NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND
Form 497
September 24, 2007
PROSPECTUS

2.4 Million Common Shares

Nuveen Municipal High Income Opportunity Fund

Nuveen Municipal High Income Opportunity Fund (the Fund) is a diversified, closed-end management investment company. The Fund s primary investment objective is to provide high current income exempt from regular federal income tax. The Fund s secondary investment objective is to seek attractive total return consistent with its primary objective. The Fund invests at least 80% of its Managed Assets (as defined on page 1 of the prospectus) in investments the income from which is exempt from regular federal income tax. The Fund seeks to achieve its investment objectives by investing in municipal securities that Nuveen Asset Management (NAM), the Fund s investment adviser, believes are underrated and undervalued. The Fund cannot assure you that it will achieve its investment objectives.

Investing in the Fund s Common Shares involves certain risks that are described in the Risk Factors and How the Fund Manages Risks sections of this prospectus.

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

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest and retain it for future reference. A Statement of Additional Information (SAI), dated September 20, 2007, containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the SAI, the table of contents of which is on the last page of this prospectus, annual and semi-annual reports to shareholders and other information about the Fund, and make shareholder inquiries 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 this prospectus. You also may obtain a copy of the SAI (and other information regarding the Fund) from the Securities and Exchange Commission s (SEC) web site (http://www.sec.gov).

The Fund s common 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 governmental agency.

Portfolio Contents. The Fund invests at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. The Fund invests in municipal securities that NAM believes are underrated and undervalued. Up to 30% of the Fund s Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. The Fund will invest at least 50% of its Managed Assets in municipal securities that at the time of investment are investment grade quality. A security is considered investment grade quality if it is rated within the four highest grades by all nationally recognized statistical rating organizations that rate such security, or if it is unrated but judged to be of comparable quality by the Fund s investment adviser. The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade quality or that are unrated but judged to be of comparable quality by the Fund s investment adviser. No more than 5% of the Fund s Managed Assets may be invested in municipal securities rated below B-/B3 or that are unrated but judged to be of comparable quality by the Fund s investment adviser. Municipal 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.

Adviser. Nuveen Asset Management, the Fund s investment adviser, will be responsible for implementing the Fund s investment strategy and use of leverage.

The common shares are listed on the American Stock Exchange. The trading or ticker symbol of the common shares is NMZ.

The date of this prospectus is September 20, 2007.

TABLE OF CO NTENTS

You should rely only on the information contained or incorporated by reference into this prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. The Fund will update this prospectus to reflect any material changes to the disclosures herein.

PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus and in the SAI.

The Fund

Nuveen Municipal High Income Opportunity Fund (the Fund) is a diversified, closed-end management investment company. See The Fund. The Fund s common shares, $.01 par value (Common Shares), are traded on the American Stock Exchange (the Exchange) under the symbol NMZ. See Description of Common Shares. As of July 31, 2007, the Fund had 23,331,865 Common Shares outstanding, 6,200 preferred shares (referred to herein as MuniPreferred Shares) and net assets applicable to Common Shares of $364,687,479.

Investment Objectives and Policies

The Fund s primary investment objective is to provide high current income exempt from regular federal income tax. The Fund s secondary investment objective is to seek attractive total return consistent with its primary objective. The Fund cannot assure you that it will achieve its investment objectives.

The Fund seeks to achieve its investment objective primarily by investing at least 80% of its assets, including assets attributable to the MuniPreferred Shares (Managed Assets) in investments the income from which is exempt from regular federal income tax. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. The Fund seeks to achieve its investment objectives by investing in municipal securities that NAM (defined below) believes are underrated and undervalued. Up to 30% of the Fund s Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. For a discussion of how the federal alternative minimum tax may affect shareholders, see Tax Matters.

The Fund will invest at least 50% of its Managed Assets in investment grade quality municipal securities. A security is considered investment grade quality if it is rated within the four highest grades (Baa or BBB or better by Moody s, S&P or Fitch) by all NRSROs that rate such security, or if it is unrated but judged to be of comparable quality by NAM.

The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade. Below investment grade quality municipal securities include those municipal securities that are rated investment grade by one or more NRSROs but rated below investment grade by at least one NRSRO. No more than 5% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities).

