferred Shares ( MuniPreferred Shares ), and to maintain the Fund's leveraged capital structure.

**Ratings.** MTP Shares will have upon issuance a long-term credit rating of from Moody's Investors Service, Inc. ( Moody's ) and a long-term issue credit rating of from Standard & Poor's Financial Services, LLC, a subsidiary of The McGraw-Hill Companies, Inc. ( S&P ). See Description of MTP Shares Rating Agencies.

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Fixed Dividend Rates:	Series 2012 MTP Shares	% per annum
	Series 2013 MTP Shares	% per annum
	Series 2014 MTP Shares	% per annum

(continued from previous page)

The Fixed Dividend Rate may be adjusted in the event of a change in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Dividends and Dividend Periods.

The Fund intends to apply to list the MTP Shares on the NYSE Amex, subject to notice of issuance. The trading or ticker symbol is

Investing in MuniFund Term Preferred Shares involves certain risks, which are described in the Risks section beginning on page of this prospectus.

PRICE \$10 A SHARE

**Dividends.** Dividends on the MTP Shares will be payable monthly. The initial dividend period for the MTP Shares will commence on the date of the original issuance of such MTP Shares and end on the last day of the calendar month in which such issuance occurs and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the first business day of the month next following a dividend period and upon redemption of the MTP Shares, except that dividends paid with respect to any dividend period consisting of the month of December in any year will be paid on the last business day of December. Dividends with respect to any monthly dividend period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly dividend period (or if such day is not a business day, the next preceding business day).

**Redemption.** The Fund is required to redeem Series 2012 MTP Shares on September 1, 2012, Series 2013 MTP Shares on September 1, 2013, and Series 2014 MTP Shares on September 1, 2014 in each case unless earlier redeemed or repurchased by the Fund. In addition, MTP Shares are subject to optional and mandatory redemption in certain circumstances. See Description of MTP Shares Redemption.

**Tax Exemption.** The dividend rate for each Series assumes that each month's distribution is comprised solely of dividends exempt from regular federal income tax, although a portion of those dividends may be subject to the federal alternative minimum tax. From time to time, the Fund may be required to allocate capital gains and/or ordinary income to a given month's distribution on MTP Shares. To the extent that it does so, the Fund will contemporaneously make a separate, supplemental distribution of an amount that, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income in the monthly distribution, is intended to make the two distributions equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the monthly distribution if it had been entirely comprised of dividends exempt from regular federal income tax. Alternatively (particularly in cases where the amount of capital gains or ordinary income to be allocated to the MTP Shares is small), the Fund will satisfy the requirement to allocate capital gains or ordinary income to MTP Shares by making a supplemental distribution of such gains or income to MTP shareholders, over and above the monthly dividend that is fully exempt from regular federal income tax. If, in connection with a redemption of MTP Shares, the Fund allocates capital gains or ordinary income to a distribution on MTP Shares without having made either a contemporaneous supplemental distribution of an additional amount or an alternative supplemental distribution of capital gains and/or ordinary income, it will cause an additional amount to be distributed to MTP shareholders whose interests are redeemed, which amount, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income allocated in the distribution, is intended to make the distribution and

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*the additional amount equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the distribution if it had been entirely comprised of dividends exempt from regular federal income tax. Investors should consult with their own tax advisors before making an investment in the MTP Shares. See Tax Matters and Description of MTP Shares Dividends and Dividend Periods Distribution with respect to Taxable Allocations.*

**Priority of Payment.** *MTP Shares will be senior securities of stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to*

(continued from previous page)

distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. Each series of MTP Shares will have equal priority as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund and will be in parity in all respects with other preferred shares currently outstanding. The Fund may issue additional preferred shares on parity with MTP Shares, subject to certain limitations. The Fund may not issue additional classes of shares that are senior in any respect to MTP Shares and other outstanding preferred shares of the Fund. See Description of MTP Shares. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. In addition, as a fundamental policy, the Fund may not borrow money, except from banks for temporary or emergency purposes, or for repurchase of its shares, subject to certain restrictions. See Investment Restrictions in the Statement of Additional Information.

	<u>Price to Public</u>	<u>Sales Load<sup>1</sup></u>	<u>Proceeds to the Fund</u>
Per Share	\$10.00	\$	\$
Total	\$	\$	\$

<sup>1</sup> Total expenses of issuance and distribution, excluding sales load, are estimated to be \$ .

**Book-Entry Only.** It is expected that the MTP Shares will be delivered to the underwriters in book-entry form only, through the facilities of the Depository Trust Company, on or about , 2009.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CUSIP No[s].

MORGAN STANLEY

NUVEEN INVESTMENTS, LLC

, 2009

**Redemption and Paying Agent.** The redemption and paying agent for each Series of MTP Shares will be , [New York, New York].

**Adviser.** Nuveen Asset Management ( NAM ), the Fund s investment adviser, is responsible for determining the Fund s overall investment strategy and its implementation.



*You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in MTP Shares and retain it for future reference. A Statement of Additional Information, dated \_\_\_\_\_, 2009, and as it may be supplemented, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page \_\_\_\_\_ of this prospectus, annual and semi-annual reports to shareholders, when available, and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787 or by writing to the Fund, or from the Fund's website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus. You also may obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Securities and Exchange Commission's website (<http://www.sec.gov>).*

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***MTP Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.***

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You should rely only on the information contained in or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell MTP Shares and seeking offers to buy MTP Shares, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of MTP Shares.

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**PROSPECTUS SUMMARY**

*This is only a summary. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information (the SAI), including the Fund's Statement Establishing and Fixing the Rights and Preferences of MuniFund Term Preferred Shares (the Statement), attached as Appendix A to the SAI, prior to making an investment in the Fund, especially the information set forth under the heading Risks. Capitalized terms used but not defined in this prospectus shall have the meanings given to such terms in the Statement.*

**The Fund**

Nuveen Insured Dividend Advantage Municipal Fund (the Fund) is a diversified, closed-end management investment company. The Fund's common shares, \$0.01 par value, are traded on the NYSE Amex (the Exchange) under the symbol NVG. See Description of Outstanding Shares Common Shares. The Fund commenced investment operations on March 25, 2002. As of April 30, 2009, the Fund had 29,802,900 common shares outstanding and 8,432 preferred shares outstanding. Preferred shares previously offered by the Fund are referred to as MuniPreferred shares. MTP Shares, as defined below, and any other preferred shares, including MuniPreferred shares, that may then be outstanding are collectively referred to as Preferred Stock.

**The Offering**

The Fund is offering MuniFund Term Preferred Shares, % Series 2012 ( Series 2012 MTP Shares ), MuniFund Term Preferred Shares, % Series 2013 ( Series 2013 MTP Shares ) and MuniFund Term Preferred Shares, % Series 2014 ( Series 2014 MTP Shares ), each at a purchase price of \$10 per share (collectively, MTP Shares ). Each such series is referred to as a Series. MTP Shares are being offered by the underwriters listed under Underwriters. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all or a portion of the outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure.

The issuance date of the MTP Shares is referred to herein as the Date of Original Issue. MTP Shares will be senior securities that constitute stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. Each Series of MTP Shares will have equal priority as to payments of dividends and as to distributions of assets upon dissolution, liquidation or winding up of the affairs of the Fund and will be in parity in all respects with MuniPreferred shares outstanding. The Fund may not issue additional classes of shares that are senior in any respect to Preferred Stock.

Certain underwriters, including currently own outstanding MuniPreferred shares. Upon the successful completion of this offering, these shares may be redeemed or purchased by the Fund with the net proceeds of the offering as set forth in Use of Proceeds.

Although such a redemption or purchase would be done in accordance with the Investment Company Act of 1940, as amended (the 1940 Act ) in a manner that did not favor these underwriters, these underwriters may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase.

### Who May Want to Invest

You should consider your investment goals, time horizons and risk tolerance before investing in MTP Shares. An investment in MTP Shares is not appropriate for all investors and is not intended to be a complete investment program. MTP Shares are designed as a short/intermediate-term investment to help achieve the after-tax income and capital preservation goals of investors, and not as a trading vehicle. MTP Shares may be an appropriate investment for you if you are seeking:

- Current income exempt from regular federal income taxes;
- Consistent monthly dividends;
- Return of your capital investment after a limited term of no longer than 3, 4 or 5 years;
- A highly rated security that benefits from significant over-collateralization and related protective provisions;
- Municipal market exposure through the Fund (rather than a single municipal issuer) that diversifies credit risk by investing in many securities and various essential-service sectors;
- Potential for daily liquidity and transparency afforded by NYSE Amex listing; and
- A short/intermediate-term fixed income investment with potentially less price volatility than longer-dated fixed income securities.

However, keep in mind that you will need to assume the risks associated with an investment in MTP Shares and the Fund. See Risks.

### Fixed Dividend Rate

MTP Shares pay a dividend at a fixed rate of % per annum of the \$10 liquidation preference per share (the Fixed Dividend Rate ). The Fixed Dividend Rate is subject to adjustment in certain circumstances (but not in any event lower than the % Fixed Dividend Rate). See Description of MTP Shares Dividends and Dividend Periods Dividend Rate and Description of MTP Shares Dividends and Dividend Periods Default Period.

### Dividend Payments

The holders of shares of each Series of MTP Shares will be entitled to receive cumulative cash dividends and distributions on each share of such Series, when, as and if declared by, or under authority granted

by, the Board of Trustees, out of funds legally available for payment. Dividends on the MTP Shares will be payable monthly. The initial dividend period for the MTP Shares will commence on the date of the original issuance of such MTP Shares and end on \_\_\_\_\_, 2009 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares) (each dividend period a Dividend Period \_\_\_\_\_). Dividends will be paid on the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December (each payment date a Dividend Payment Date \_\_\_\_\_). Dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a Business Day, the next preceding Business Day). See Description of MTP Shares Dividends and Dividend Periods.

Business Day means any calendar day on which the Exchange is open for trading.

#### **Term Redemption**

The Fund is required to provide for the mandatory redemption of all (i) outstanding Series 2012 MTP Shares on September 1, 2012, (ii) outstanding Series 2013 MTP Shares on September 1, 2013 and (iii) outstanding Series 2014 MTP Shares on September 1, 2014, each at a redemption price equal to \$10 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the redemption date (the Term Redemption Price \_\_\_\_\_). No amendment, alteration or repeal of the obligations of the Fund to redeem all of the Series 2012 MTP Shares, Series 2013 MTP Shares and Series 2014 MTP Shares on September 1, 2012, September 1, 2013 and September 1, 2014, respectively, can be effected without the prior unanimous vote or consent of the holders of Series 2012 MTP Shares, Series 2013 MTP Shares and Series 2014 MTP Shares, respectively. See Description of MTP Shares Redemption.

#### **Mandatory Redemption for**

#### **Asset Coverage and Effective**

#### **Leverage Ratio**

*Asset Coverage.* If the Fund fails to have Asset Coverage (as defined below) of at least 225% as of the close of business on any Business Day on which such Asset Coverage is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Asset Coverage Cure Date \_\_\_\_\_), the Fund will redeem within 45 calendar days of the Asset Coverage Cure Date shares of Preferred Stock equal to the lesser of (i) the minimum number of shares of

Preferred Stock that will result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of monies expected to be legally available; and, at the Fund's sole option, the Fund may redeem a number of shares of Preferred Stock (including shares of Preferred Stock required to be redeemed) that will result in the Fund having Asset Coverage of up to and including 275%. The Preferred Stock to be redeemed may include at the Fund's sole option any number or proportion of MTP Shares of any Series. If MTP Shares are to be redeemed in such an event, they will be redeemed at a redemption price equal to their \$10 liquidation preference per share plus accumulated but unpaid dividends thereon (whether or not declared, but excluding interest thereon) to (but excluding) the date fixed for such redemption by the Board of Trustees (the Mandatory Redemption Price).

*Effective Leverage Ratio.* If the Effective Leverage Ratio (as defined below) of the Fund exceeds [50%] as of the close of business on any Business Day on which such ratio is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within 45 calendar days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio not to exceed 50% by (A) engaging in transactions involving or relating to the floating rate trust certificates not owned by the Fund and/or the residual floating rate trust certificates owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming a sufficient number of shares of Preferred Stock, which at the Fund's sole option may include any number or proportion of MTP Shares of any Series in accordance with the terms of such Preferred Stock, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B). Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities.

#### **Optional Redemption**

As of September 1, 2010, September 1, 2011 and September 1, 2012, respectively, Series 2012 MTP Shares, Series 2013 MTP Shares and Series 2014 MTP Shares will be subject to optional redemption (in whole or from time to time, in part) at the sole option of the Fund out of monies legally available therefore, at the redemption price per share equal to the sum of the \$10 liquidation preference per share plus (i) an initial premium of 1.00% of the liquidation preference (with such premium declining by 0.5% every six months so that by September 1, 2011 (with respect to Series 2012 MTP Shares), September 1, 2012 (with respect to Series 2013 MTP Shares) and September 1, 2013 (with respect to Series 2014 MTP Shares) there will cease to be a premium) and (ii) an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for such

redemption. The period from the Date of Original Issue to the date that the MTP Shares are subject to such optional redemption is referred to herein as the Non-Call Period. In addition to the optional redemption described above, the MTP Shares will also be subject to optional redemption on any Business Day during a Rating Downgrade Period with respect to such MTP Shares at the redemption price per share equal to the sum of the \$10 liquidation preference per share (without any additional premium) plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared, but excluding interest thereon) to (but excluding) the date fixed for redemption. A Rating Downgrade Period means, with respect to any Series, any period during which such Series is rated A+ or lower by S&P and A1 or lower by Moody's (or an equivalent rating of another Rating Agency as permitted or contemplated by the definition of Rating Agency). See Description of MTP Shares Redemption.

**Federal Income Taxes**

Because under normal circumstances the Fund will invest substantially all of its assets in municipal securities that pay interest exempt from regular federal income tax, the dividends designated by the Fund as exempt-interest dividends received by a holder of MTP Shares will be similarly exempt. The dividends received by a holder of MTP Shares may be subject to state and local taxes. All or a portion of the income from the Fund's portfolio securities, and in turn the exempt-interest dividends paid to holders of MTP Shares, may be subject to the federal alternative minimum tax, so MTP Shares may not be a suitable investment if you are subject to this tax. Taxable income or gain earned by the Fund will be allocated proportionately to holders of Preferred Stock and common shares, based on the percentage of total Preferred Stock dividends relative to common share dividends.

The Fund has elected to be treated, and intends to continue to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and generally does not expect to be subject to federal income tax.

**Ratings**

It is a condition of the underwriters' obligation to purchase each Series of MTP Shares that each Series of MTP Shares will be rated \_\_\_\_\_ and \_\_\_\_\_ by Moody's and S&P, respectively, as of the Date of Original Issue. There can be no assurance that such ratings will be maintained at the level originally assigned through the applicable term of each Series of MTP Shares. The ratings are based on current information furnished to Moody's and S&P by the Fund and its investment adviser. The ratings may be changed, suspended or withdrawn in the rating agencies' discretion. The Fund, however, will use commercially reasonable efforts to cause at least one Rating Agency (Moody's, S&P or Fitch Ratings, Inc. (Fitch)) to publish a credit rating with respect to each Series of MTP Shares for so long as

such Series is outstanding. The Fixed Dividend Rate will be subject to an increase in the event that the ratings of the MTP Shares by both Moody's and S&P are downgraded from \_\_\_\_\_ and \_\_\_\_\_, respectively or if no Rating Agency is then rating the shares. See Description of MTP Shares Dividends and Dividend Periods Possible Adjustments to Fixed Dividend Rate.

**Asset Coverage**

If the Fund fails to maintain at least 225% asset coverage as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided above. Asset coverage for Preferred Stock is calculated pursuant to Section 18(h) of the 1940 Act, as in effect on the date of the Statement, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each daily determination (Asset Coverage). See Description of MTP Shares Asset Coverage.

The Fund estimates that on the [Date of Original Issue], the Asset Coverage, based on the composition of its portfolio as of \_\_\_\_\_, 2009, and after giving effect to the issuance of each Series of MTP Shares offered hereby (\$ \_\_\_\_\_), the [deduction of sales loads and estimated offering expenses for such MTP Shares (\$ \_\_\_\_\_)] and the redemption of all or a portion of the MuniPreferred shares will be \_\_\_\_\_%.

**Effective Leverage Ratio**

If the Fund's Effective Leverage Ratio exceeds [50%] as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided above.

The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption and (2) the Fund's outstanding Preferred Stock that is to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedures) of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (other than liabilities for the aggregate



principal amount of senior securities representing indebtedness, including floating rate trust certificates); and (B) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund.

**Voting Rights**

Except as otherwise provided in the Fund's Declaration of Trust or as otherwise required by law, (i) each holder of MTP Shares shall be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and (ii) the holders of outstanding Preferred Stock and of common shares shall vote together as a single class; provided that holders of Preferred Stock, voting separately as a class, shall elect at least two of the Fund's trustees and will elect a majority of the Fund's trustees to the extent the Fund fails to pay dividends on any Preferred Stock in an amount equal to two full years of dividends on that stock. See Description of MTP Shares Voting Rights.

**Liquidation Preference**

The liquidation preference of MTP Shares will be \$10 per share (the Liquidation Preference). In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MTP Shares will be entitled to receive a liquidation distribution per share equal to the Liquidation Preference plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon). See Description of MTP Shares Liquidation Rights.