As of July 31, 2007, the Fund invested approximately 52% of its total investments in municipal securities rated investment grade or unrated but judged to be of comparable quality by NAM and approximately 48% of its total investments in municipal securities rated below investment grade or unrated but judged to be of comparable quality by NAM. The relative percentages of the value of the investments attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund s assets by NAM, market value fluctuations, issuance of additional shares and other events.

See The Fund s Investments and Risk Factors.

Investment Adviser

Nuveen Asset Management (NAM) is the Fund s investment adviser. NAM is located at 333 West Wacker Drive, Chicago, IL 60606. NAM is a wholly-owned subsidiary of Nuveen Investments, Inc. (Nuveen Investments). Founded in 1898, Nuveen Investments and its affiliates had approximately $172 billion in assets under management or supervision, as of June 30, 2007. Nuveen Investments is a publicly-traded company. On June 20, 2007, Nuveen Investments announced that it had entered into a definitive Agreement and Plan of Merger (Merger Agreement) to be acquired by investors led by Madison Dearborn Partners, LLC. For more information regarding the Merger Agreement see Investment Adviser.

The Fund pays NAM an annual management fee, payable monthly, in a maximum amount equal to 0.75% of the Fund s average daily Managed Assets. This maximum fee is equal to the sum of a fund-level fee and a complex-level fee. The fund-level fee is a maximum of 0.55% of the Fund s average total daily Managed Assets, with lower fee levels for fund-level assets that exceed $125 million. The complex-level fee is a maximum of 0.20% of the Fund s daily Managed Assets based on the daily Managed Assets of all Nuveen-branded closed-end and open-end registered investment companies organized in the U.S., with lower fee levels for complex-level assets that exceed $55 billion. As of June 30, 2007, the complex-level fee rate was 0.1828% of the Fund s Managed Assets.

NAM has contractually agreed to reimburse the Fund for fees and expenses in the amount of 0.32% of the Fund s average daily Managed Assets (through November 30, 2008), and for a declining amount for an additional three years (through November 30, 2011).

For more information on fees and expenses, including fees attributable to Common Shares, see Management of the Fund Investment Management Agreement.

Use of Leverage

In addition to Common Shares, the Fund also offers MuniPreferred Shares. As of July 31, 2007, there were $155 million in MuniPreferred Shares outstanding. The MuniPreferred Shares have seniority over the Common Shares. The MuniPreferred Shares leverage the Common Shares. Following an additional offering of Common Shares from time to time, the Fund may offer additional MuniPreferred Shares to maintain the Fund s desired leverage ratio. Leverage involves special risks. There is no assurance that the Fund s leveraging strategy will be successful. The Fund will seek to invest the proceeds of any future MuniPreferred Shares offerings in a manner consistent with the Fund s investment objectives and policies. See Use of Leverage.

Offering Methods

The Fund may offer shares using one or more of the following methods: (i) at-the-market transactions through one or more broker-dealers that have entered into a selected dealer agreement with Nuveen Investments, LLC (Nuveen), one of the Fund s underwriters; (ii) through an underwriting syndicate; and (iii) through privately negotiated transactions between the Fund and specific investors. See Plan of Distribution.

Distribution Through At-the-Market Transactions. The Fund from time to time may offer its Common Shares through Nuveen, to certain broker-dealers that have entered into selected dealer agreements with Nuveen (the ATM Program). Common Shares will only be sold on such days as shall be agreed to by the Fund and Nuveen. Common Shares will be sold at market prices, which shall be determined with reference to trades on the Exchange, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current net asset value per share plus the per share amount of the commission to be paid to Nuveen. The Fund and Nuveen will suspend the sale of Common Shares if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen with respect to sales of the Common Shares at a commission rate of up to 3% of the gross sales price per share of Common Shares sold. Nuveen will compensate broker-dealers participating in the offering at a fixed rate of up to 2.40% of the gross sales price per share of Common Shares sold by that broker-dealer. Nuveen may from time to time change the dealer re-allowance. In addition, out of its own assets, Nuveen intends to compensate broker-dealers for advice relating to the development, structuring and on-going operation of the ATM Program. Nuveen Investments will enter into an agreement with UBS Securities LLC (UBS) for the provision of such services and will compensate UBS at the rate of $10,000 per calendar quarter for each Nuveen fund in the ATM Program (the ATM Program Fee), up to a maximum amount of $200,000. The ATM Program Fee will be paid quarterly in arrears with respect to quarters during which there is fund activity under the ATM Program. The ATM Program Fee may be deemed by the Financial Industry Regulatory Authority (FINRA) to constitute compensation to UBS in connection with the ATM Program. Settlements of Common Share sales will occur on the third business day following the date of sale.

In connection with the sale of the Common Shares on behalf of the Fund, Nuveen may be deemed to be an underwriter within the meaning of the Securities Act of 1933 (the 1933 Act), and the compensation of Nuveen may be deemed to be underwriting commissions or discounts. Unless otherwise indicated in a further prospectus supplement, Nuveen will act as underwriter on a reasonable efforts basis.

The offering of Common Shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and Nuveen each have the right to terminate the Distribution Agreement in its discretion at any time. See Plan of Distribution Distribution Through Agents.

The Fund currently intends to distribute the shares offered pursuant to this prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this prospectus describing such transactions.

Distribution Through Underwriting Syndicates. The Fund from time to time may issue additional Common Shares through a syndicated secondary offering. In order to limit the impact on the market price of the Fund s Common Shares, Underwriters will market and price the offering on an expedited basis (e.g., overnight or similarly abbreviated offering period). The Fund will launch a syndicated offering on a day, and upon terms, mutually agreed upon between the Fund, Nuveen and the underwriting syndicate.

The Fund will offer its shares at a price equal to a specified discount of up to 2% from the closing market price of the Fund s Common Shares on the day prior to the offering date. The applicable discount will be negotiated by the Fund and Nuveen in consultation with the underwriting syndicate on a transaction-by-transaction basis. The Fund will compensate the underwriting syndicate out of the proceeds of the offering based upon a sales load of up to 4% of the gross per share offering price. The minimum net proceeds per share to the Fund will not be less than the greater of (i) the Fund s latest net asset value per Common Share or (ii) 94% of the closing market price of the Fund s Common Shares on the day prior to the offering date. See Plan of Distribution Distribution Through Underwriters.

Distribution Through Privately Negotiated Transactions. The Fund, through Nuveen, from time to time may sell directly to, and solicit offers from, institutional and other sophisticated investors, who may be deemed to be underwriters as defined in the 1933 Act for any resale of Common Shares.

The terms of such privately negotiated transactions will be subject to the discretion of the management of the Fund. In determining whether to sell Common Shares through a privately negotiated transaction, the Fund will consider relevant factors including, but not limited to, the attractiveness of obtaining additional funds through the sale of Common Shares, the purchase price to apply to any such sale of Common Shares and the investor seeking to purchase the Common Shares.

Common Shares issued by the Fund through privately negotiated transactions will be issued at a price equal to the greater of (i) the net asset value per Common Share of the Fund s Common Shares or (ii) at a discount ranging from 0% to 5% of the average daily closing market price of the Fund s Common Shares at the close of business on the two business days preceding the date upon which Common Shares are sold pursuant to the privately negotiated transaction. The applicable discount will be determined by the Fund on a transaction-by-transaction basis. See Plan of Distribution Distribution Through Privately Negotiated Transactions.

Special Risk Considerations

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

Market Discount from Net Asset Value and Expected Reductions in Net Asset Value. Shares of closed-end investment companies like the Fund frequently trade at prices lower than their net asset value, which creates a risk of loss for investors when they sell shares purchased in the offering.

This characteristic is a risk separate and distinct from the risk that the Fund s net asset value could decrease as a result of investment activities. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether Common Shares will trade at, above or below net asset value. Proceeds from the sale of Common Shares in this offering will be reduced by shareholder transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the Common Shares at the time of any offering of Common Shares hereunder, the Fund s net asset value may be reduced by an amount up to the offering costs borne by the Fund (estimated to be an additional 0.30% of the offering price assuming a Common Share offering price of $16.50 (the Fund s closing price on the Exchange on August 31, 2007)). The net asset value per Common Share also will be reduced by costs associated with any future issuances of MuniPreferred shares. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Credit and Below Investment Grade Risk. Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. The Fund may invest up to 50% (measured at the time of investment) of its Managed Assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by NAM; provided, that no more than 5% of the Fund s Managed Assets may be invested in municipal securities rated below B-/B3 or that are unrated but judged to be of comparable quality by NAM. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality are predominately speculative with respect to the issuer s capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund is subject to the following specific risks:

- increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and
- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

See Risk Factors Credit and Below Investment Grade Risk.