**Investment Objectives and Policies**

The Fund's investment objectives are to provide current income exempt from regular federal income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Under normal market conditions, the Fund will invest at least 80% its net assets in a portfolio of municipal bonds that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon. This 80% test includes inverse floating rate securities whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon. In addition, for purposes of this 80% test, insurers must have a claims-paying ability rate at least A by an NRSRO at the time of purchase or at the time the municipal security is insured while in the Fund's portfolio. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets (as defined below) in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Aa or AA or better by an NRSRO at the time of purchase, (ii) municipal securities rated Aa or AA or better by an NRSRO or that

are unrated but judged to be of comparable quality by NAM, at the time of purchase, or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest. Under normal circumstances, the Fund may invest up to 20% of its Managed Assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Baa or BBB or better by an NRSRO or (ii) rated at least Baa or BBB or better by an NRSRO or that are unrated but judged to be of comparable quality by NAM, at the time of purchase. Managed Assets means the Fund's net assets, plus assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or Preferred Stock outstanding. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. During temporary defensive periods and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax-exempt or taxable. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. There is no assurance that the Fund will achieve its objectives. See The Fund's Investments.

**Investment Adviser**

Nuveen Asset Management ( NAM ) is the Fund's investment adviser, responsible for determining the Fund's overall investment strategy and its implementation. See Management of the Fund Investment Adviser and Portfolio Managers.

**Listing**

The Fund intends to list the MTP Shares on the NYSE Amex, subject to notice of issuance. The trading or ticker symbol is .

**Redemption and Paying Agent**

The Fund will enter into a Redemption and Paying Agent Agreement with , [New York, New York] (the Redemption and Paying Agent ). The Redemption and Paying Agent will serve as the Fund's transfer agent and registrar, dividend disbursing agent, and paying agent and redemption price disbursing agent with respect to MTP Shares.

**Risks**

Risk is inherent in all investing. Therefore, before investing in MTP Shares you should consider certain risks carefully. The primary risks of investing in the Fund, and in MTP Shares in particular, are:

**Risks of Investing in MTP Shares**

- *Interest Rate Risk MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on

short and intermediate term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to its term redemption. See also [Secondary Market Risk](#).

- *Secondary Market Risk.* Because the Fund has no prior trading history for exchange-listed, closed-end fund preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. There is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.
- *Ratings Risk.* The Fund expects that, at issuance, each Series of MTP Shares will be rated [\\_\\_\\_\\_\\_](#) and [\\_\\_\\_\\_\\_](#) by Moody's and S&P, respectively and that such ratings will be a requirement of issuance of such Series by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a rating agency (including Moody's and S&P) (each a Rating Agency as further defined below) is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency's ability to timely react to changes in an issuer's circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade a Series of MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices, though with higher resulting dividend rates than the Fixed Dividend Rate. If the Rating Agencies downgrade a Series of MTP Shares, the Fund is required to pay a higher dividend rate on such Series.
- *Early Redemption Risk.* The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to MTP shareholders. For further information, see [Description of MTP Shares Redemption](#) and [Description of MTP Shares Asset Coverage](#).
- *Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net

capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. See Tax Matters. See also, the opinion of counsel included as Appendix C to the SAI.

- *Credit Crisis and Liquidity Risk.* General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund's investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund's distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under Description of MTP Shares). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.
- *Inflation Risk.* Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.

#### **General Risks of Investing in the Fund**

- *Credit Risk.* Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If Rating Agencies lower their ratings of municipal securities in the Fund's portfolio, the value of those securities could decline, which could jeopardize the Rating Agencies' ratings of a Series of MTP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which the Fund invests, defaults by issuers of municipal securities could have a negative impact on the Fund's ability to

pay dividends on the MTP Shares and could result in the redemption of some or all of the MTP Shares.

- *Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above, the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.
- *Insurance Risk.* The Fund purchases municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Many significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. As of [redacted], 2009, there are no longer any bond insurers rated AAA by all of Moody's, S&P and Fitch and at least one rating agency has placed each insurer on negative credit watch, credit watch evolving, credit outlook developing, or rating withdrawn, which may presage one or more rating reductions for any insurer in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a municipal security would decline and may not add any value. As concern has increased about the balance sheets of insurers, prices on insured bonds—especially those bonds issued by weaker underlying credits—declined. [Most insured bonds are currently being valued according to their fundamentals as if they were uninsured.] The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation or the market value of the insured obligation.

- *Interest Rate Risk The Fund.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.
- *Inverse Floating Rate Securities Risk.* The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities. The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a tender option bond trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings.

- *Reinvestment Risk.* Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the Fund's portfolio's current earnings rate.
- *Anti-Takeover Provisions.* The Fund's Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. See Certain Provisions in the Declaration of Trust and By-Laws.

For additional risks of investing in MTP Shares and general risks of the Fund, see Risks.

#### **Governing Law**

The Declaration of Trust and the Statement are governed by the laws of the Commonwealth of Massachusetts.

**FINANCIAL HIGHLIGHTS**

The following Financial Highlights table is intended to help a prospective investor understand the Fund's financial performance for the periods shown. Certain information reflects financial results for a single common share or share of MuniPreferred of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in shares of common stock of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal year ended October 31, 2008 has been audited by \_\_\_\_\_ whose report for the fiscal year ended October 31, 2008, along with the financial statements of the Fund including the Financial Highlights for each of the five years in the period then ended, are included in the Fund's 2008 Annual Report, which is incorporated herein by reference. The information with respect to the six months ended April 30, 2009 is unaudited and is included in the Fund's 2009 Semi-Annual Report, which is incorporated by reference herein. Results for the interim period are not necessarily indicative of results of the full year. A copy of the Annual Report and the Semi-Annual Report may be obtained from [www.sec.gov](http://www.sec.gov) or by visiting [www.nuveen.com](http://www.nuveen.com). Past results are not indicative of future performance.

The following per share data and ratios have been derived from information provided in the financial statements.

**FINANCIAL HIGHLIGHTS (Unaudited)**

Information contained in the table below under the headings Per Share Operating Performance and Ratios/Supplemental Data shows the operating performance of the Fund since the commencement of operations.

Selected data for a common share outstanding throughout each period:

	Year Ended October 31,		
	2009(b)	2008	2007
<b>PER SHARE OPERATING PERFORMANCE</b>			
Beginning Common Share Net Asset Value	\$ 12.85	\$ 15.09	\$ 15.50
Investment Operations:			
Net Investment Income	0.49	1.00	1.00
Net Realized/Unrealized Gain (Loss)	1.14	(2.25)	(0.38)
Distributions from Net Investment Income to Preferred Shareholders	(0.04)	(0.29)	(0.28)
Distributions from Capital Gains to Preferred Shareholders	0.00	0.00	0.00
Total	1.59	(1.54)	0.34
Less Distributions:			
Net Investment Income to Common Shareholders	(0.36)	(0.70)	(0.75)
Capital Gains to Common Shareholders	0.00	0.00	0.00
Total	(0.36)	(0.70)	(0.75)
Offering Costs and Preferred Share Underwriting Discounts	0.00	0.00	0.00
Ending Common Share Net Asset Value	\$ 14.08	\$ 12.85	\$ 15.09
Ending Market Value	\$ 12.69	\$ 11.42	\$ 13.71
Total Returns:			
Based on Market Value*	14.53%	(12.11)%	(3.12)%
Based on Common Share Net Asset Value*	12.52%	(10.64)%	2.25%
<b>Ratios/Supplemental Data</b>			
Ending Net Assets Applicable to Common Shares (000)	\$ 419,494	\$ 383,035	\$ 449,982
Ratios to Average Net Assets Applicable to Common Shares Before Credit/Reimbursement :			
Expenses Including Interest(a)	1.28%***	1.32%	1.31%
Expenses Excluding Interest(a)	1.23%***	1.17%	1.14%
Net Investment Income	7.08%***	6.48%	6.15%
Ratios to Average Net Assets Applicable to Common Shares After Credit/Reimbursement **::			
Expenses Including Interest(a)	0.97%***	0.96%	0.88%
Expenses Excluding Interest(a)	0.93%***	0.81%	0.71%
Net Investment Income	7.38%***	6.84%	6.58%
Portfolio Turnover Rate	5%	7%	12%
Preferred Shares at End of Period:			
Aggregate Amount Outstanding (000)	\$ 210,800	\$ 226,975	\$ 233,000



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Liquidation and Market Value Per Share	\$ 25,000	\$ 25,000	\$ 25,000
Asset Coverage Per Share	\$ 74,750	\$ 67,189	\$ 73,281

\* Total Return Based on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based on Common Share Net Asset Value is the combination of changes in common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvestment price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

\*\* After custodian fee credit and expense reimbursement, where applicable.

Year Ended October 31,

2006	2005	2004	2003	2002(c)
\$ 15.23	\$ 15.78	\$ 15.41	\$ 15.35	\$ 14.33
1.01	1.00	1.02	1.03	0.55
0.33	(0.38)	0.42	0.15	1.10
(0.25)	(0.15)	(0.07)	(0.07)	(0.05)
0.00	(0.01)	0.00	(0.01)	0.00
1.09	0.46	1.37	1.10	1.60
(0.82)	(0.89)	(0.93)	(0.93)	(0.47)
0.00	(0.12)	(0.07)	(0.11)	0.00
(0.82)	(1.01)	(1.00)	(1.04)	(0.47)
0.00	0.00	0.00	0.00	(0.11)
\$ 15.50	\$ 15.23	\$ 15.78	\$ 15.41	\$ 15.35
\$ 14.89	\$ 14.17	\$ 14.89	\$ 14.81	\$ 14.96
11.09%	2.00%	7.61%	6.10%	2.84%
7.39%	2.93%	9.19%	7.37%	10.44%
\$ 462,037	\$ 454,018	\$ 470,389	\$ 459,368	\$ 457,432
1.15%	1.15%	1.15%	1.17%	1.10%***
1.15%	1.15%	1.15%	1.17%	1.10%***
6.15%	5.96%	6.09%	6.22%	5.71%***
0.70%	0.70%	0.70%	0.72%	0.61%***
0.70%	0.70%	0.70%	0.72%	0.61%***
6.60%	6.42%	6.54%	6.67%	6.20%***
15%	2%	11%	25%	22%
\$ 233,000	\$ 233,000	\$ 233,000	\$ 233,000	\$ 233,000
\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
\$ 74,575	\$ 73,714	\$ 75,471	\$ 74,288	\$ 74,081

\*\*\* Annualized.

The amounts shown are based on common share equivalents.

Ratios do not reflect the effect of dividend payments to Preferred shareholders; income ratios reflect income earned on assets attributable to Preferred shares.

- (a) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund as more fully described in Footnote 1 Inverse Floating Rate Securities, in the Fund's semi-annual and annual reports.
- (b) For the six months ended April 30, 2009.
- (c) For the period March 25, 2002 (commencement of operations) through October 31, 2002.



**THE FUND**

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund's common shares are listed on the Exchange under the symbol NVG. The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The Fund was organized as a Massachusetts business trust on July 12, 1999 pursuant to a Declaration of Trust governed by the laws of the Commonwealth of Massachusetts (the Declaration of Trust). On March 25, 2002, the Fund issued an aggregate of 26,700,000 common shares of beneficial interest, par value \$.01 per share, pursuant to the initial public offering thereof and commenced its operations. On April 19, 2002 and May 7, 2002, the Fund issued an additional 2,000,000 and 1,100,000 common shares in connection with the partial exercise by the underwriters of the over-allotment option. On May 15, 2002, the Fund issued 3160 shares of MuniPreferred shares, Series M, 3080 shares of MuniPreferred Shares, Series T and 3080 shares of MuniPreferred Shares, Series TH. The Fund had \_\_\_\_\_ shares of common stock outstanding as of \_\_\_\_\_, 2009.

The table below provides information on MuniPreferred shares since 2002.

<u>Period Ended</u>	<u>Amount Outstanding Exclusive of Treasury Securities</u>	<u>Asset Coverage Per Share*</u>	<u>Involuntary Liquidation Preference Per Share</u>	<u>Asset Coverage Ratio**</u>
October 31, 2002	9,320	\$ 74,081	\$ 25,000	296%
October 31, 2003	9,320	\$ 74,288	\$ 25,000	297%
October 31, 2004	9,320	\$ 75,471	\$ 25,000	302%
October 31, 2005	9,320	\$ 73,714	\$ 25,000	295%
October 31, 2006	9,320	\$ 74,575	\$ 25,000	298%
October 31, 2007	9,320	\$ 73,281	\$ 25,000	293%
October 31, 2008	9,079	\$ 67,189	\$ 25,000	269%
April 30, 2009	8,432	\$ 74,750	\$ 25,000	299%

\* Calculated by dividing net assets (including net assets attributable to preferred shares) at period end by the number of MuniPreferred shares outstanding at period end.

\*\* Calculated by dividing Asset Coverage Per Share by Involuntary Liquidation Preference Per Share.

The following provides information about the Fund's outstanding shares as of April 30, 2009.

<u>Title of Class</u>	<u>Amount Authorized</u>	<u>Amount Held by the Fund or for its Account</u>	<u>Amount Outstanding</u>
Common	unlimited		29,802,900
MuniPreferred	unlimited		
Series M	3160		2,860
Series T	3080		2,786
Series TH	3080		2,786
MTP			
Series 2012			*
Series 2013			*

\* Assumes all MTP Shares offered hereby are sold.

### USE OF PROCEEDS

The net proceeds of the offering of MTP Shares will be approximately \$ (assuming all MTP Shares offered hereby are issued and sold) after payment of the sales load and estimated offering costs. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all or a portion of the Fund's outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure. Such redemption of the MuniPreferred shares is expected to occur within months of the closing of the offering.

### CAPITALIZATION [UNAUDITED]

The following table sets forth the capitalization of the Fund as of April 30, 2009, and as adjusted to give effect to (i) the issuance of all MTP Shares offered hereby and (ii) the redemption of [all] outstanding MuniPreferred shares with the proceeds of the issuance of MTP Shares. Fewer than all of the MuniPreferred shares may be redeemed.

	Actual April 30, 2009 (UNAUDITED)	As Adjusted April 30, 2009 (UNAUDITED)
MuniPreferred shares, \$25,000 stated value per share, at liquidation value; unlimited shares authorized (8,432 shares outstanding and no shares outstanding, as adjusted, respectively)*	\$ 210,800,000	\$
MTP Shares, \$10 stated value per share, at liquidation value; shares authorized; (no shares outstanding and shares outstanding, as adjusted, respectively)*	\$	\$
<b>COMMON SHAREHOLDERS' EQUITY:</b>		
Common shares, \$.01 par value per share; unlimited shares authorized, 29,802,900 shares outstanding*	\$ 298,029	\$ 298,029
Paid-in surplus**	423,447,981	423,447,981
Undistributed net investment income	1,860,988	1,860,988
Accumulated net realized gain (loss) from investments and derivative transactions	(8,759,484)	(8,759,484)
Net unrealized appreciation (depreciation) of investments and derivative transactions	2,646,063	2,646,063
<b>Net assets applicable to common shares</b>	<b>\$ 419,493,577</b>	<b>\$ 419,493,577</b>

\* None of these outstanding shares are held by or for the account of the Fund.

\*\* The sales load and other estimated offering costs of the MTP Shares issuance (\$ ) will be capitalized and amortized over the life of the MTP Shares.

## SUPPLEMENTAL PORTFOLIO INFORMATION

Set forth below are selected historical data (unaudited) relating to the Fund and its portfolio holdings at each period noted.

	Six Months Ended	Fiscal Year Ended October 31,		
	April 30,			
	2009	2008	2007	2006
<b>OPERATING PERFORMANCE RATIOS</b>				
Asset Coverage(a)	299.00%	268.76%	293.12%	298.30%
Net Investment Income Coverage(b)	1199.23%	344.26%	354.12%	403.27%
Structural Leverage(c)	33.44%	37.21%	34.12%	33.52%
Effective Leverage(d)	38.08%	41.12%	37.00%	34.34%

- (a) Based on 1940 Act requirements that are described in this prospectus in the fourth paragraph under the heading "Description of MTP Shares - Restrictions on Dividend, Redemption and Other Payments."  
 (b) Calculated by dividing "Net Investment Income to Common" by "Distributions from Net Investment Income to Preferred" as set forth in the Financial Highlights table.  
 (c) Based on the inverse of the Asset Coverage Ratio (meaning the ratio of the Fund's total debt, if any, and the involuntary liquidation preference of Preferred Stock to the Fund's total assets less liabilities and indebtedness not represented by senior securities).  
 (d) Effective Leverage Ratio is previously defined in the prospectus summary under the heading "Effective Leverage Ratio."

	Six Months Ended	Fiscal Year Ended October 31,		
	April 30,			
	2009	2008	2007	2006
<b>PORTFOLIO DATA</b>				
Total Managed Assets (000s)(a)	\$ 630,294	\$ 610,010	\$ 682,982	\$ 695,037
Number of Issuers(b)	113	107	100	91
Number of Issuers in Default	0	0	0	0
Average Issuer Holding (000s)(c)	\$ 5,744	\$ 5,741	\$ 6,946	\$ 7,551
Top 10 Issuers (as % of Total Investments)	33.99%	33.53%	32.52%	34.30%
Average Effective Maturity on Securities (years)	12.31	12.23	13.66	15.12
Average Duration (years)	6.48	8.36	5.69	5.20
AMT Bonds (as % of Total Investments)	17.97%	19.25%	18.76%	18.63%
Insured Bonds (as % of Total Investments)	64%	62%	62%	66%
Inverse Floaters (as % of Total Investments)(d)	2.84%	1.64%	2.09%	0.75%

- (a) Net assets applicable to common shares plus Preferred Stock at liquidation value. See "Capitalization."  
 (b) Issuer is defined as [the legal entity or obligor that develops, registers and sells municipal securities for the purpose of financing its operations].  
 (c) Calculated by dividing the market value of the municipal securities in the Fund's portfolio by the number of issuers.  
 (d) Inverse floating rate securities (sometimes referred to as "inverse floaters") are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. See "Portfolio Composition - Municipal Securities - Inverse Floating Rate Securities."

	Six Months Ended	Fiscal Year Ended October 31,		
	April 30,			
	2009	2008	2007	2006
<b>CREDIT QUALITY (AS % OF TOTAL MUNICIPAL BONDS)(a),(b),(c)</b>				
Insured	64%	62%	62%	66%
U.S. Guaranteed	28%	30%	30%	24%
AAA (Uninsured)	2%	2%	2%	2%
AA (Uninsured)	6%	6%	5%	5%

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BBB (Uninsured)	%	%	1%	%
FHA/FNMA/GNMA Guaranteed	%	%	%	3%
<hr/>				
<i>Investment Grade</i>	100%	100%	100%	100%
BB or Lower	%	%	%	%
N/R	%	%	%	%

- (a) The percentages shown in the table above may reflect the ratings on certain bonds whose insurer has experienced downgrades as of the end of the reporting period.
- (b) Under normal market conditions, the Fund will invest at least 80% of its net assets in a portfolio of municipal bonds that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon.
- (c) The percentages shown in the table above include investments in other open- or closed-end investment companies (other than exchange-traded funds) that invest primarily in municipal securities of the types in which the Fund may invest directly, but exclude derivative transactions.



STATE OF ISSUANCE (AS % OF TOTAL MUNICIPAL BONDS)	Six Months Ended	Fiscal Year Ended October 31,		
	April 30,			
	2009	2008	2007	2006
Alaska	2.6%	2.6%	2.3%	2.4%
California	9.9%	9.0%	9.4%	8.4%
Colorado	3.4%	3.7%	3.8%	2.8%
Florida	7.7%	7.6%	7.7%	8.7%
Illinois	7.4%	7.5%	8.5%	10.4%
Indiana	11.0%	11.2%	10.7%	10.4%
New York	3.5%	3.1%	3.2%	2.5%
Pennsylvania	2.3%	2.3%	2.2%	2.4%
Tennessee	6.9%	7.0%	6.2%	6.2%
Texas	14.7%	15.5%	17.5%	18.3%
Washington	10.3%	9.6%	8.2%	9.1%
Wisconsin	2.1%	2.1%	1.8%	1.9%
<i>Top States (12 States in total)(a)</i>	81.7%	81.2%	81.5%	83.6%
Other States (21 States in total)	18.0%	18.5%	18.2%	16.2%
Puerto Rico and Territories	0.3%	0.3%	0.3%	0.2%
	100.0%	100.0%	100.0%	100.0%

(a) Includes all states in excess of 2.0% of the Fund's portfolio as of April 30, 2009.

SECTORS (AS % OF TOTAL INVESTMENTS)	Six Months Ended	Fiscal Year Ended October 31,		
	April 30,			
	2009	2008	2007	2006
Consumer Staples	0.4%	0.5%	0.6%	0.0%
Education and Civic Organizations	4.4%	5.1%	6.1%	7.3%
Health Care	7.1%	7.3%	7.7%	7.1%
Housing/Multifamily	2.1%	2.9%	0.0%	0.0%
Housing/Single Family	2.3%	2.2%	2.4%	2.5%
Tax Obligation/General	11.9%	11.8%	13.5%	13.1%
Tax Obligation/Limited	14.5%	11.3%	10.7%	16.9%
Transportation	15.1%	14.1%	15.0%	14.4%
US Guaranteed	27.9%	30.0%	29.6%	23.5%
Utilities	9.0%	9.5%	9.2%	7.3%
Water and Sewer	5.5%	5.4%	5.2%	8.1%
	100.0%	100.0%	100.0%	100.0%

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## DESCRIPTION OF MTP SHARES

*The following is a brief description of the terms of MTP Shares, including specific terms of Series 2012 MTP Shares, Series 2013 MTP Shares and Series 2014 MTP Shares. This is not a complete description and is subject to and entirely qualified by reference to the Fund's Declaration of Trust and the Statement. These documents are filed with the Securities and Exchange Commission as exhibits to the Fund's registration statement of which this prospectus is a part and the Statement also is Appendix A to the SAI. Copies may be obtained as described under Available Information. Many of the terms in this section have a special meaning. Any terms in this section not defined have the meaning assigned to them in the Statement.*

### General

At the time of issuance the MTP Shares will be fully paid and non-assessable and have no preemptive, conversion, or exchange rights or rights to cumulative voting. MTP Shares will rank equally with shares of all other Preferred Stock of the Fund including MuniPreferred shares, and with any other series of preferred shares of the Fund that might be issued in the future, as to payment of dividends and the distribution of the Fund's assets upon liquidation. MTP Shares and all other Preferred Stock of the Fund are senior as to dividends and distributions to the Fund's common shares. The Fund may issue additional series of Preferred Stock in the future that are classified as MuniFund Term Preferred Shares, and any such series, together with the MTP Shares, are herein collectively referred to as MuniFund Term Preferred Shares.

Except in certain limited circumstances, holders of MTP Shares will not receive certificates representing their ownership interest in such shares, and the MTP Shares will be represented by a global certificate to be held by the Securities Depository for the MTP Shares. The Depository Trust Company will initially act as Securities Depository with respect to the MTP Shares.

### Dividends and Dividend Periods

*General.* The following is a general description of dividends and dividend periods. The holders of each Series of MTP Shares will be entitled to receive cumulative cash dividends and distributions on shares of such Series, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment and in preference to dividends and distributions on common shares of the Fund, calculated separately for each Dividend Period for such Series at the Dividend Rate for a share of such Series in effect during such Dividend Period, on an amount equal to the Liquidation Preference for such Series. The Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends so declared and payable will be paid to the extent permitted under state law and the Declaration of Trust, and to the extent available in preference to and priority over any dividend declared and payable on the common shares.

*Fixed Dividend Rate.* The Fixed Dividend Rate is an annual rate of \_\_\_\_\_%, \_\_\_\_\_% and \_\_\_\_\_% for Series 2012 MTP Shares, Series 2013 MTP Shares and Series 2014 MTP Shares, respectively. The Fixed Dividend Rate for a Series of MTP Shares may be adjusted in certain circumstances, including a change in the credit rating of such Series of MTP Shares and/or upon the occurrence of certain events resulting in a Default Period (as defined below) (the Fixed Dividend Rate as it may be adjusted is referred to as the Dividend Rate).

*Payment of Dividends and Dividend Periods.* Dividends on the MTP Shares will be payable monthly. The initial Dividend Period for the MTP Shares will commence on the date of the original issuance of such MTP Shares and end on \_\_\_\_\_, 2009 and each subsequent Dividend Period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the Dividend Payment Date the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day

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of December. Dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if

such day is not a Business Day, the next preceding Business Day). Dividends payable on any MTP Shares of any Series for any period of less than a full monthly Dividend Period, including in connection with the first Dividend Period for such shares or upon any redemption of such shares on any redemption date other than on a Dividend Payment Date, will be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than one month.

*Adjustment to Fixed Dividend Rate Ratings.* So long as a Series of MTP Shares is rated on any date to by S&P or to by Moody's, then the Dividend Rate will be equal to the Fixed Dividend Rate. If the highest credit rating assigned on any date to a Series outstanding MTP Shares by either of Moody's or S&P (or an alternative Rating Agency selected by the Board of Trustees of the Fund) is equal to one of the ratings set forth in the table below, the Dividend Rate applicable to such Series outstanding MTP Shares for such date will be adjusted by multiplying the Fixed Dividend Rate by the applicable percentage (expressed as a decimal) set forth opposite the applicable highest credit rating so assigned on such date to such Series outstanding MTP Shares by either S&P or Moody's as set forth in the table below.

**Dividend Rate Adjustment Schedule**

S&P	Moody's	Applicable Percentage
to	to	%
to	to	%
to	to	%
and lower	and lower	%

If no Rating Agency is rating an outstanding Series of MTP Shares, the Dividend Rate applicable to the MTP Shares of such Series for such date shall be adjusted by multiplying the Fixed Dividend Rate for such Series by % . The terms of the MTP Shares provide for the replacement of Moody's or S&P as Rating Agencies with respect to the MTP Shares in certain circumstances (see Rating Agencies ), and the ratings described above would in such event refer to the equivalent rating of the replacement Rating Agency. In addition, if a Rating Agency replaces any credit rating used in the determination of the Dividend Rate with a replacement credit rating, references to the replaced credit rating shall thereafter refer to the replacement credit rating. No adjustment to the Dividend Rate shall result in the Dividend Rate being less than the Fixed Dividend Rate.

*Adjustment to Fixed Dividend Rate Default Period.* The Dividend Rate will be adjusted to the Default Rate in the following circumstances. Subject to the cure provisions below, a Default Period with respect to MTP Shares will commence on a date the Fund fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on the (i) applicable Dividend Payment Date, Deposit Securities sufficient to pay the full amount of any dividend on MTP Shares payable on the applicable Dividend Payment Date (a Dividend Default ) or (ii) applicable Redemption Date (as defined below), Deposit Securities sufficient to pay the full amount of the redemption price payable on such Redemption Date (a Redemption Default and, together with a Dividend Default, referred to as a Default ). Subject to the cure provisions in the next paragraph below, a Default Period with respect to a Dividend Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid redemption price shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of a Default, the applicable dividend rate for each day during the Default Period will be equal to the Default Rate. The Default Rate for any calendar day shall be equal to the applicable Dividend Rate in effect on such day plus five percent (5%) annually.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any redemption price due (if such default is not solely due to the willful failure of the Fund) is deposited irrevocably in trust, in same-day funds with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.



*Mechanics of Payment of Dividends.* Not later than 12:00 noon, New York City time, on a Dividend Payment Date, the Fund is required to deposit with the Redemption and Paying Agent sufficient funds for the payment of dividends in the form of Deposit Securities. Deposit Securities will generally consist of (i) cash or cash equivalents; (ii) direct obligations of the United States or its agencies or instrumentalities that are entitled to the full faith and credit of the United States ( U.S. Government Obligations ); (iii) securities that constitute municipal securities as described in this prospectus, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of income that is exempt from federal income taxes ( Municipal Obligations ) that have credit ratings from at least one nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Securities Exchange Act of 1934, as amended (the Exchange Act and such a nationally recognized statistical rating organization a NRSRO ) that is the highest applicable rating generally ascribed by such NRSRO to Municipal Obligations with substantially similar terms; (iv) investments in money market funds registered under the 1940 Act and certain similar investment vehicles that qualify under Rule 2a-7 under the 1940 Act that invest in Municipal Obligation, U.S. Government Obligations or any combination thereof; or (v) any letter of credit from a bank or other financial institution that has a credit rating from at least one NRSRO that is the highest applicable rating generally ascribed by such NRSRO to bank deposits or short-term debt of similar banks or other financial institutions, in each case that are either a demand obligation payable to the holder on any business day or that has a maturity date, mandatory redemption date or mandatory payment date, preceding the relevant Redemption Date, Dividend Payment Date or other payment date. The Fund does not intend to establish any reserves for the payment of dividends.

All Deposit Securities paid to the Redemption and Payment Agent for the payment of dividends will be held in trust for the payment of such dividends to the holders of MTP Shares. Dividends will be paid by the Redemption and Payment Agent to the holders of MTP Shares as their names appear on the registration books of the Fund. Dividends that are in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date. Such payments are made to holders of MTP Shares as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date thereof, as may be fixed by the Board of Trustees. Any payment of dividends in arrears will first be credited against the earliest accumulated but unpaid dividends. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on any MTP Shares which may be in arrears. See Default Period.

Upon failure to pay dividends for two years or more, the holders of MTP Shares will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of MTP Shares upon any failure to pay dividends on MTP Shares.

*Distributions with respect to Taxable Allocations.*

Holders of shares of each Series of MTP Shares will be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor, additional distributions payable with respect to Taxable Allocations (as defined below) that are paid with respect to shares of such Series in accordance with one of the procedures described in the following three paragraphs as set forth below.

Each year, the Fund will allocate exempt interest dividends, ordinary income dividends, and capital gain distributions, between its common shares and Preferred Stock, including MTP Shares, in proportion to the total dividends paid to each class during or with respect to such year. See Tax Matters Federal Income Tax Treatment of Holders of MTP Shares. ] In general, the Fund intends to provide notice to the Redemption and Paying Agent prior to the commencement of any Dividend Period for MTP Shares of the amount of a Taxable Allocation that will be made in respect of such Series for such Dividend Period (a Notice of Taxable Allocation ). Such Notice of Taxable Allocation will state the amount of the dividends payable in respect of each share of the applicable Series for such Dividend Period that will be treated as a Taxable Allocation and the amount of any Additional Amount Payments (as defined below) to be paid in respect of such Taxable Allocation. If the Fund provides a Notice of Taxable Allocation with respect to dividends payable on shares of a Series of

MTP Shares for a Dividend Period, the Fund will, in addition to and in conjunction with the payment of such dividends payable, make a supplemental distribution in respect of each MTP Share of such Series for such Dividend Period by an additional amount equal to the Additional Amount Payment payable in respect of the Taxable Allocation paid on such MTP Share for such Dividend Period.

If the Fund does not provide a Notice of Taxable Allocation as provided above with respect to a Taxable Allocation that is made in respect of shares of a Series of MTP Shares, the Fund may make one or more supplemental distributions on such Series equal to the amount of such Taxable Allocation. Any such supplemental distribution in respect of shares of a Series may be declared and paid on any date, without reference to any regular Dividend Payment Date, to the holders of shares of such Series as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date of such supplemental distribution, as may be fixed by the Board of Trustees.

If in connection with a redemption of MTP Shares, the Fund makes a Taxable Allocation without having either given advance notice thereof or made one or more supplemental distributions as described above, the Fund will direct the Redemption and Paying Agent to send an Additional Amount Payment in respect of such Taxable Allocation, and an accompanying notice as to the amount thereof, to each holder of such shares at such holder's address as the same appears or last appeared on the record books of the Fund.

The Fund will not be required to pay Additional Amount Payments with respect to any shares of Series of MTP Shares with respect to any net capital gains or other taxable income determined by the Internal Revenue Service to be allocable in a manner different from the manner used by the Fund.

The term "Taxable Allocation" as used above means, with respect to any Series, the allocation of any net capital gains or other income taxable for federal income tax purposes to a dividend paid in respect of such Series. The term "Additional Amount Payment" means a payment to a holder of MTP Shares of an amount which, when taken together with the aggregate amount of Taxable Allocations made to such holder to which such Additional Amount Payment relates, would cause such holder's dividends in dollars (after federal income tax consequences) from the aggregate of such Taxable Allocations and the related Additional Amount Payment to be equal to the dollar amount of the dividends that would have been received by such holder if the amount of such aggregate Taxable Allocations would have been excludable (for federal income tax purposes) from the gross income of such holder. Such Additional Amount Payment will be calculated (i) without consideration being given to the time value of money; (ii) assuming that no holder of MTP Shares is subject to the federal alternative minimum tax with respect to dividends received from the Fund; and (iii) assuming that each Taxable Allocation and each Additional Amount Payment (except to the extent such Additional Amount Payment is designated as an exempt-interest dividend under Section 852(b)(5) of the Code) would be taxable in the hands of each holder of MTP Shares at the maximum marginal regular federal individual income tax rate applicable to ordinary income or net capital gains, as applicable, or the maximum marginal regular federal corporate income tax rate applicable to ordinary income or net capital gains, as applicable, whichever is greater, in effect at the time such Additional Amount Payment is paid.

#### **Restrictions on Dividend, Redemption and Other Payments**

No full dividends and distributions will be declared or paid on shares of a Series of MTP Shares for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent dividend payment dates for all outstanding shares of Preferred Stock (including shares of other series of MuniFund Term Preferred Shares) have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each share of Preferred Stock. If full cumulative dividends and distributions due have not been paid on all outstanding shares of Preferred Stock of any series, any dividends and distributions being declared and paid on MTP Shares will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of Preferred Stock on the relevant dividend payment date. No holders of MTP Shares will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Statement.





For so long as any MuniFund Term Preferred Shares are outstanding, the Fund will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in common stock of the Fund) in respect of the common stock of the Fund, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any such common stock, or (z) pay any proceeds of the liquidation of the Fund in respect of such common stock, unless, in each case, (A) immediately thereafter, the Fund shall be in compliance with the 200% asset coverage limitations set forth under the 1940 Act, (B) all cumulative dividends and distributions of shares of all series of MuniFund Term Preferred Shares of the Fund and all other series of Preferred Stock ranking on a parity with the MTP Shares due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and sufficient funds or Deposit Securities as permitted by the terms of such Preferred Stock for the payment thereof deposited irrevocably with the Redemption and Paying Agent) and (C) the Fund will have deposited Deposit Securities with the Redemption and Paying Agent in accordance with the requirements described herein with respect to outstanding MuniFund Term Preferred Shares of any series to be redeemed pursuant to a Term Redemption or Asset Coverage or Effective Leverage Mandatory Redemption as described herein for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms described herein on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

Except as required by law, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent, provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding MTP Shares pursuant to the an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

As a fundamental policy, the Fund may not issue debt securities that rank senior to MTP Shares other than for temporary or emergency purposes. See the SAI, Investment Restrictions. Under the 1940 Act, the Fund may not (i) declare any dividend with respect to any preferred shares if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to any borrowings of the Fund that are senior securities representing indebtedness (as defined in the 1940 Act), would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its preferred shares) or (ii) declare any other distribution on the preferred shares or purchase or redeem preferred shares if at the time of the declaration or redemption (and after giving effect thereto), asset coverage with respect to such borrowings that are senior securities representing indebtedness would be less than 300% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). Notwithstanding the 1940 Act's requirements, MTP Shares have a higher Asset Coverage of at least 225% instead of 200%. Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of capital stock) and evidencing indebtedness and could include the Fund's obligations under any borrowings. For purposes of determining asset coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term senior security also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the Fund at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 calendar days and is not extended or renewed; otherwise it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% statutory asset coverage requirements described above apply in connection with

dividends or distributions on or purchases or redemptions of preferred shares, such asset coverages may be calculated on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of the applicable determination.