Interest Rate Risk. 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. Because the Fund will invest primarily in long-term municipal securities, the Common Share net asset value and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of such lower grade securities in response to changes in interest rates are not typically highly correlated to the fluctuations of the prices of investment grade quality securities in response to such changes in interest rates. The Fund s use of leverage, as described herein, will tend to increase Common Share Interest rate risk. See Risk Factors Interest Rate Risk.

Municipal Securities Market Risk. 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 investment performance of the Fund may therefore be more dependent on the analytical abilities of NAM than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, 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 bonds at attractive prices. See Risk Factors Municipal Securities Market Risk.

Tax Risk. The value of the Fund s investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. See Risk Factors Tax Risk.

Leverage Risk. The use of leverage through the issuance of MuniPreferred Shares creates an opportunity for increased Common Share net income and returns, but also creates special risks for Common Shareholders. There is no assurance that the Fund s leveraging strategy will be successful. MuniPreferred dividends are based on short-term municipal bond rates of return (which are reset periodically pursuant to an auction), and the Fund invests the proceeds of a MuniPreferred Shares offering in long-term, typically fixed rate, municipal securities. So long as the Fund s municipal bond portfolio provides a higher rate of return (net of Fund expenses) than the MuniPreferred dividend rate, as reset periodically, the leverage will cause Common Shareholders to receive a higher current rate of return than if the Fund were not leveraged. If, however, short-term rates rise, the MuniPreferred dividend rates, as they are reset periodically, could exceed the rate of return on long-term bonds held by the Fund that were acquired during periods of generally lower interest rates, reducing return to Common Shareholders. In addition, the Fund will pay (and Common Shareholders will bear) any costs and expenses relating to any future issuances and ongoing maintenance of the MuniPreferred Shares, including, for example, distribution related expenses such as a participation fee paid to broker-dealers successfully participating in MuniPreferred share auctions.

Leverage creates two major types of risks for Common Shareholders:

- the likelihood of greater volatility of net asset value and market price of Common Shares, because changes in the value of the Fund s bond portfolio (including bonds bought with the proceeds of the MuniPreferred Shares offering) are borne entirely by the Common Shareholders; and

- the possibility either that Common Share income will fall if the MuniPreferred dividend rate rises, or that Common Share income will fluctuate because the MuniPreferred dividend rate varies.

See Risk Factors Leverage Risk and Use of Leverage.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Common Shares and distributions can decline. See Risk Factors Inflation Risk.

In addition, an investment in the Fund s Common Shares raises other risks, which are more fully disclosed in the Risk Factors section of this prospectus, including: reinvestment risk, sector and industry risk, special risks relating to certain municipal obligations, derivatives risk, market disruption risk, impact of offering methods risk, risks relating to certain affiliations and anti-takeover provisions; and risks that provisions in the Fund s Declaration of Trust could affect the opportunities of Common Shareholders to sell their Common Shares. See Risk Factors.

Distributions

The Fund pays monthly cash distributions to Common Shareholders at a level rate (stated in terms of a fixed cents per Common Share dividend rate) based on the projected performance of the Fund. The Fund s ability to maintain a level Common Share dividend rate will depend on a number of factors, including dividends payable on the MuniPreferred Shares. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund s dividend policy could change. Over time, the Fund will distribute all of its net investment income (after it pays accrued dividends on any outstanding MuniPreferred Shares). In addition, the Fund intends to effectively distribute, at least annually, the net capital gain and taxable ordinary income, if any, to Common Shareholders so long as the net capital gain and taxable ordinary income are not necessary to pay accrued dividends on, or redeem or liquidate, any MuniPreferred Shares. You may elect to reinvest automatically some or all of your distributions in additional Common Shares under the Fund s Dividend Reinvestment Plan.