### **Asset Coverage**

If the Fund fails to maintain 225% Asset Coverage as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided below. Asset Coverage means asset coverage of a class of senior security which is a stock, as defined for purposes of Section 18(h) of the 1940 Act as in effect on the date of the Statement, determined on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of such determination.

### **Effective Leverage Ratio**

If the Fund's Effective Leverage Ratio exceeds [50%] as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided below. The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock for purposes of the 1940 Act, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities or sufficient funds (in accordance with the terms of such senior securities) to the paying agent for such senior securities or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption and (2) any such senior securities that are to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities or sufficient funds to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedures) of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (other than liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate trust certificates); and (B) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund.

### **Redemption**

*Term Redemption.* The Fund is required to provide for the mandatory redemption (the Term Redemption) of all of the Series 2012 MTP Shares on September 1, 2012, all of the Series 2013 MTP Shares on September 1, 2013 and all of the Series 2014 MTP Shares on September 1, 2014 (each a Term Redemption Date), each at a redemption price equal to the Liquidation Preference per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the applicable Term Redemption Date (the Term Redemption Price).

*Mandatory Redemption for Asset Coverage and Effective Leverage Ratio.*

Asset Coverage. If the Fund fails to have Asset Coverage of at least 225% as provided in the Statement and such failure is not cured as of the close of business on the Asset Coverage Cure Date, the Fund will fix a redemption date and proceed to redeem the number of shares of Preferred Stock as described below at a price per share equal to the liquidation value per share of the applicable Preferred Stock plus accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for redemption by

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the Board of Trustees (the Mandatory Redemption Price ). The Fund will redeem out of funds legally available the number of shares of Preferred Stock (which may include at the sole option of the Fund any number or proportion of MTP Shares) equal to the lesser of (i) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the

Asset Coverage Cure Date, would result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available in accordance with the Declaration of Trust of the Fund and applicable law. Notwithstanding the foregoing sentence, in the event that shares of Preferred Stock are redeemed pursuant to the Statement, the Fund may at its sole option, but is not required to, redeem a sufficient number of MTP Shares that, when aggregated with other shares of Preferred Stock redeemed by the Fund, permits the Fund to have with respect to the shares of Preferred Stock (including MTP Shares) remaining outstanding after such redemption, Asset Coverage on such Asset Coverage Cure Date of as much as 275%. The Fund will effect a redemption on the date fixed by the Fund, which date will not be later than [45] calendar days after the Asset Coverage Cure Date, except that if the Fund does not have funds legally available for the redemption of all of the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed or the Fund otherwise is unable to effect such redemption on or prior to [45] calendar days after the Asset Coverage Cure Date, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares of a Series are to be redeemed pursuant to the Asset Coverage mandatory redemption provisions above, the MTP Shares of such Series to be redeemed will be selected either (i) pro rata among MTP Shares of such Series, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Effective Leverage Ratio. If the Fund fails to comply with the Effective Leverage Ratio (as defined above) requirement as of the close of business on any Business Day on which such compliance is determined and such failure is not cured as of the close of business on the Effective Leverage Ratio Cure Date, the Fund will within thirty days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio of 50% or less by (A) engaging in transactions involving or relating to the floating rate trust certificates not owned by the Fund and/or the residual floating rate trust certificates owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming in accordance with the Fund's Declaration of Trust a sufficient number of shares of Preferred Stock, which at the Fund's sole option may include any number or proportion of MuniFund Term Preferred Shares, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B). Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price.

On the Redemption Date for a redemption contemplated by clause (B) in the paragraph above, the Fund will not redeem more than the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Fund's Declaration of Trust and applicable law. If the Fund is unable to redeem the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed in accordance with clause (B) in the paragraph above due to the unavailability of legally available funds, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares of a Series are to be redeemed pursuant to the Effective Leverage Ratio mandatory redemption provisions above, the MTP Shares of such Series to be redeemed will be selected either (A) pro rata among MTP Shares of such Series, (B) by lot or (C) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Optional Redemption. On any Business Day following the expiration of the Non-Call Period for a Series of MTP Shares or on any Business Day during a Rating Downgrade Period for a Series of MTP Shares (any such Business Day, an Optional Redemption Date), the Fund may redeem in whole or from time to time in part outstanding MTP Shares, at a redemption price equal to the Liquidation Preference, plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Fund, but excluding interest thereon), plus the applicable Optional Redemption Premium per share (as calculated below) (the Optional Redemption Price). The Optional Redemption Premium with respect to each MTP Share will be an amount equal to:

- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after the first anniversary date of the first Dividend Payment Date for such MTP Shares and prior to the



18 month anniversary of the first Dividend Payment Date for such MTP Shares, 1.00% of the Liquidation Preference;

- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after the 18 month anniversary of the first Dividend Payment Date for such MTP Shares and prior to the 24 month anniversary of the first Dividend Payment Date for such MTP Shares, 0.5% of the Liquidation Preference; or
- if the Optional Redemption Date either occurs during a Rating Downgrade Period or occurs on or after the 24 month anniversary of the first Dividend Payment Date for such MTP Shares, 0.00% of the Liquidation Preference.

If fewer than all of the outstanding MTP Shares of a Series are to be redeemed pursuant to the optional redemption provisions above, the MTP Shares of such Series to be redeemed will be selected either (i) pro rata among MTP Shares of such Series, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable. Subject to the provisions of the Statement and applicable law, the Fund's Board of Trustees will have the full power and authority to prescribe the terms and conditions upon which MTP Shares will be redeemed from time to time.

The Fund may not on any date deliver a notice of redemption to redeem any MTP Shares pursuant to the optional redemption provisions described above unless on such date the Fund has available Deposit Securities for the Optional Redemption Date contemplated by such notice of redemption having a value not less than the amount (including any applicable premium) due to holders of MTP Shares by reason of the redemption of such MTP Shares on such Optional Redemption Date.

*Redemption Procedures.* The Fund will file a notice of its intention to redeem with the Securities and Exchange Commission so as to provide the 30 calendar day notice period contemplated by Rule 23c-2 under the 1940 Act, or such shorter notice period as may be permitted by the Securities and Exchange Commission or its staff.

If the Fund shall determine or be required to redeem, in whole or in part, MTP Shares, it will deliver a notice of redemption (a Notice of Redemption) by overnight delivery, by first class mail, postage prepaid or by electronic means to the holders of such MTP Shares to be redeemed, or request the Redemption and Paying Agent, on behalf of the Fund, to promptly do so by overnight delivery, by first class mail or by electronic means. A Notice of Redemption will be provided not more than 45 calendar days prior to the date fixed for redemption in such Notice of Redemption (the Redemption Date). Each Notice of Redemption will state: (i) the Redemption Date; (ii) the Series and number of MTP Shares to be redeemed; (iii) the CUSIP number(s) of such MTP Shares; (iv) the applicable Redemption Price of MTP Shares to be redeemed on a per share basis; (v) if applicable, the place or places where the certificate(s) for such MTP Shares (properly endorsed or assigned for transfer, if the Board of Trustees of the Fund will so require and the Notice of Redemption states) are to be surrendered for payment of the redemption price; (vi) that dividends on MTP Shares to be redeemed will cease to accumulate from and after the redemption date; and (vii) the provisions of the Statement under which such redemption is made. If fewer than all MTP Shares held by any holder are to be redeemed, the Notice of Redemption mailed to such holder shall also specify the number of MTP Shares to be redeemed from such holder or the method of determining such number. The Fund may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to a Statement that such redemption is subject to one or more conditions precedent and that the Fund will not be required to effect such redemption unless each such condition has been satisfied. No defect in any Notice of Redemption or delivery thereof will affect the validity of redemption proceedings except as required by applicable law.

If the Fund gives a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Fund), the Fund will (i) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value at the time of deposit no less than the

redemption price of the MTP Shares to be redeemed on the Redemption Date and (ii) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable redemption price to the holders of MTP Shares called for redemption on the Redemption Date. The Fund may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment will be available at the opening of business on the Redemption Date as same day funds. Notwithstanding the foregoing, if the Redemption Date is the Term Redemption Date, then such deposit of Deposit Securities (which may come in whole or in part from the Term Redemption Liquidity Account) will be made no later than 15 calendar days prior to the Term Redemption Date.

Upon the date of the deposit of Deposit Securities by the Fund for purposes of redemption of MTP Shares, all rights of the holders of MTP Shares so called for redemption shall cease and terminate except the right of the holders thereof to receive the Term Redemption Price, Mandatory Redemption Price or Optional Redemption Price thereof, as applicable, (any of the foregoing referred to herein as the Redemption Price ) and such MTP Shares shall no longer be deemed outstanding for any purpose whatsoever (other than the transfer thereof prior to the applicable Redemption Date). The Fund will be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of MTP Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date will, to the extent permitted by law, be repaid to the Fund, after which the holders of MTP Shares so called for redemption shall look only to the Fund for payment of the Redemption Price. The Fund will be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

On or after a redemption date, each holder of MTP Shares in certified form (if any) that are subject to redemption will surrender the certificate(s) evidencing such MTP Shares to the Fund at the place designated in the Notice of Redemption and will then be entitled to receive the Redemption Price, without interest, and in the case of a redemption of fewer than all MTP Shares represented by such certificate(s), a new certificate representing MTP Shares that were not redeemed.

Notwithstanding the other redemption provisions described herein, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and shares of other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent as set forth herein, provided that the Fund will not be prevented from the purchase or acquisition of outstanding MTP Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

If any redemption for which a Notice of Redemption has been provided is not made by reason of the absence of legally available funds of the Fund in accordance with the Declaration of Trust of the Fund and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default will be deemed to have occurred if the Fund has failed to deposit in trust with the Redemption and Paying Agent the applicable Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent has not been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any MuniFund Term Preferred Shares dividends may be declared and paid on such MuniFund Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such MuniFund Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

**Term Redemption Liquidity Account and Liquidity Requirement**

On or prior to \_\_\_\_\_, with respect to Series 2012 MTP Shares, \_\_\_\_\_ with respect to Series 2013 and \_\_\_\_\_ with respect to Series 2014 MTP Shares (each the Liquidity Account Initial Date \_\_\_\_\_), the Fund will cause its custodian to segregate, by means of appropriate identification on its books and records or otherwise in accordance with its custodian's normal procedures, from the other assets of the Fund (the Term Redemption Liquidity Account \_\_\_\_\_) Deposit Securities or any other security or investment owned by the Fund that is rated not less than A3 by Moody's, A- by S&P, A- by Fitch or an equivalent rating by any other NRSRO (each a Liquidity Account Investment \_\_\_\_\_ and collectively the Liquidity Account Investments \_\_\_\_\_) with a Market Value (as defined in the Statement) equal to at least 110% of the Term Redemption Amount (as defined below) with respect to such MTP Shares. The Term Redemption Amount \_\_\_\_\_ for each Series of MTP Shares is equal to the Term Redemption Price to be paid on the Term Redemption Date for such Series, based on the number of shares of such Series then outstanding, assuming for this purpose that the Dividend Rate for such Series in effect at the Liquidity Account Initial Date will be the Dividend Rate in effect for such Series until the Term Redemption Date for such Series. If the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account for a Series of MTP Shares as of the close of business on any Business Day is less than 110% of the Term Redemption Amount with respect to such Series, then the Fund will cause the custodian and NAM to take all such necessary actions, including designating and/or segregating assets of the Fund as Liquidity Account Investments, so that the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account for such Series is at least equal to 110% of the Term Redemption Amount with respect to such Series not later than the close of business on the next succeeding Business Day. With respect to assets of the Fund designated and segregated as Liquidity Account Investments with respect to the MTP Shares, NAM, on behalf of the Fund, will be entitled to instruct the custodian on any date to release any Liquidity Account Investments from such segregation and to substitute therefor other Liquidity Account Investments not so designated and segregated, so long as (i) the assets of the Fund designated and segregated as Liquidity Account Investments at the close of business on such date have a Market Value (as defined in the Statement) equal to 110% of the Term Redemption Amount and (ii) the assets of the Fund designated and segregated as Deposit Securities at the close of business on such date have a Market Value equal to the Liquidity Requirement (if any) (as set forth below) that is applicable to such date. The Fund will cause the custodian not to permit any lien, security interest or encumbrance to be created or permitted to exist on or in respect of any Liquidity Account Investments included in the Term Redemption Liquidity Account for any Series of MTP Shares, other than liens, security interests or encumbrances arising by operation of law and any lien of the custodian with respect to the payment of its fees or repayment for its advance.

The Market Value of the Deposit Securities held in the Term Redemption Liquidity Account for the MTP Shares, from and after the 15th day of the calendar month that is the number of months preceding the month of the Term Redemption Date specified in the table set forth below, will not be less than the percentage of the Term Redemption Amount for the MTP Shares set forth below opposite such number of months (the Liquidity Requirement \_\_\_\_\_), but in all cases subject to the cure provisions of described below:

<u>Number of Months Preceding</u>	<u>Value of Deposit Securities as Percentage of Term Redemption Amount</u>
5	20%
4	40%
3	60%
2	80%
1	100%

If the aggregate Market Value of the Deposit Securities included in the Term Redemption Liquidity Account for the MTP Shares as of the close of business on any Business Day is less than the Liquidity Requirement for such Business Day, then the Fund will cause the segregation of additional or substitute Deposit Securities in respect of the Term Redemption Liquidity Account, so that the aggregate market value of the Deposit Securities



included in the Term Redemption Liquidity Account is at least equal to the Liquidity Requirement not later than the close of business on the next succeeding Business Day.

The Deposit Securities included in the Term Redemption Liquidity Account for a Series of MTP Shares may be applied by the Fund, in its discretion, towards payment of the Term Redemption Price for such Series. Upon the deposit by the Fund with the Redemption and Paying Agent of Deposit Securities having an initial combined Market Value sufficient to effect the redemption of the MTP Shares of a Series on the Term Redemption Date for such Series, the requirement of the Fund to maintain the Term Redemption Liquidity Account as described above will lapse and be of no further force and effect.

### **Liquidation Rights**

In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MuniFund Term Preferred Shares will be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the common stock, a liquidation distribution equal to the Liquidation Preference of \$10 per share, plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon), and such holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all MuniFund Term Preferred Shares, and any other outstanding shares of Preferred Stock, shall be insufficient to permit the payment in full to such holders of MuniFund Term Preferred Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other shares of Preferred Stock, then the available assets shall be distributed among the holders of such MuniFund Term Preferred Shares and such other series of Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Fund whether voluntary or involuntary, unless and until the Liquidation Preference on each outstanding MuniFund Term Preferred Share plus accumulated and unpaid dividends and distributions has been paid in full to the holders of MuniFund Term Preferred Shares, no dividends, distributions or other payments will be made on, and no redemption, repurchase or other acquisition by the Fund will be made by the Fund in respect of, the common stock of the Fund.

Neither the sale of all or substantially all of the property or business of the Fund, nor the merger, consolidation or reorganization of the Fund into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Fund will be a dissolution, liquidation or winding up, whether voluntary or involuntary, for purposes of the provisions relating to liquidation set forth in the Statement.

### **Voting Rights**

Except as otherwise indicated in the Fund's Declaration of Trust, the Statement, or as otherwise required by applicable law, each holder of MTP Shares will be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and the holders of outstanding shares of Preferred Stock, including the MTP Shares, will vote together with holders of shares of common stock of the Fund as a single class. Under applicable rules of the Exchange, the Fund is currently required to hold annual meetings of shareholders.

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In addition, the holders of outstanding shares of Preferred Stock, including the MTP Shares, will be entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock of the Fund, to elect two trustees of the Fund at all times. The holders of outstanding shares of common stock and Preferred Stock, including each Series of MTP Shares, voting together as a single class, will elect the balance of the trustees of the Fund.

Notwithstanding the foregoing, if (i) at the close of business on any dividend payment date for dividends on any outstanding share of Preferred Stock, including any outstanding MuniFund Term Preferred Shares, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the MTP Shares, equal to at least two full year's dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent for the payment of such accumulated dividends; or (ii) at any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of the trustees of the Fund (a period when either of the foregoing conditions exists, a Voting Period), then the number of members constituting the Board of Trustees of the Fund will automatically be increased by the smallest number that, when added to the two trustees elected exclusively by the holders of shares of Preferred Stock, including the MTP Shares, as described above, would constitute a majority of the Board as so increased by such smallest number; and the holders of the shares of Preferred Stock, including the MTP Shares, will be entitled as a class on a one-vote-per-share basis, to elect such additional trustees. The terms of office of the persons who are trustees at the time of that election will not be affected by the election of the additional trustees. If the Fund thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding shares of Preferred Stock, including MTP Shares, for all past dividend periods, or the Voting Period is otherwise terminated, (i) the voting rights stated in the above sentence shall cease, subject always, however, to the reversion of such voting rights in the holders of shares of Preferred Stock upon the further occurrence of any of the events described herein, and (ii) the terms of office of all of the additional trustees so elected will terminate automatically. Any Preferred Stock, including MTP Shares, issued after the date hereof will vote with MTP Shares as a single class on the matters described above, and the issuance of any other Preferred Stock, including MTP Shares, by the Fund may reduce the voting power of the holders of MTP Shares.

As soon as practicable after the accrual of any right of the holders of shares of Preferred Stock to elect additional trustees as described above, the Fund will call a special meeting of such holders and notify the Redemption and Paying Agent and/or such other person as is specified in the terms of such Preferred Stock to receive notice, (i) by mailing or delivery by electronic means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 30 calendar days after the date of the delivery by electronic means or mailing of such notice. If the Fund fails to call such a special meeting, it may be called at the expense of the Fund by any such holder on like notice. The record date for determining the holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of holders of shares of Preferred Stock held during a Voting Period at which trustees are to be elected, such holders, voting together as a class (to the exclusion of the holders of all other securities and classes of capital stock of the Fund), will be entitled to elect the number of additional trustees prescribed above on a one-vote-per-share basis.

Except as otherwise permitted by the terms of the Statement, so long as any MTP Shares are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of MTP Shares outstanding and other series of MuniFund Term Preferred Shares of the Fund outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Declaration of Trust or the Statement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of such MTP Shares and other series of MuniFund Term Preferred Shares of the Fund or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading Description of MTP Shares Issuance of Additional Preferred Stock will not be considered to materially and adversely affect the rights and preferences of MTP Shares, and (ii) a division of an MTP Share or any other series of MuniFund Term Preferred Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of MTP Shares or other series of MuniFund Term Preferred Shares, respectively. So long as any MTP Shares or any other series of MuniFund Term Preferred Shares of the Fund are outstanding, the Fund will not, without the affirmative vote or consent of at least 66<sup>2</sup>/<sub>3</sub>% of the holders of MTP Shares and other series of MuniFund Term Preferred Shares of the Fund outstanding at the time, voting as a separate class, file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent.

Except as otherwise permitted by the terms of the Statement, so long as any MTP Shares of a Series are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of the MTP Shares of such Series outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the appendix to the Statement relating to such Series, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such appendix of the MTP Shares of such Series or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading "Description of MTP Shares Issuance of Additional Preferred Stock" will not be considered to materially and adversely affect the rights and preferences of MTP Shares of any Series, and (ii) a division of an MTP Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of the MTP Shares of such Series; and provided, further, that no amendment, alteration or repeal of the obligations of the Fund to (x) pay the Term Redemption Price on a Term Redemption Date for a Series or (y) accumulate dividends at the Dividend Rate for a Series will be effected without, in each case, the prior unanimous vote or consent of the holders of such Series.

Unless a higher percentage is provided for in the Declaration of Trust of the Fund, (i) the affirmative vote of the holders of at least a majority of the shares of Preferred Stock, including the MuniFund Term Preference Shares outstanding at the time, voting as a separate class, will be required to approve any conversion of the Fund from a closed-end to an open-end investment company, (ii) to approve any plan of reorganization (as such term is defined in Section 2(a)(33) of the 1940 Act) adversely affecting such shares of Preferred Stock or (iii) to approve any other action requiring a vote of security holders of the Fund under Section 13(a) of the 1940 Act. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (i) 67% or more of such shares present at a meeting, if the holders of more than 50% of such shares are present or represented by proxy at such meeting, or (ii) more than 50% of such shares, whichever is less.

For purposes of determining any rights of the holders of MTP Shares to vote on any matter, whether such right is created by the Statement, by the provisions of the Declaration of Trust, by statute or otherwise, no holder of MTP Shares will be entitled to vote any MTP Shares and no MTP Shares will be deemed to be outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such MTP Shares will have been given in accordance with the Statement, and the Redemption Price for the redemption of such MTP Shares will have been irrevocably deposited with the Redemption and Paying Agent for that purpose. No MTP Shares held by the Fund will have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

[Notwithstanding anything herein to the contrary, the Rating Agency Guidelines discussed below, as they may be amended from time to time by the respective Rating Agency, will be reflected in a written document and may be amended by the respective Rating Agency without the vote, consent or approval of the Fund, the Board of Trustees of the Fund and any holder of shares of Preferred Stock, including any MTP Shares, or any other shareholder of the Fund.]

Unless otherwise required by law or the Declaration of Trust, holders of MTP Shares will not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in the "Voting Rights" section of the Statement. The holders of MTP Shares will have no rights to cumulative voting. In the event that the Fund fails to declare or pay any dividends on MTP Shares, the exclusive remedy of the holders will be the right to vote for additional trustees as discussed above; provided that the foregoing does not affect the obligation of the Fund to pay dividends at the Default Rate as discussed above.

### **Rating Agencies**

The Fund will use commercially reasonable efforts to cause at least one Rating Agency to issue a credit rating with respect to each Series of MTP Shares for so long as such Series is outstanding (which credit rating



may consist of a credit rating on the MuniFund Term Preferred Shares generally or the Preferred Stock generally). Rating Agency means any of Moody's, S&P or Fitch, as designated by the Board of Trustees from time to time to be a Rating Agency for purposes of the Statement. The Board of Trustees has initially designated Moody's and S&P to be Rating Agencies. The Fund will use commercially reasonable efforts to comply with any Rating Agency Guidelines. [Rating Agency Guidelines are guidelines of any Rating Agency, as they may be amended or modified from time to time, compliance with which is required to cause such Rating Agency to continue to issue a rating with respect to a Series of MTP Shares for so long as such Series is outstanding.] The Board of Trustees may elect to remove any Rating Agency previously designated by the Board of Trustees to act as a Rating Agency for purposes of the Statement (provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares), and may elect to replace any Rating Agency previously designated as a Rating Agency by the Board of Trustees with any other Rating Agency, if such replacement Rating Agency has at the time of such replacement (i) issued a rating for the MTP Shares of such Series and (ii) entered into an agreement with the Fund to continue to issue such rating subject to the Rating Agency's customary conditions. [A copy of the current Rating Agency Guidelines will be provided to any holder of MTP Shares promptly upon request therefor made by such holder to the Fund by writing the Fund at 333 West Wacker Dr., Chicago, Illinois 60606.]

### **Issuance of Additional Preferred Stock**

So long as any MTP Shares are outstanding, the Fund may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Fund representing stock under Section 18 of the 1940 Act, ranking on a parity with MuniFund Term Preferred Shares as to payment of dividends and distributions of assets upon dissolution, liquidation or the winding up of the affairs of the Fund, in addition to then outstanding Series of MTP Shares, including additional series of MuniFund Term Preferred Shares, and authorize, issue and sell additional shares of any series then outstanding or so established and created, including additional MTP Shares, in each case in accordance with applicable law, provided that the Fund will, immediately after giving effect to the issuance of such additional Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of Preferred Stock for which a redemption notice has been mailed prior to such issuance, have Asset Coverage of at least 225%.

### **Actions on Other than Business Days**

Unless otherwise provided herein or in the Statement, if the date for making any payment, performing any act or exercising any right is not a Business Day, such payment will be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount will accrue for the period between such nominal date and the date of payment.

## **THE FUND'S INVESTMENTS**

### **Investment Objectives and Policies**

The Fund's investment objectives are:

- to provide current income exempt from regular federal income tax; and
- to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax.

Under normal market conditions, the Fund will invest at least 80% of its net assets in a portfolio of municipal securities that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon. This 80% test includes inverse floating rate securities whose underlying bonds are covered by insurance guaranteeing the timely payment of principal and interest thereon. In addition, for purposes of this 80% test, insurers must have a claims-paying ability rate at least A by Moody's, S&P or Fitch at the time of purchase or at the time the municipal security is insured while in the Fund's portfolio.

Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated AA or better by an NRSRO at the time of purchase, (ii) municipal securities rated Aa or AA or better by an NRSRO or that are unrated but judged to be of comparable quality by NAM, at the time of purchase, or (iii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest. Under normal circumstances, the Fund may invest up to 20% of its Managed Assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Baa or BBB or better by an NRSRO or (ii) rated at least Baa or BBB or better by an NRSRO or that are unrated but judged to be of comparable quality by NAM, at the time of purchase. As previously defined, Managed Assets means the Fund's net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) or Preferred Stock outstanding. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, NAM may consider such factors as NAM's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. A general description of NRSRO (*i.e.*, Moody's, S&P and Fitch) ratings of municipal securities is set forth in Appendix B to the SAI. The Fund may also invest in securities of other open- or closed-end investment companies that invest primarily in municipal bonds of the types in which the Fund may invest directly.

Underrated municipal securities are those municipal securities whose ratings do not, in NAM's opinion, reflect their true value. They may be underrated because of the time that has elapsed since their last ratings, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in NAM's opinion, are worth more than their market value. They may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular municipal issuer). NAM may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that NAM considers undervalued. NAM believes that the prices of these municipal securities should ultimately reflect their true value.

The Fund also may invest up to 15% of its net assets in inverse floating rate securities. The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Upon NAM's recommendation, during temporary defensive periods and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal income taxes. For more information, see the SAI.



The Fund cannot change (i) its investment objectives or (ii) its policy to invest at least 80% of its net assets in a portfolio of municipal bonds that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon without the approval of the holders of a majority of the outstanding shares of common shares and Preferred Stock, voting together, and of the holders of a majority of the outstanding Preferred Stock, voting separately. For this purpose, a majority of the outstanding shares means the vote of (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy; or (2) more than 50% of the shares, whichever is less.

The Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of its assets, the Fund may not invest more than 5% of its total assets in the securities of any single issuer.

### **Certain Trading Strategies of the Fund**

*When-Issued and Delayed Delivery Transactions.* The Fund may buy and sell municipal securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. On such transactions, the payment obligation and the interest rate are fixed at the time the purchaser enters into the commitment. Beginning on the date the Fund enters into a commitment to purchase securities on a when-issued or delayed delivery basis, the Fund is required under the rules of the Securities and Exchange Commission to maintain in a separate account liquid assets, consisting of cash, cash equivalents or liquid securities having a market value at all times of at least equal to the amount of any delayed payment commitment. Income generated by any such assets which provide taxable income for federal income tax purposes is includable in the taxable income of the Fund and, to the extent distributed, will be taxable distributions to shareholders. The commitment to purchase securities on a when-issued or delayed delivery or forward basis may involve an element of risk because no interest accrues on the bonds prior to settlement and at the time of delivery the market value may be less than their cost.

*Portfolio Turnover.* The Fund may buy and sell municipal securities to accomplish its investment objectives in relation to actual and anticipated changes in interest rates. The Fund also may sell one municipal security and buy another of comparable quality at about the same time to take advantage of what NAM believes to be a temporary price disparity between the two bonds that may result from imbalanced supply and demand. The Fund also may engage in a limited amount of short-term trading, consistent with its investment objectives. The Fund may sell securities in anticipation of a market decline (a rise in interest rates) or buy securities in anticipation of a market rise (a decline in interest rates) and later sell them, but the Fund will not engage in trading solely to recognize a gain. The Fund will attempt to achieve its investment objectives by prudently selecting municipal securities with a view to holding them for investment. Although the Fund cannot accurately predict its annual portfolio turnover rate, the Fund expects, though it cannot guarantee, that its annual portfolio turnover rate generally will not exceed 100% under normal circumstances. For the fiscal year ended October 31, 2008, the Fund's portfolio turnover rate was 7%. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. In addition, high portfolio turnover may result in the realization of net short term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income.

## **PORTFOLIO COMPOSITION**

### **Municipal Securities**

*General.* The Fund may invest in various municipal securities, including municipal bonds and notes and other securities issued to finance and refinance public projects, and other related securities that provide for the payment of income that is exempt from regular federal income tax.

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States, local governments and municipalities issue municipal securities to raise money for public purposes such as building public facilities, refinancing outstanding obligations, and financing internal operating expenses.

Municipal securities are generally either general obligation bonds, which are backed by the full faith and credit of the issuer and may be repaid from any revenue source, or revenue bonds, which may be repaid only from the revenues of a specific facility or source. The Fund also may buy municipal securities that represent interests in lease obligations. These securities carry special risks because the issuer may not be required to appropriate money annually to make payments under the lease. To reduce this risk, the Fund will only buy these securities where the issuer has a strong incentive to continue making appropriations until the municipal security matures. The Fund does not have any limits on investing in lease obligations that do not contain a non-appropriation clause. The Fund may invest no more than 10% of its net assets in municipal securities issued by U.S. possessions or territories, which pay interest exempt from regular federal income tax.

The Fund may buy municipal securities that pay a variable or floating rate of interest that changes with changes in specified market rates or indices, such as a bank prime rate or a tax-exempt money market index.

Yields on municipal securities depend on many factors, including the condition of the general money market and the municipal security market, the size of a particular offering, and the maturity and rating of a particular municipal security. Moody's, S&P's and Fitch's ratings represent their opinions of the quality of a particular municipal security, but these ratings are general and are not absolute quality standards. Therefore, municipal securities with the same maturity, coupon, and rating may have different yields, while municipal securities with the same maturity and coupon and different ratings may have the same yield. The market value of municipal securities will vary with changes in interest rates and in the ability of their issuers to make interest and principal payments.

Obligations of municipal security issuers are subject to bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors. These obligations also may be subject to future federal or state laws or referenda that extend the time to payment of interest and/or principal, or that constrain the enforcement of these obligations or the power of municipalities to levy taxes. Legislation or other conditions may materially affect the power of a municipal security issuer to pay interest and/or principal when due.

*Municipal Leases and Certificates of Participation.* The Fund may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase that is issued by a state or local government to acquire equipment and facilities. Income from such obligations generally is exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Fund's original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where NAM believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the

right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days' notice, of all or any part of the Fund's participation interest in the underlying municipal securities, plus accrued interest.

*Municipal Notes.* Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer's receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer's payment obligations under the notes or that refinancing will be otherwise unavailable.

*Pre-Refunded Municipal Securities.* The principal of, and interest on, pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. Government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

*Private Activity Bonds.* Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues.

*Inverse Floating Rate Securities.* Inverse floating rate securities (sometimes referred to as inverse floaters) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal securities. The special purpose trust typically sells two classes of beneficial interests or securities: short-term floating rate municipal securities (sometimes referred to as short-term floaters or tender option bonds), which are sold to third party investors, and inverse floating rate municipal securities, which the Fund would purchase. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As

consideration for providing the option, the financial institution receives periodic fees. The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, the institution granting the tender option will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal security deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the total face value of the short-term floaters in relation to the value of the residual inverse floaters that are issued by the special purpose trust. All voting rights and decisions to be made with respect to any other rights relating to the municipal securities held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal security deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters' value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying securities due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.*, when bond values are falling), but tend to out-perform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a tender option bond trust.

The Fund invests in both inverse floating rate securities and tender option bonds (as discussed below) issued by the same special purpose trust.

*Tender Option Bonds.* The Fund may also invest in tender option bonds, as described above, issued by special purpose trusts. Tender option bonds may take the form of short-term floating rate securities or the option period may be substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter-term than the final maturity or first call date of the underlying bond deposited in the trust, the Fund as the holder of the tender option bond relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the trust provide for a liquidation of the municipal security deposited in the trust and the application of the proceeds to pay off the tender option bond. The trusts that are organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the tender option bond. Generally, the trusts do not have recourse to the investors in the residual inverse floating rate securities.

*Special Taxing Districts.* Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds.

Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to

increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

## Insurance

*Municipal Bond Insurance.* Each insured municipal bond the Fund acquires will be covered by original issue insurance, secondary market insurance or portfolio insurance. The Fund expects initially to emphasize investments in municipal bonds insured under bond-specific insurance policies *i.e.*, original issue or secondary market insurance). The Fund may obtain portfolio insurance from the insurers listed in Appendix E to the SAI. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated AA or better by Moody's, S&P or Fitch at the time of purchase or (ii) backed by an escrow or trust account containing sufficient U.S. Government or U.S. Government agency securities to ensure timely payment of principal and interest. Under normal circumstances, the Fund may invest up to 20% of its Managed Assets in municipal securities (i) covered by insurance from insurers with a claims-paying ability rated Baa or BBB or better by Moody's, S&P or Fitch or (ii) rated at least Baa or BBB by Moody's, S&P or Fitch at the time of purchase or that are unrated but judged to be of comparable quality by NAM.

Municipal securities covered by original issue insurance or secondary market insurance are themselves typically assigned a rating, by virtue of the rating of the claims-paying ability of the insurer and would generally be assigned a lower rating if the ratings were based primarily upon the credit characteristics of the issuer without regard to the insurance feature. By way of contrast, the ratings, if any, assigned to municipal securities insured under portfolio insurance will be based primarily upon the credit characteristics of the issuer, without regard to the insurance feature. While in the portfolio of the Fund, however, a municipal security backed by portfolio insurance will effectively be of the same credit quality as a municipal bond issued by an issuer of comparable credit characteristics that is backed by original issue insurance or secondary market insurance.

The Fund will not be required to dispose of the securities in the event Moody's, S&P or Fitch, as the case may be, downgrades its assessment of the claims-paying ability of a particular insurer or the credit characteristics of a particular issuer. In this connection, it should be noted that in the event Moody's, S&P or Fitch or all of them should downgrade its assessment of the claims-paying ability of a particular insurer, it or they could also be expected to downgrade the ratings assigned to municipal securities insured by such insurer, and municipal securities insured under portfolio insurance issued by such insurer also would be of reduced quality in the portfolio of the Fund. Moody's, S&P and Fitch continually assess the claims-paying ability of insurers and the credit characteristics of issuers, and there can be no assurance that they will not downgrade their assessments subsequent to the time the Fund purchases securities. As of \_\_\_\_\_, 2009, there are no longer any bond insurers rated AAA by all of Moody's, S&P and Fitch and at least one rating agency has placed each insurer on negative credit watch, credit watch evolving, credit outlook developing, or rating withdrawn, which may presage one or more rating reductions for any insurer in the future. See Risks Insurance Risk.