As explained more fully below in Tax Matters, at least annually, the Fund may elect to retain rather than distribute all or a portion of any net capital gain (which is the excess of net long-term capital gain over net short-term capital loss) otherwise allocable to Common Shareholders and pay federal income tax on the retained gain. As provided under federal tax law, Common Shareholders of record as of the end of the Fund s taxable year will include their attributable share of the retained gain in their income for the year as a long-term capital gain, and will be entitled to an income tax credit or refund for the tax deemed paid on their behalf by the Fund. The Fund will treat the retained capital gain amount as a substitute for equivalent cash distributions. See Distributions and Dividend Reinvestment Plan.

The Fund reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time.

Custodian and Transfer Agent	State Street Bank and Trust Company will serve as custodian and transfer agent of the Fund s assets. See Custodian and Transfer Agent.
Special Tax Considerations	The Fund may invest up to 30% of its Managed Assets in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. If you are, or as a result of investment in the Fund would become, subject to the federal alternative minimum tax, the Fund may not be a suitable investment for you. In addition, 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. See Tax Matters.
Voting Rights	The holders of the Fund s MuniPreferred Shares, voting as a separate class, have the right to elect at least two trustees at all times and to elect a majority of the trustees in the event two full years dividends on the MuniPreferred Shares are unpaid. In each case, the remaining trustees will be elected by holders of Common Shares and preferred shares, including MuniPreferred Shares, voting together as a single class. The holders of shares of preferred shares, including MuniPreferred Shares, will vote as a separate class or classes on certain other matters as required under the Declaration, the Investment Company Act of 1940, as amended (the 1940 Act) and Massachusetts law. See Description of MuniPreferred Shares Voting Rights and Certain Provisions in the Declaration of Trust.

SUMMARY OF FUND EXPENSES

The cost you pay to invest in the Fund includes the expenses incurred by the Fund. The table below shows the expenses of the Fund as a percentage of the average net assets applicable to Common Shares, and not as a percentage of total assets or Managed Assets.

Shareholder Transaction Expenses (as a percentage of offering price)	
Underwriting Syndicate Transaction Fees	4.00%
At-the-Market Transaction Fees	3.00%
Privately Negotiated Transaction Fees	0.00%
Offering Costs Borne by the Fund(1)	0.30%

	As a Percentage of Net Assets Attributable to Common Shares(2)
Annual Expenses	
Management Fees	
Fund-Level Fees	0.76%
Complex-Level Fees	0.27%
Interest and Related Expenses from Inverse Floaters	0.19%(3)
Other Expenses	0.18%
Total Annual Expenses	1.40%
Less: Fee and Expense Reimbursement	(0.46)%(4)
Net Annual Expenses	0.94%
Dividends on MuniPreferred Shares	1.24%
Net Annual Expenses and Dividends on MuniPreferred Shares	2.18%

(1) Assuming a Common Share offering price of $16.50 (the Fund s closing price on the Exchange on August 31, 2007).

(2) Stated as percentages of average net assets attributable to Common Shares for the fiscal year ended October 31, 2006.

(3) Interest expense arises because accounting rules require the Fund to treat interest paid by trusts issuing certain inverse floating rate investments held by the Fund as having been paid (indirectly) by the Fund. Because the Fund also recognizes a corresponding amount of interest income (also indirectly), the Fund s Common Share net asset value, net investment income, and total return are not affected by this accounting treatment. The Interest and Related Expenses from Inverse Floaters reported above reflects the interest expense incurred by the Fund during the six months ended April 30, 2007. The actual Interest and Related Expenses from Inverse Floaters incurred in the future may be higher or lower.

(4) NAM has contractually agreed to reimburse the Fund, as a percentage of average daily net assets (including net assets attributable to MuniPreferred Shares), for fees and expenses in the following amounts:

Year Ending November 30,	**Year Ending November 30,**

2007	0.32%	2010	0.16%
2008	0.32%	2011	0.08%
2009	0.24%		

NAM has not agreed to reimburse the Fund for any portion of its fees and expenses beyond November 30, 2011.

The purpose of the table above is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. See Management of the Fund Investment Adviser.

Examples

The following examples illustrate the expenses (including the applicable transaction fees, if any, and estimated offering costs of $3) that a shareholder would pay on a $1,000 investment that is held for the time periods provided in the table. Each example assumes that all dividends and other distributions are reinvested in the Fund and that the Fund s Total Net Annual Expenses and Dividends on MuniPreferred Shares, with the applicable expense limitations, as provided above, remain the same. The examples also assume a 5% annual return.(1)

Example # 1 (Underwriting Syndicate Offering)

The following example assumes a transaction fee of 4.00%, as a percentage of the offering price.