The value of municipal bonds covered by portfolio insurance that are in default or in significant risk of default will be determined by separately establishing a value for the municipal bond and a value for the Portfolio Insurance.

*Original Issue Insurance.* Original issue insurance is purchased with respect to a particular issue of municipal securities by the issuer thereof or a third party in conjunction with the original issuance of such municipal securities. Under this insurance, the insurer unconditionally guarantees to the holder of the municipal security the timely payment of principal and interest on such obligations when and as these payments become due but not paid by the issuer, except that in the event of the acceleration of the due date of the principal by reason of mandatory or optional redemption (other than acceleration by reason of a mandatory sinking fund payment), default or otherwise, the payments guaranteed may be made in the amounts and at the times as payment of principal would have been due had there not been any acceleration. The insurer is responsible for



these payments less any amounts received by the holder from any trustee for the municipal security issuer or from any other source. Original issue insurance does not guarantee payment on an accelerated basis, the payment of any redemption premium (except with respect to certain premium payments in the case of certain small issue industrial development and pollution control municipal securities), the value of the Fund's shares, the market value of municipal securities or payments of any tender purchase price upon the tender of the municipal securities. Original issue insurance also does not insure against nonpayment of principal or interest on municipal securities resulting from the insolvency, negligence or any other act or omission of the trustee or other paying agent for these securities.

Original Issue Insurance remains in effect as long as the municipal securities it covers remain outstanding and the insurer remains in business, regardless of whether the Fund ultimately disposes of these municipal securities. Consequently, original issue insurance may be considered to represent an element of market value with respect to the municipal securities so insured, but the exact effect, if any, of this insurance on the market value cannot be estimated.

*Secondary Market Insurance.* Subsequent to the time of original issuance of a municipal security, the Fund or a third party may, upon the payment of a single premium, purchase insurance on that security. Secondary market insurance generally provides the same type of coverage as original issue insurance and, as with original issue insurance, secondary market insurance remains in effect as long as the municipal securities it covers remain outstanding and the insurer remains in business, regardless of whether the Fund ultimately disposes of these municipal securities.

One of the purposes of acquiring secondary market insurance with respect to a particular municipal security would be to enable the Fund to enhance the value of the security. The Fund, for example, might seek to purchase a particular municipal security and obtain secondary market insurance, for it if, in NAM's opinion, the market value of the security, as insured, less the cost of the secondary market insurance would exceed the current value of the security without insurance. Similarly, if the Fund owns but wishes to sell a municipal security that is then covered by portfolio insurance, the Fund might seek to obtain secondary market insurance for it if, in NAM's opinion, the net proceeds of the Fund's sale of the security, as insured, less the cost of the secondary market insurance would exceed the current value of the security. In determining whether to insure municipal securities the Fund owns, an insurer will apply its own standards, which correspond generally to the standards it has established for determining the insurability of new issues of municipal securities. See *Original Issue Insurance* above.

*Portfolio Insurance.* Portfolio insurance guarantees the payment of principal and interest on specified eligible municipal securities purchased by the Fund and presently held by the Fund. Except as described below, portfolio insurance generally provides the same type of coverage as is provided by original issue insurance or secondary market insurance. Municipal securities insured under a portfolio insurance policy would generally not be insured under any other policy. A municipal security is eligible for coverage under a policy if it meets certain requirements of the insurer. Portfolio insurance is intended to reduce financial risk, but the cost thereof and compliance with investment restrictions imposed under the policy will reduce the yield to shareholders of the Fund.

If a municipal security is already covered by original issue insurance or secondary market insurance, then the security is not required to be additionally insured under any portfolio insurance that the Fund may purchase. All premiums respecting municipal securities covered by original issue insurance or secondary market insurance are paid in advance by the issuer or other party obtaining the insurance.

Portfolio insurance policies are effective only as to municipal securities owned by and held by the Fund, and do not cover municipal securities for which the contract for purchase fails. A when-issued municipal obligation will be covered under a portfolio insurance policy upon the settlement date of the issue of such when-issued municipal security.



In determining whether to insure municipal securities held by the Fund, an insurer will apply its own standards, which correspond generally to the standards it has established for determining the insurability of new issues of municipal securities. See Original Issue Insurance above.

Each portfolio insurance policy will be noncancellable and will remain in effect so long as the Fund is in existence, the municipal securities covered by the policy continue to be held by the Fund, and the Fund pays the premiums for the policy. Each insurer will generally reserve the right at any time upon 90 days written notice to the Fund to refuse to insure any additional bonds purchased by the Fund after the effective date of such notice. The Fund's Board of Trustees generally will reserve the right to terminate each policy upon seven days written notice to an insurer if it determines that the cost of such policy is not reasonable in relation to the value of the insurance to the Fund.

Each portfolio insurance policy will terminate as to any municipal security that has been redeemed from or sold by the Fund on the date of redemption or the settlement date of sale, and an insurer will not have any liability thereafter under a policy for any municipal security, except that if the redemption date or settlement date occurs after a record date and before the related payment date for any municipal security, the policy will terminate for that municipal security on the business day immediately following the payment date. Each policy will terminate as to all municipal securities covered thereby on the date on which the last of the covered municipal securities mature are redeemed or are sold by the Fund.

One or more portfolio insurance policies may provide the Fund, pursuant to an irrevocable commitment of the insurer, with the option to exercise the right to obtain permanent insurance ( Permanent Insurance ) for a municipal security that is sold by the Fund. The Fund would exercise the right to obtain Permanent Insurance upon payment of a single, predetermined insurance premium payable from the sale proceeds of the municipal security. The Fund expects to exercise the right to obtain Permanent Insurance for a municipal security only if, in NAM's opinion, upon the exercise the net proceeds from the sale of the municipal security, as insured, would exceed the proceeds from the sale of the security without insurance.

The Permanent Insurance premium for each municipal security is determined based upon the insurability of each security as of the date of purchase and will not be increased or decreased for any change in the security's creditworthiness unless the security is in default as to payment of principal or interest, or both. If such event occurs, the Permanent Insurance premium will be subject to an increase predetermined at the date of the Fund's purchase.

The Fund generally intends to retain any insured securities covered by portfolio insurance that are in default or in significant risk of default and to place a value on the insurance, which ordinarily will be the difference between the market value of the defaulted security and the market value of similar securities of minimum investment grade (that is, rated Baa or BBB) that are not in default. In certain circumstances, however, NAM may determine that an alternative value for the insurance, such as the difference between the market value of the defaulted bond and either its par value or the market value of similar securities that are not in default or in significant risk of default, is more appropriate. Except as described above for securities covered by portfolio insurance that are in default or subject to significant risk of default, the Fund will not place any value on the Portfolio Insurance in valuing the municipal securities it holds.

Because each portfolio insurance policy will terminate for municipal securities sold by the Fund on the date of sale, in which event the insurer will be liable only for those payments of principal and interest that are then due and owing (unless Permanent Insurance is obtained by the Fund), the provision for this insurance will not enhance the marketability of the Fund's securities, whether or not the securities are in default or in significant risk of default. On the other hand, because original issue insurance and secondary market insurance generally will remain in effect as long as the municipal securities they cover are outstanding, these insurance policies may enhance the marketability of these securities even when they are in default or in significant risk of default, but the exact effect, if any, on marketability, cannot be estimated. Accordingly, the Fund may determine to retain or, alternatively, to sell municipal securities covered by original issue insurance or secondary market insurance that are in default or in significant risk of default.



Premiums for a portfolio insurance policy are paid monthly, and are adjusted for purchases and sales of municipal bonds covered by the policy during the month. The yield on the Fund is reduced to the extent of the insurance premiums it pays. Depending upon the characteristics of the municipal securities held by the Fund, the annual premium rate for policies of portfolio insurance is estimated to range from 12 to 18 basis points of the value of the municipal securities covered under the policy.

### **Zero Coupon Bonds**

A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The market prices of zero coupon bonds are affected to a greater extent by changes in prevailing levels of interest rates and thereby tend to be more volatile in price than securities that pay interest periodically. In addition, the Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

### **Structured Notes**

The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending upon a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index or indices or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss. These types of investments may generate taxable income.

### **Other Investment Companies**

The Fund may invest up to 10% of its net assets in securities of other open- or closed-end investment companies (including exchange-traded funds (often referred to as ETFs)) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund may invest in investment companies that are advised by NAM or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the Securities and Exchange Commission. As a stockholder in an investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory and administrative fees with respect to assets so invested. Fund common shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies.

NAM will take expenses into account when evaluating the investment merits of an investment in the investment company relative to available municipal security investments. In addition, because the securities of other investment companies may be leveraged and subject to leverage risk, the Fund may indirectly be subject to those risks. See **Risks Other Investment Companies Risk**.



### **Derivatives**

The Fund may invest in certain derivative instruments including financial futures and options. See the SAI for additional information.

### **Portfolio Investments**

As used in this prospectus, the term "municipal securities" includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Fund, however, emphasizes investments in municipal securities with long- or intermediate-term maturities. The Fund buys municipal securities with different maturities and intends to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. As a result, the Fund's portfolio may include long-term and intermediate-term municipal securities. If the long-term municipal security market is unstable, the Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high quality, generally uninsured, short-term municipal securities that may either be tax-exempt or taxable. The Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Fund will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody's, S&P or Fitch, and that mature within one year from the date of issuance. The Fund's policies on securities ratings only apply when the Fund buys a security, and the Fund is not required to sell securities that have been downgraded. See Appendix B to the SAI for a description of securities ratings. The Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least \$1 billion, or repurchase agreements. The Fund intends to allocate taxable income on temporary investments, if any, proportionately between common shares and Preferred Stock, including MTP Shares, based on the percentage of total dividends distributed to each class for that year.

## RISKS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in MTP Shares. The section below does not describe all of the risks associated with an investment in the Fund. Additional risks and uncertainties may also adversely affect and impact the Fund.

### Risks of Investing in MTP Shares

*Interest Rate Risk MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on short and intermediate term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to its term redemption. See Description of MTP Shares Dividends and Dividend Periods and Secondary Market Risk.

*Secondary Market Risk.* Because the Fund has no prior trading history for exchange-listed, closed-end fund preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. There is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features. There is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

*Ratings Risk.* The Fund expects that, at issuance, each Series of MTP Shares will be rated and by Moody's and S&P, respectively and that such ratings will be a requirement of issuance of such Series by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency (including Moody's and S&P) is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency's ability to timely react to changes in an issuer's circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade a Series of MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices, though with higher resulting dividend rates than the Fixed Dividend Rate. If a Rating Agency downgrades a Series of MTP Shares of the Fund, the Fund is required to pay a higher dividend rate on those shares.

*Early Redemption Risk.* The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to MTP shareholders. For further information, see Description of MTP Shares Redemption and Description of MTP Shares Asset Coverage.

*Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal income taxation, the attractiveness of such shares in



relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. In addition, the Fund intends to treat each Series of MTP Shares as stock in the Fund for federal income tax purposes. Because there is no direct legal authority on the classification of instruments similar to MTP Shares, investors should be aware that the Internal Revenue Service (the IRS) could assert a contrary position meaning that the IRS could classify MTP Shares as debt. If the IRS prevailed on such a position, the Fund would not be able to pass through tax-exempt income to holders of MTP Shares, and dividends paid on MTP Shares (including dividends already paid) could become taxable. See Tax Matters. See also the opinion of counsel included as Appendix C to the SAI.

*Income Shortfall Risk.* The municipal securities held in the Fund's portfolio generally pay interest based on long-term yields. Long-term, as well as intermediate-term and short-term interest rates may fluctuate. If the interest rates paid on the municipal securities held by the Fund fall below the Fixed Dividend Rate, the Fund's ability to pay dividends on MTP Shares could be jeopardized.

*Subordination Risk.* While holders of MTP Shares will have equal liquidation and distribution rights to any other Preferred Stock that might be issued by the Fund, they will be subordinated to the rights of holders of senior indebtedness, if any, of the Fund. Therefore, dividends, distributions and other payments to MTP Shareholders in liquidation or otherwise may be subject to prior payments due to the holders of senior indebtedness. In addition, the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of Preferred Stock holders, including MTP shareholders. Currently, the Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. See the SAI, Investment Restrictions. If the Fund enters into borrowings in accordance with its fundamental investment policies, delayed delivery purchases and/or forward delivery contracts, the rights of lenders and counterparties in those transactions will also be senior to those of MTP shareholders.

*Credit Crisis and Liquidity Risk.* General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund's investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund's distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under Description of MTP Shares). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.

*Inflation Risk.* Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.

*Other Dividend Risks.* In addition to the interest rate risks noted above, the Fund may otherwise be unable to pay dividends on MTP Shares in extraordinary circumstances.

### **General Risks of Investing in the Fund**

*Credit Risk.* Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If rating agencies lower their ratings of municipal securities in the Fund's portfolio, the value of those securities could decline, which could jeopardize the rating agencies ratings of MTP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which the Fund invests, defaults by issuers of municipal securities could have a negative impact on the Fund's ability to pay dividends on the



MTP Shares and could result in the redemption of some or all of the MTP Shares.

*Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. If the current national economic recession continues, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected. The taxing power of any government entity may be limited by provisions of state constitutions or laws and an entity's credit will depend on many factors, including the entity's tax base, the extent to which the entity relies on federal or state aid, and other factors which are beyond the entity's control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.

Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal securities generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. These bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principal or interest on such mortgage revenue bonds.

*Insurance Risk.* The Fund purchases municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Many significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers' capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. As of [REDACTED], 2009, there are no longer any bond insurers rated AAA by all of Moody's, S&P and Fitch and at least one rating agency has placed each insurer on negative credit watch, credit watch evolving, credit outlook developing, or rating withdrawn, which may presage one or more rating reductions for any insurer in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. In such a case, the value of insurance associated with a

municipal security would decline and the insurance and may not add any value. As concern has increased about the balance sheets of insurers, prices on insured bonds especially those bonds issued by weaker underlying credits declined. [Most insured bonds are currently being valued according to their fundamentals as if they were uninsured.] The insurance feature of a municipal security normally provides that it guarantees the full payment of principal and interest when due through the life of an insured obligation, but does not guarantee the market value of the insured obligation.

*Interest Rate Risk The Fund.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.

*Inverse Floating Rate Securities Risk.* The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The economic effect of leverage through the Fund's purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibility that the Fund's long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a tender option bond trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings.]

*Taxability Risk.* The Fund will invest in municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for regular federal income tax purposes, and NAM will not independently verify that opinion. Subsequent to the Fund's acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund's shareholders to increased federal income tax liabilities.

Under highly unusual circumstances, the IRS may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

Distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and not eligible for favorable taxation as qualified dividend income), and capital gain dividends will be subject to capital gains taxes. In certain

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circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of a taxable distribution. See Tax Matters.

*Other Investment Companies Risk.* The Fund may invest in the securities of other investment companies. Such securities may be leveraged. As a result, the Fund may be indirectly exposed to leverage through an

investment in such securities. Utilization of leverage is a speculative investment technique and involves certain risks. An investment in securities of other investment companies that are leveraged may expose the Fund to higher volatility in the market value of such securities and the possibility that the Fund's long-term returns on such securities will be diminished.

*Deflation Risk.* Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of the Fund's portfolio.

*Counterparty Risk.* Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships. In the event of insolvency of a counterparty, the Fund may sustain losses or be unable to liquidate a derivatives position.

*Call Risk or Prepayment Risk.* During periods of declining interest rates or for other purposes, issuers may exercise their option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities. This is known as call or prepayment risk.

*Reinvestment Risk.* Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the Fund's portfolio's current earnings rate.

*Reliance on Investment Adviser.* The Fund is dependent upon services and resources provided by its investment adviser, NAM, and therefore NAM's parent, Nuveen Investments, Inc. ( "Nuveen Investments" ). Nuveen Investments, through its own business or the financial support of its affiliates, may not be able to generate sufficient cash flow from operations or ensure that future borrowings will be available in an amount sufficient to enable it to pay its indebtedness or to fund its other liquidity needs. Furthermore, NAM's ability to continue to fund these items may be affected by general economic, financial, competitive, legislative, legal and regulatory factors. In the event that market conditions do not substantially improve, Nuveen Investments may not be able to meet its financial covenants in 2009 and thereafter. Nuveen Investments' failure to satisfy the terms of its indebtedness may result in the accelerated payment of such indebtedness and may generally have an adverse effect on the financial condition of Nuveen Investments. For additional information on NAM and Nuveen Investments, including the financial condition of Nuveen Investments, see "Management of the Fund - Additional Information Related to the Investment Adviser and Nuveen Investments."

*Personnel Turnover Rate.* As a result of current deteriorating market conditions or other reasons, Nuveen Investments and NAM may need to implement cost reductions in the future which could make the retention of qualified and experienced personnel more difficult and could lead to personnel turnover.

*Certain Affiliations.* Certain broker-dealers may be considered to be affiliated persons of the Fund, NAM and/or Nuveen Investments, LLC. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund generally is precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit the Fund's ability to engage in securities transactions and take advantage of market opportunities.

*Anti-Takeover Provisions.* The Fund's Declaration of Trust and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status.

### HOW THE FUND MANAGES RISK

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority of the Fund's outstanding common shares and Preferred Stock, including MTP Shares, voting together as a single class, and the approval of the holders of a majority of the outstanding Preferred Stock voting as a separate class.

The Fund may not:

- Invest more than 25% of its total assets in securities of issuers in any one industry, other than municipal securities issued by states and local governments and their instrumentalities or agencies (not including those backed only by the assets and revenues of non-governmental users), and municipal securities issued or guaranteed by the U.S. Government or its instrumentalities or agencies; and
- Invest more than 5% of its total assets in securities of any one issuer (not including securities of the U.S. Government and its agencies, or the investment of 25% of the Fund's total assets).

See the SAI for additional fundamental and non-fundamental policies of the Fund.

In addition, Moody's and S&P, in connection with establishing and maintaining ratings on the Fund's MTP Shares, restrict the Fund's ability to borrow money, sell securities short, lend securities, buy and sell futures contracts, and write put or call options. The Fund does not expect that these restrictions will adversely affect its ability to achieve its investment objectives. These restrictions are not fundamental policies and the Fund may change them without shareholder approval.

### MANAGEMENT OF THE FUND

#### Trustees and Officers

The Fund's Board of Trustees is responsible for the management of the Fund, including supervision of the duties performed by NAM. The names and business addresses of the Fund's trustees and officers and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the SAI.

#### Investment Adviser and Portfolio Managers

NAM will be responsible for the Fund's overall investment strategy and its implementation. NAM also is responsible for managing the Fund's business affairs and providing certain clerical, bookkeeping and other administrative services.

NAM, 333 West Wacker Drive, Chicago, Illinois 60606, a registered investment adviser, is a wholly owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately \$115 billion of assets under management as of March 31, 2009, of which approximately \$57.5 billion was in municipal securities. Regarding this approximately \$57.5 billion of tax-exempt municipal securities, approximately \$ billion, \$ billion, \$ billion and \$ billion represent assets relating to closed-end municipal bond funds, open-end municipal bond funds, retail municipal managed accounts and institutional municipal managed accounts, respectively. At such time as the Fund receives an exemptive order permitting it to do so, or as otherwise permitted by the 1940 Act or the rules thereunder, the Fund may, without obtaining approval of the shareholders, retain an unaffiliated subadviser to perform some or all of the portfolio management functions on the Fund's behalf.

Paul Brennan, CFA, CPA, is portfolio manager of the Fund and is currently a portfolio manager for several national open- and closed-end funds. Mr. Brennan joined Nuveen in 1997 while at Flagship Financial which



Nuveen acquired. He earned his BS in Accountancy and Finance from Wright State University. He currently sits on the Nuveen Asset Management (NAM) Investment Management Committee.

Additional information about the portfolio manager's compensation, other accounts managed by him and other information is provided in the SAI. The SAI is available free of charge by calling (800) 257-8787 or by visiting Nuveen's website at [www.nuveen.com](http://www.nuveen.com).

### **Nuveen Investments**

On November 13, 2007, Nuveen Investments was acquired by an investor group led by Madison Dearborn Partners, LLC, a private equity firm based in Chicago, Illinois (the MDP Acquisition). The investor group led by Madison Dearborn Partners, LLC includes affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch), which has since been acquired by Bank of America. As a result of the MDP Acquisition, Merrill Lynch currently owns a 32% non-voting equity stake in Nuveen Investments, owns a \$30 million position in the \$250 million revolving loan facility of Nuveen Investments and holds two of ten seats on the board of directors of Nuveen Investments. also owns an interest in Nuveen Investments. Because these arrangements may give rise to certain conflicts of interest involving NAM and Bank of America (including Merrill Lynch), NAM has adopted policies and procedures intended to address these potential conflicts.

### **Additional Information Relating to NAM and Nuveen Investments**

The Fund is dependent upon services and resources provided by its adviser NAM and therefore the investment adviser's parent Nuveen Investments. Nuveen Investments significantly increased its level of debt in connection with the MDP Acquisition. As of December 31, 2008, Nuveen Investments had outstanding approximately \$3.86 billion in aggregate principal amount of indebtedness, with \$451.7 million of cash on hand. While Nuveen Investments believes that monies generated from operations and cash on hand will be adequate to fund debt service requirements, capital expenditures and working capital requirements for the foreseeable future, there can be no assurance that Nuveen Investments' business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable Nuveen Investments to pay its indebtedness or to fund its other liquidity needs. Nuveen Investments' ability to continue to fund these items and to service debt may be affected by general economic, financial, competitive, legislative, legal and regulatory factors and by its ability to refinance outstanding indebtedness with scheduled maturities beginning in 2010. Furthermore, these debt agreements include covenants requiring Nuveen Investments to meet certain obligations during the terms of the agreements. In the event that market conditions do not substantially improve, Nuveen Investments may breach certain of these covenants in 2009 or thereafter, which would require Nuveen Investments to renegotiate certain terms and conditions of its outstanding debt. To the extent that Nuveen Investments must renegotiate any such terms and conditions, the cost of such debt may increase and may result in more onerous terms and conditions, and may generally have an adverse effect on the financial condition of Nuveen Investments. In the event that Nuveen Investments breaches certain of the covenants included in its debt agreements, the breach of such covenants may result in the accelerated payment of its outstanding debt. Nuveen Investments believes, however, that potential adverse changes to the overall financial position and business operations would not adversely affect NAM's credit research and portfolio management operations and would not otherwise materially adversely affect NAM's ability to fulfill its obligations to the Fund under the Fund's investment management agreement. The risks, uncertainties and other factors related to Nuveen Investments business, the effects of which may cause its assets under management, earnings, revenues, and/or profit margins to decline, are described in its filings with the Securities and Exchange Commission, which are publicly available.

### **Investment Management Agreement**

Pursuant to an investment management agreement between NAM and the Fund, the Fund has agreed to pay an annual management fee for the services and facilities provided by NAM, payable on a monthly basis, based on the sum of a fund-level fee and a complex-level fee, as described below, according to the following schedule:



**Fund-Level Fee.** The fund-level fee shall be applied according to the following schedule:

Fund-Level Average Daily Managed Assets	Fund-Level Fee Rate
For the first \$125 million	0.4500%
For the next \$125 million	0.4375%
For the next \$250 million	0.4250%
For the next \$500 million	0.4125%
For the next \$1 billion	0.4000%
For net assets of \$2 billion and over	0.3750%

**Complex Level Fee.** The effective rates of the complex-level fee at various specified complex-wide asset levels are as indicated in the following table:

Complex-Level Asset Breakpoint Level(1)	Effective Rate At Breakpoint Level
\$55 billion	0.2000%
\$56 billion	0.1996%
\$57 billion	0.1989%
\$60 billion	0.1961%
\$63 billion	0.1931%
\$66 billion	0.1900%
\$71 billion	0.1851%
\$76 billion	0.1806%
\$80 billion	0.1773%
\$91 billion	0.1691%
\$125 billion	0.1599%
\$200 billion	0.1505%
\$250 billion	0.1469%
\$300 billion	0.1445%

- (1) Breakpoints apply up to the dollar amounts listed above. The complex-level fee is based on the aggregate daily managed assets (as managed assets is defined in each Nuveen Fund's investment management agreement with NAM, which generally includes assets attributable to any preferred shares that may be outstanding and any borrowings (including the issuance of commercial paper or notes)) of the Nuveen Funds. The complex-level fee was based on approximately \$53.4 billion as of March 31, 2009.

In addition to NAM's management fee, the Fund pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with NAM), custodian, transfer agency and dividend disbursing expenses, legal fees, expenses of its independent registered accounting firm, expenses of repurchasing shares, expenses of issuing any MTP Shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, listing fees and taxes, if any. All fees and expenses are accrued daily and deducted before payment of distributions to shareholders.

The basis for the Board of Trustees' continuation of the Fund's investment management agreement will be provided in Annual or Semi-Annual Reports to shareholders for the periods during which such continuations occur.

### NET ASSET VALUE

The Fund's custodian calculates the Fund's net asset value. The custodian uses prices for portfolio securities from a pricing service the Fund's Board of Trustees has approved. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available (which will constitute the majority of the Fund's portfolio securities) are valued at fair value as determined by the Board of Trustees in reliance upon data supplied by the pricing service. The pricing service uses methods that consider yields or prices of municipal securities of comparable quality, type of issue, coupon, maturity, and ratings; dealers' indications of value; and general market conditions. The pricing service may use electronic data processing techniques or a matrix system, or both. The Fund's officers review the pricing service's procedures and valuations, under the general supervision of the Board of Trustees of the Fund.

### DESCRIPTION OF BORROWINGS

The Fund's Declaration of Trust authorizes the Fund, without prior approval of holders of common stock or Preferred Stock, including MTP Shares, to borrow money. In this connection, the Fund may issue notes or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such borrowings subject to the requirements of the 1940 Act. Any borrowings will rank senior to the Fund's shares of Preferred Stock, including the MTP Shares. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares, except for emergency or temporary purposes.

*Limitations.* Under the requirements of the 1940 Act, the Fund, immediately after issuing any borrowings that are senior securities representing indebtedness (as defined in the 1940 Act), must have an Asset Coverage of at least 300%. With respect to any such borrowings, asset coverage means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of any such borrowings that are senior securities representing indebtedness, issued by the Fund. Certain types of borrowings may also result in the Fund being subject to covenants in credit agreements relating to asset coverages or portfolio composition or otherwise. In addition, the Fund may be subject to certain restrictions imposed by guidelines of one or more rating agencies which may issue ratings for Preferred Stock, including MTP Shares, or indebtedness, if any, such as commercial paper or notes issued by the Fund. Such restrictions may be more stringent than those imposed by the 1940 Act.

*Distribution Preference.* The rights of lenders to the Fund to receive interest on and repayment of principal of any such borrowings will be senior to those of the holders of Preferred Stock (including MTP Shares), and the terms of any such borrowings may contain provisions which limit certain activities of the Fund, including the payment of dividends to holders of Preferred Stock in certain circumstances.

*Voting Rights.* The 1940 Act does (in certain circumstances) grant to the lenders to the Fund certain voting rights in the event of default in the payment of interest on or repayment of principal. In the event that such provisions would impair the Fund's status as a regulated investment company under the Code, the Fund, subject to its ability to liquidate its portfolio, intends to repay the borrowings.

### DESCRIPTION OF OUTSTANDING SHARES

#### Common Shares

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The Fund's Declaration of Trust authorize the issuance of an unlimited number of common shares of beneficial interest. All common shares have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common shares are, when issued, fully paid and non-assessable, and have no pre-emptive or conversion rights except as the trustees may determine or rights to cumulative voting. At any time when Preferred Stock is outstanding, common shareholders will not be entitled to receive any cash distributions

from the Fund unless all accrued dividends on Preferred Stock have been paid, and unless Asset Coverage with respect to Preferred Stock would be at least 200% after giving effect to the distributions.

The common shares are listed on the Exchange. The Fund intends to hold annual meetings of shareholders so long as the Fund's shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

### **MuniPreferred Shares**

The Fund's Declaration of Trust authorize the issuance of an unlimited number of preferred shares. The Fund currently has outstanding MuniPreferred shares. Each share of Preferred Stock ranks on parity with respect to the payment of dividends and the distribution of assets upon liquidation. Under the 1940 Act, the MTP Shares are considered to be a separate series of the Fund's existing class of Preferred Stock, and are not considered to be a separate class of securities.

The Fund's outstanding MuniPreferred shares have a liquidation preference of \$25,000 per share, plus all accumulated but unpaid dividends (whether or not earned or declared) to the date of final distribution. MuniPreferred shares are, when issued, (i) fully paid and non-assessable, (ii) not convertible into common shares or other capital stock of the Fund, (iii) have no preemptive rights and (iv) not subject to any sinking fund. MuniPreferred shares are subject to optional and mandatory redemption in certain circumstances. MuniPreferred shares are auction rate securities, meaning that auctions in the securities were held on a periodic basis and interest on the shares was paid at the end of each auction period based on a Dutch auction process. In February 2008, the auction market failed and has not since recovered. The failure of the auction rate market has rendered the MuniPreferred shares virtually illiquid.

Prior to the general failure of the auction markets, MuniPreferred shares paid dividends based on a rate set at the auctions, which were normally held weekly. In most instances, dividends were also paid weekly on the day following the end of the rate period. The rate set at the auctions did not exceed a maximum rate. In instances where auctions have failed, the dividend rates for the MuniPreferred shares reset weekly at a maximum rate, which is determined by a formula, and is based on the greater of 110% of short-term municipal bond rates or AA taxable commercial paper.

A detailed description of the Fund's MuniPreferred shares, including a description of the maximum rate formula, is included in the Fund's Amendment and Restatement of Statement Establishing and Fixing the Rights and Preferences of MuniPreferred Shares that is on file with the Securities and Exchange Commission.

### **CERTAIN PROVISIONS IN THE DECLARATION OF TRUST AND BY-LAWS**

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration of Trust contains an express disclaimer of shareholder liability for debts or obligations of the Fund and requires that notice of such limited liability be given in each agreement, obligation or instrument entered into or executed by the Fund or the trustees. The Declaration of Trust further provides for indemnification out of the assets and property of the Fund for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The Fund believes that the likelihood of such circumstances is remote.

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The Declaration of Trust and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. The By-Laws require the Board of Trustees elected by the holders of common and Preferred Stock, voting as a single class, be divided into three classes, with the term of one class expiring at each annual meeting of shareholders. See the Statement of Additional Information under Management of the Fund. This provision of the By-Laws could delay for up to

two years the replacement of a majority of the Board of Trustees. Holders of Preferred Stock, voting as a separate class, will be entitled to elect two of the Fund's trustees, serving for a one year term. In addition, the Declaration of Trust requires a vote by holders of at least two-thirds of the common shares and Preferred Stock, voting together as a single class, except as described below, to authorize (1) a conversion of the Fund from a closed-end to an open-end investment company, (2) a merger or consolidation of the Fund, or a series or class of the Fund, with any other corporation, association, trust or other organization or a reorganization or recapitalization of the Fund or a series or class of the Fund, (3) a sale, lease or transfer of all or substantially all of the Fund's assets (other than in the regular course of the Fund's investment activities), (4) in certain circumstances, a termination or liquidation of the Fund, or a series or class of the Fund or (5) a removal of trustees by shareholders, and then only for cause, unless, with respect to (1) through (4), such transaction has already been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Declaration of Trust or the By-Laws, in which case the affirmative vote of the holders of at least a majority of the Fund's common shares and Preferred Stock outstanding at the time, voting together as a single class, is required; provided, however, that where only a particular class or series is affected (or, in the case of removing a trustee, when the trustee has been elected by only one class), only the required vote by the applicable class or series will be required. Approval of shareholders is not required, however, for any transaction, whether deemed a merger, consolidation, reorganization or otherwise whereby the Fund issues shares in connection with the acquisition of assets (including those subject to liabilities) from any other investment company or similar entity. In the case of the conversion of the Fund to an open-end investment company, or in the case of any of the foregoing transactions constituting a plan of reorganization that adversely affects the holders of any outstanding Preferred Stock, the action in question will also require the affirmative vote of the holders of at least two-thirds of the Preferred Stock outstanding at the time, voting as a separate class, or, if such action has been authorized by the affirmative vote of two-thirds of the total number of trustees fixed in accordance with the Declaration of Trust or the By-Laws, the affirmative vote of the holders of at least a majority of the Preferred Stock outstanding at the time, voting as a separate class. None of the foregoing provisions may be amended except by the vote of at least two-thirds of the common shares and Preferred Stock, voting together as a single class. The votes required to approve the conversion of the Fund from a closed-end to an open-end investment company or to approve transactions constituting a plan of reorganization that adversely affects the holders of any outstanding Preferred Stock are higher than those required by the 1940 Act. The Board of Trustees believes that the provisions of the Declaration of Trust relating to such higher votes are in the best interest of the Fund and its shareholders.

The Declaration of Trust provides that the obligations of the Fund are not binding upon the Fund's trustees individually, but only upon the assets and property of the Fund, and that the trustees shall not be liable for errors of judgment or mistakes of fact or law. Nothing in the Declaration of Trust, however, protects a trustee against any liability to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

The provisions of the Declaration of Trust and By-Laws described above could have the effect of depriving the common shareholders of opportunities to sell their common shares at a premium over the then current market price of the common shares by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a third party. They provide, however, the advantage of potentially requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid and facilitating the continuity of the Fund's investment objectives and policies. The Fund's Board of Trustees has considered the foregoing anti-takeover provisions and concluded that they are in the best interests of the Fund and its shareholders.

Reference should be made to the Declaration of Trust and By-Laws on file with the Securities and Exchange Commission for the full text of these provisions.



### **REPURCHASE OF FUND SHARES; CONVERSION TO OPEN-END FUND**

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem shares in the Fund held by such shareholders. Instead, the common shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of closed-end investment companies may frequently trade at prices lower than net asset value, the Fund's Board of Trustees has currently determined that, at least annually, it will consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at net asset value or submitting the conversion of the Fund to an open-end investment company to a vote of shareholders. The Fund cannot assure you that its Board of Trustees will decide to take any of these actions, or that share repurchases or tender offers will actually reduce market discount. The Fund will be unable to repurchase its common shares if it does not meet certain asset coverage requirements relating to outstanding Preferred Stock.

If the Fund converted to an open-end investment company, it would be required to redeem all Preferred Stock including MTP Shares then outstanding (requiring in turn that it liquidate a portion of its investment portfolio), and the common shares and MTP Shares would no longer be listed on the Exchange or elsewhere. If approved by the applicable vote of the Fund's Board of Trustees, the conversion to an open-end fund would require the vote of the majority of the outstanding common stock and Preferred Stock voting together and the Preferred Stock voting as a separate class. In contrast to a closed-end investment company, shareholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by the 1940 Act or the rules thereunder) at their net asset value, less any redemption charge that is in effect at the time of redemption. See the SAI under Repurchase of Fund Shares; Conversion to Open-End Fund for a discussion of the voting requirements applicable to the conversion of the Fund to an open-end investment company.