1 Year	3 Years	5 Years	10 Years
$64	$111	$166	$318

Example # 2 (At-the-Market Transaction)

The following example assumes a transaction fee of 3.00%, as a percentage of the offering price.

1 Year	3 Years	5 Years	10 Years
$54	$102	$157	$311

Example # 3 (Privately Negotiated Transaction)

The following example assumes there is no transaction fee.

1 Year	3 Years	5 Years	10 Years
$25	$74	$131	$290

The examples should not be considered a representation of future expenses. Actual expenses may be greater or less than those shown above.

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(1) The example assumes that all dividends and distributions are reinvested at Common Share net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund s actual rate of return may be greater or less than the hypothetical 5% return shown in the example. Each example also applies the relevant expense limitations described in footnote 4 above. See Summary of Fund Expenses.

FINANCIAL HIGHLIGHTS

Information contained in the table below under the headings Per Share Operating Performance and Ratios/Supplemental Data shows the operating performance of the Fund from the commencement of the Fund s investment operations on November 19, 2003 until April 30, 2007.

Selected data for a Common share outstanding throughout each period:

		Year Ended October 31,		
	2007(a)	2006	2005	2004(b)
PER SHARE OPERATING PERFORMANCE				
Beginning Common Share Net Asset Value	$ 16.00	$ 15.36	$ 14.87	$ 14.33
Investment Operations:				
Net Investment Income	.60	1.21	1.22	.98
Net Realized/Unrealized Gain (Loss)	.02	.65	.54	.71
Distributions from Net Investment Income to Preferred Shareholders	(.11)	(.19)	(.13)	(.08)
Distributions from Capital Gains to Preferred Shareholders	**		(.01)	
Total	.51	1.67	1.62	1.61
Less Distributions:				
Net Investment Income to Common Shareholders	(.49)	(1.04)	(1.07)	(.89)
Capital Gains to Common Shareholders	**		(.06)	
Total	(.49)	(1.04)	(1.13)	(.89)
Offering Costs and Preferred Share Underwriting Discounts		.01		(.18)
Ending Common Share Net Asset Value	$ 16.02	$ 16.00	$ 15.36	$ 14.87
Ending Market Value	$ 18.17	$ 17.25	$ 15.99	$ 15.04
Total Returns:				
Based on Market Value***	8.37%	14.79%	14.35%	6.49%
Based on Common Share Net Asset Value***	3.24%	11.34%	11.20%	10.38%
Ratios/Supplemental Data				
Ending Net Assets Applicable to Common Shares (000)	$ 373,630	$ 372,700	$ 357,025	$ 345,023
Ratios to Average Net Assets Applicable to Common Shares:				
Before Credit/Reimbursement/Refund :				
Expenses Including Interest(c)	1.42%*	1.21%	1.20%	1.15%*
Expenses Excluding Interest(c)	1.23%*	1.21%	1.20%	1.15%*
Net Investment Income	7.15%*	7.31%	7.54%	6.75%*
Ratios to Average Net Assets Applicable to Common Shares:				
After Credit/Reimbursement/Refund ****:				
Expenses Including Interest(c)	.96%*	.75%	.74%	.70%*
Expenses Excluding Interest(c)	.78%*	.75%	.74%	.70%*
Net Investment Income	7.60%*	7.77%	8.00%	7.20%*
Portfolio Turnover Rate	5%	9%	6%	52%
Preferred Shares at End of Period:				

Aggregate Amount Outstanding (000)	$ 155,000	$ 155,000	$ 155,000	$ 155,000
Liquidation and Market Value Per Share	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Asset Coverage Per Share	$ 85,263	$ 85,113	$ 82,585	$ 80,649
Floating Rate Obligations at End of Period:				
Aggregate Amount Outstanding (000)	$ 21,135			
Asset Coverage Per $1,000	$ 26,012			

* Annualized.

** Per Share Distributions from Capital Gains to Preferred Shareholders and Capital Gains to Common Shareholders rounds to less than $.01 per share.

*** Total Return 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. Total Return 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. Total returns are not annualized.

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

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) For the six months ended April 30, 2007. Unaudited.