Before deciding whether to take any action if the common shares trade below net asset value, a Board of Trustees would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders, and market considerations. Based on these considerations, even if the Fund's common shares should trade at a discount, the Board of Trustees of the Fund may determine that, in the interest of the Fund and its shareholders, no action should be taken. See the SAI under Repurchase of Fund Shares; Conversion to Open-End Fund for a further discussion of possible action to reduce or eliminate such discount to net asset value.

### **TAX MATTERS**

The discussion below, and the discussion in the SAI under the caption Tax Matters, is based on the opinion of K&L Gates LLP (Tax Counsel) on the anticipated U.S. federal income tax consequences of acquiring, holding, and disposing of MTP Shares. Tax Counsel's opinions are based on the current provisions and interpretations of the Internal Revenue Code of 1986, as amended (the Code) and the accompanying Treasury regulations and on current judicial and administrative rulings. All of these authorities are subject to change and any change can apply retroactively.

Upon issuance of MTP Shares, and subject to certain assumptions and conditions, and based upon certain representations made by the Fund, including representations regarding the nature of the Fund's assets and the conduct of the Fund's business, Tax Counsel will deliver its opinion concluding that for federal income tax purposes MTP Shares will qualify as stock in the Fund and distributions made with respect to the MTP Shares will qualify as exempt-interest dividends to the extent designated by the Fund and not otherwise limited under Section 852(b)(5)(A) of the Code (under which the total amount of dividends that may be treated as exempt-interest dividends is limited, based on the total amount of tax-exempt income generated by the Fund). The Fund's



qualification and taxation as a regulated investment company depend upon the Fund's ability to meet on a continuing basis, through actual annual operating results, certain requirements in the federal tax laws. Tax Counsel will not review the Fund's compliance with those requirements. Accordingly, no assurance can be given that the actual results of the Fund's operations for any particular taxable year will satisfy such requirements.

The following is intended to be a general summary of the material U.S. federal income tax consequences of investing in MTP Shares. The discussion generally applies only to holders of MTP Shares who are U.S. holders. You will be a U.S. holder if you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation, or any other person that is subject to U.S. federal income tax on a net income basis in respect of an investment in MTP Shares. This summary deals only with U.S. holders that hold MTP Shares as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a financial institution, insurance company, regulated investment company, real estate investment trust, investor in pass-through entities, U.S. holder of MTP Shares whose functional currency is not the United States dollar, tax-exempt organization, dealer in securities or currencies, trader in securities or commodities that elects mark to market treatment, person who holds MTP Shares in a qualified tax-deferred account such as an IRA, or person that will hold MTP Shares as a position in a straddle, hedge or as part of a constructive sale for federal income tax purposes. In addition, this discussion does not address the application of the U.S. federal alternative minimum tax. It is not intended to be a complete discussion of all such federal income tax consequences, nor does it purport to deal with all categories of investors. This discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may change or be subject to new interpretation by the courts or the Internal Revenue Service, possibly with retroactive effect. **INVESTORS ARE THEREFORE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS BEFORE MAKING AN INVESTMENT IN THE FUND.**

#### **Federal Income Tax Treatment of the Fund**

The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Code. As a regulated investment company, the Fund generally will not be subject to any federal income tax.

The Fund primarily invests in municipal securities issued by States, cities and local authorities and certain possessions and territories of the United States (such as Puerto Rico or Guam) or in municipal securities whose income is otherwise exempt from regular federal income taxes. Thus, substantially all of the Fund's dividends to the holders of common shares and MTP Shares will qualify as exempt-interest dividends. A shareholder treats an exempt-interest dividend as interest on state and local bonds exempt from regular federal income tax. Some or all of an exempt-interest dividend, however, may be subject to federal alternative minimum tax imposed on the shareholder. Different federal alternative tax rules apply to individuals and to corporations. The American Recovery and Reinvestment Act of 2009 provides an exemption from the federal alternative minimum tax applicable to individuals for interest on private activity bonds and, for purposes of calculating a corporate taxpayer's adjusted current earnings, an exemption for interest on all tax-exempt bonds, with both exemptions limited to bonds that are issued after December 31, 2008 and before January 1, 2011, including refunding bonds issued during that period to refund bonds originally issued after December 31, 2003 and before January 1, 2009.

In addition to exempt-interest dividends, the Fund also may distribute amounts that are treated as long-term capital gain or ordinary income to its shareholders. The Fund will allocate distributions to shareholders that are treated as tax-exempt interest and as long-term capital gain and ordinary income, if any, proportionately among the common and MTP Shares. In certain circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of a taxable distribution. See "Description of MTP Shares Dividends and Dividend Periods" in this prospectus.

The SAI contains a more detailed summary of the federal tax rules that apply to the Fund and its shareholders. Legislative, judicial or administrative action may change the tax rules that apply to the Fund or its shareholders. Any change may be retroactive for Fund transactions.



### **State and Local Tax Matters**

While exempt-interest dividends are exempt from regular federal income tax, they may not be exempt from state or local income or other taxes. Some states exempt from state income tax that portion of any exempt-interest dividend that is derived from interest a regulated investment company receives on its holdings of securities of that state and its political subdivisions and instrumentalities. Therefore, the Fund will report annually to its shareholders the percentage of interest income the Fund earned during the preceding year on tax-exempt obligations and the Fund will indicate, on a state-by-state basis, the source of this income. You should consult with your tax adviser about state and local tax matters.

### **Federal Income Tax Treatment of Holders of MTP Shares**

Under present law, Tax Counsel is of the opinion that MTP Shares of the Fund will constitute equity of the Fund, and thus distributions with respect to MTP Shares (other than distributions in redemption of MTP Shares subject to Section 302(b) of the Code) will generally constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated for federal income tax purposes. Because the treatment of a corporate security as debt or equity is determined on the basis of the facts and circumstances of each case, and no controlling precedent exists for the MTP Shares, there can be no assurance that the IRS will not question Tax Counsel's opinion and the Fund's treatment of MTP Shares as equity. If the IRS were to succeed in such a challenge, holders of MTP Shares could be characterized as receiving taxable interest income rather than exempt-interest or other dividends, possibly requiring them to file amended income tax returns and retroactively to recognize additional amounts of ordinary income or to pay additional tax, interest, and penalties.

Except in the case of exempt-interest dividends and capital gain dividends, if any, dividends paid by the Fund generally will be taxable to holders at ordinary income tax rates. Dividends derived from net capital gain and designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of holders regardless of the length of time such holders have held their shares. Distributions in excess of the Fund's earnings and profits, if any, will first reduce a shareholder's adjusted tax basis in his or her shares and, after the adjusted tax basis is reduced to zero, will constitute capital gains to a holder who holds such shares as a capital asset. A holder of MTP Shares will be required to report the dividends declared by the Fund for each day on which such holder is the shareholder of record. The Fund intends to notify holders of MTP Shares in advance if it will allocate to them income that is not exempt from regular federal income tax. In certain circumstances, the Fund will make payments to holders of MTP Shares to offset the tax effects of the taxable distribution.

The IRS currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains). Accordingly, the Fund intends to designate dividends made with respect to common shares and Preferred Stock, including MTP Shares, as consisting of particular types of income (e.g., exempt-interest dividends, net capital gain, or ordinary income) in accordance with each class's proportionate share of the total dividends paid by the Fund during the year.

Although dividends generally will be treated as distributed when paid, a distribution will be treated as having been paid on December 31 if it is declared by the Fund in October, November or December with a record date in such months and is paid by the Fund in January of the following year. Accordingly, such distributions will be taxable to shareholders in the calendar year in which the distributions are declared.

### **Sale of Shares**

The sale of MTP Shares by holders will generally be a taxable transaction for federal income tax purposes. A holder of MTP Shares who sells such shares will generally recognize gain or loss in an amount equal to the difference between the net proceeds resulting from the sale and such

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holder's adjusted tax basis in the shares sold. A portion of any such gain will generally be characterized as dividend income to the extent it is attributable to declared but unpaid dividends. If such MTP Shares are held as a capital asset at the time of the sale, the gain or

loss will generally be a capital gain or loss. Similarly, a redemption by the Fund (including a redemption resulting from liquidation of the Fund), if any, of all MTP Shares actually and constructively held by a shareholder generally will give rise to capital gain or loss under Section 302(b) of the Code if the shareholder does not own (and is not regarded under certain federal income tax rules of constructive ownership as owning) any common shares in the Fund, and provided that the redemption proceeds do not represent declared but unpaid dividends. Other redemptions may also give rise to capital gain or loss, but certain conditions imposed by Section 302(b) of the Code must be satisfied to achieve such treatment.

Losses realized by a shareholder on the sale or exchange of shares of the Fund held for six months or less are disallowed to the extent of any distribution of exempt-interest dividends received with respect to such shares, and, if not disallowed, such losses are treated as long-term capital losses to the extent of any distribution of long-term capital gain received (or designated amounts of undistributed capital gain that are treated as received) with respect to such shares.

Any loss realized on a sale or exchange will be disallowed to the extent that substantially identical shares are reacquired within a period of 61 days beginning 30 days before and ending 30 days after the disposition of such shares. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

#### **Backup Withholding**

The Fund may be required to withhold, for U.S. federal income tax purposes, a portion of all distributions (including redemption proceeds) payable to shareholders who fail to provide the Fund with their correct taxpayer identification number, who fail to make required certifications or who have been notified by the IRS that they are subject to backup withholding (or if the Fund has been so notified). The current rate of backup withholding is 28%. Certain corporate and other shareholders specified in the Code and the regulations thereunder are exempt from backup withholding. Backup withholding is not an additional tax; any amounts withheld may be credited against the shareholder's U.S. federal income tax liability provided the appropriate information is furnished to the IRS.

Investors are advised to consult their own tax advisors with respect to the application to their own circumstances of the above-described general federal income taxation rules and with respect to other federal, state, local or foreign tax consequences to them before making an investment in MTP Shares.

**UNDERWRITERS**

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom \_\_\_\_\_ is acting as representative, have severally agreed to purchase, and the Fund has agreed to sell to them, severally, the number of MTP Shares indicated below:

<u>Name</u>	<u>Number of MTP Shares</u>
Morgan Stanley & Co. Incorporated	
Nuveen Investments, LLC	
<b>Total</b>	

The underwriters are offering the MTP Shares subject to their acceptance of the MTP Shares from the Fund and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the MTP Shares offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the MTP Shares offered by this prospectus if any such MTP Shares are taken.

The underwriters initially propose to offer part of the MTP Shares directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of \$ \_\_\_\_\_ per MTP Share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of \$ \_\_\_\_\_ per MTP Share to other underwriters or to certain dealers. After the initial offering of the MTP Shares, the offering price and other selling terms may from time to time be varied by the representative. The underwriting discounts and commissions (sales load) of \$ \_\_\_\_\_ per MTP Share are equal to \_\_\_\_\_ % of the public offering price. Investors must pay for any MTP Shares purchased on or before \_\_\_\_\_, 2009.

The following table shows the sales load the Fund will pay in connection with this offering.

	<u>Per Share</u>	<u>Total</u>
Underwriting discounts and commissions (sales load)		\$ _____

The MTP Shares will be sold to ensure that NYSE Amex distribution standards (*i.e.*, round lots, public shares and aggregate market value) will be met.

The Fund and NAM have each agreed that, without the prior written consent of \_\_\_\_\_, on behalf of the underwriters, the Fund will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any senior securities (as defined in the 1940 Act) or any securities convertible into or exercisable or exchangeable for senior securities; or



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- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the MTP Shares,

whether any such transaction described above is to be settled by delivery of MTP Shares or such other securities, in cash or otherwise; or file any registration statement with the Securities and Exchange Commission relating to the offering of any MTP Shares or any securities convertible into or exercisable or exchangeable for MTP Shares.

The Fund anticipates that the representative and certain other underwriters may from time to time act as brokers and dealers in connection with the execution of its portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as such brokers while they are underwriters. Certain underwriters, including \_\_\_\_\_ currently own outstanding MuniPreferred shares. Upon the successful

completion of this offering, these shares may be redeemed or purchased with the net proceeds of the offering as set forth in Use of Proceeds. Although such a redemption or purchase would be done in accordance with the 1940 Act in a manner that did not favor these underwriters, these underwriters may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase.

The Fund, NAM and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

From time to time, Morgan Stanley & Co. Incorporated has provided, and continues to provide, investment banking services to the Fund, NAM and its affiliates for which it has received customary fees and expenses. The underwriters may, from time to time, engage in transactions with or perform services for the Fund, NAM and its affiliates in the ordinary course of business.

The address of Morgan Stanley & Co. Incorporated is 1585 Broadway, New York, New York 10036.

#### **CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REDEMPTION AND PAYING AGENT**

The custodian of the assets of the Fund is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02110. The custodian performs custodial, fund accounting and portfolio accounting services. The Fund's transfer, shareholder services and dividend disbursing agent and redemption and paying agent is also State Street Bank and Trust Company, 250 Royall Street, Canton, Massachusetts 02021. The Bank of New York Mellon acts as transfer agent, registrar, and redemption and paying agent with respect to MTP Shares.

#### **LEGAL OPINIONS**

Certain legal matters in connection with MTP Shares will be passed upon for the Fund by K&L Gates LLP, Washington, DC, and for the Underwriters by Simpson Thacher & Bartlett LLP, New York, New York. K&L Gates LLP and Simpson Thacher & Bartlett LLP may rely as to certain matters of Massachusetts law on the opinion of Bingham McCutchen LLP, Boston, Massachusetts.

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

The Fund's audited financial statements for the fiscal year ended October 31, 2008 and the Fund's unaudited financial statements for the six months ended April 30, 2009 are incorporated by reference to its 2008 Annual Report and 2009 Semi-Annual Report, respectively. The 2008 Annual Report has been audited by \_\_\_\_\_, \_\_\_\_\_, Chicago, Illinois 60606, independent auditors, as set forth in their report thereon.

#### **MISCELLANEOUS**

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To the extent that a holder of MTP Shares is directly or indirectly a beneficial owner of more than 10% of any class of the Fund's outstanding shares (meaning for purposes of holders of MTP Shares, more than 10% of the Fund's outstanding Preferred Stock), such a 10% beneficial owner would be subject to the short-swing profit rules that are imposed pursuant to Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act) (and related reporting requirements). These rules generally provide that such a 10% beneficial owner may have to disgorge any profits made on purchases and sales, or sales and purchases, of the Fund's Preferred Stock (including MTP Shares) within any six month time period. Investors should consult with their own counsel to determine the applicability of these rules.

**AVAILABLE INFORMATION**

The Fund is subject to the informational requirements of the Exchange Act and the 1940 Act and is required to file reports, proxy statements and other information with the Securities and Exchange Commission. These documents can be inspected and copied for a fee at the Securities and Exchange Commission's public reference room, 100 F Street, N.E., Washington, D.C. 20549. Reports, proxy statements, and other information about the Fund can be inspected at the offices of the Exchange.

This prospectus does not contain all of the information in the Fund's Registration Statement, including amendments, exhibits, and schedules. Statements in this prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about the Fund and MTP Shares can be found in the Fund's Registration Statement (including amendments, exhibits, and schedules) on Form N-2 filed with the Securities and Exchange Commission. The Securities and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains the Fund's Registration Statement, other documents incorporated by reference, and other information the Fund has filed electronically with the Securities and Exchange Commission, including proxy statements and reports filed under the Exchange Act. Additional information may be found on the Internet at <http://www.nuveen.com>.

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*Nuveen Insured Dividend Advantage Municipal Fund*

*MUNIFUND TERM PREFERRED SHARES*

Shares, % Series 2012

Shares, % Series 2013

Shares, % Series 2014

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**PROSPECTUS**

, 2009

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*MORGAN STANLEY*

*NUVEEN INVESTMENTS, LLC*

**SUBJECT TO COMPLETION DATED                      , 2009**

The information in this Statement of Additional Information is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Statement of Additional Information is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

**NUVEEN INSURED DIVIDEND ADVANTAGE MUNICIPAL FUND**

**STATEMENT OF ADDITIONAL INFORMATION**

Nuveen Insured Dividend Advantage Municipal Fund (the Fund ) is a diversified, closed-end management investment company.

This Statement of Additional Information relating to MuniFund Term Preferred Shares, % Series 2012 ( Series 2012 MTP Shares ), MuniFund Term Preferred Shares, % Series 2013 ( Series 2013 MTP Shares ) and MuniFund Term Preferred Shares, % ( Series 2014 MTP Shares ) of the Fund (collectively, MTP Shares ) does not constitute a prospectus, but should be read in conjunction with the Fund s prospectus relating thereto dated                      , 2009 (the Prospectus ). This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing MTP Shares. Investors should obtain and read the Fund s Prospectus prior to purchasing such shares. A copy of the Fund s Prospectus, annual and semi-annual reports to shareholders when available, and other information about the Fund may be obtained without charge by calling (800) 257-8787, by writing to the Fund or from the Fund s website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund s website is not part of the Fund s Prospectus or this Statement of Additional Information. You may also obtain a copy of the Fund s Prospectus on the Securities and Exchange Commission s website (<http://www.sec.gov>). Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the Prospectus.

This Statement of Additional Information is dated                      , 2009.

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**INVESTMENT OBJECTIVES AND POLICIES**

The Fund's investment objectives are to provide current income exempt from regular federal income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. The Fund's investment objectives and its policy to invest at least 80% of its net assets in a portfolio of municipal bonds that are exempt from regular federal income taxes and that are covered by insurance guaranteeing the timely payment of principal and interest thereon are fundamental policies of the Fund. The Fund has not established any limit on the percentage of its portfolio that may be invested in municipal securities subject to the alternative minimum tax provisions of federal tax law, and the Fund expects that a substantial portion of the income it produces will be includable in alternative minimum taxable income.

Under normal market conditions, the Fund will invest at least 80% of its net assets in a portfolio of municipal bonds that are exempt from reg