(b) For the period November 19, 2003 (commencement of operations) through October 31, 2004.

(c) Interest expense arises from the application of SFAS No. 140 to certain inverse floating rate transactions entered into by the Fund.

TRADING AND NET ASSET VALUE INFORMATION

The following table shows for the periods indicated: (i) the high and low sales prices for the Common Shares as reported on the Exchange, (ii) the net asset value represented by each of the high and low closing prices as reported on the Exchange, and (iii) the discount or premium to net asset value (expressed as a percentage) represented by the closing prices.

	Price		Net Asset Value		Premium/Discount to Net Asset Value	
Calendar Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
June 30, 2007	$ 18.22	$ 16.28	$ 16.06	$ 15.58	13.89%	4.49%
March 31, 2007	$ 17.91	$ 17.39	$ 16.19	$ 15.96	10.69%	8.15%
December 31, 2006	$ 17.78	$ 16.93	$ 16.17	$ 15.76	10.85%	4.76%
September 30, 2006	$ 17.19	$ 16.34	$ 15.89	$ 15.45	9.35%	5.13%
June 30, 2006	$ 17.25	$ 16.28	$ 15.62	$ 15.37	10.86%	5.58%
March 31, 2006	$ 17.08	$ 16.11	$ 15.63	$ 15.45	9.56%	3.73%
December 31, 2005	$ 16.18	$ 15.52	$ 15.52	$ 15.24	4.84%	0.91%
September 30, 2005	$ 16.29	$ 15.42	$ 15.77	$ 15.49	3.82%	-0.77%
June 30, 2005	$ 15.75	$ 14.93	$ 15.59	$ 15.04	2.36%	-1.19%
March 31, 2005	$ 15.42	$ 14.70	$ 15.32	$ 14.95	1.45%	-1.67%

THE FUND

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on October 8, 2003, pursuant to a Declaration of Trust (the Declaration) governed by the laws of the Commonwealth of Massachusetts. On November 24, 2003, the Fund issued an aggregate of 20,500,000 Common Shares of beneficial interest, par value $0.01 per share, pursuant to the initial public offering thereof. On December 4, 2003 and January 7, 2004, the Fund issued an additional 2,000,000 and 650,000 Common Shares, respectively, in connection with partial exercises by the underwriters of their over-allotment option. The Fund s Common Shares are listed on the Exchange under the symbol NMZ. On January 23, 2004, the Fund issued the following amounts of MuniPreferred Shares: 3,000 Shares of Series M, 1,600 Shares of Series T and 1,600 Shares of Series W. The Fund s principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The following provides information about the Fund s outstanding shares as of July 31, 2007:

Title of Class	**Amount Authorized**	**Amount Held by the Fund or for its Account**	**Amount Outstanding**
Common	unlimited	0	23,331,865
MuniPreferred	unlimited	0	
Series M		0	3,000
Series T		0	1,600
Series W		0	1,600

USE OF PROCEEDS

The Fund will invest 100% of the net proceeds of an offering in accordance with the Fund s investment objectives and policies as stated below. It is presently anticipated that the Fund will be able to invest substantially all of the net proceeds in securities that meet the Fund s investment objective and policies within three months from the month in which the proceeds from an offering are received by the Fund. Pending such investment, it is anticipated that the proceeds will be invested in short-term or long-term securities issued by the U.S. Government and its agencies or instrumentalities or in high quality, short-term money market instruments. Investors should expect, therefore, that before the Fund has fully invested the proceeds of the offering in accordance with its investment objective and policies, the Fund s net asset value would be subject to less fluctuation than would be the case at such time as the Fund is fully invested.

THE FUND S INVESTMENTS

Investment Objectives

The Fund s primary investment objective is to provide high current income exempt from regular federal income tax. The Fund s secondary investment objective is to seek attractive total return consistent with its primary objective. Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Common Shareholders. The Fund invests at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. The Fund seeks to achieve its investment objectives by investing in municipal securities that NAM believes are underrated and undervalued. The Fund cannot assure you that it will achieve its investment objectives. See The Fund s Investments Investment Policies.

Investment Philosophy

NAM believes that the unique tax treatment of municipal securities and the structural characteristics in the municipal securities market create attractive opportunities to enhance the after-tax total return and diversification of the investment portfolios of taxable investors. NAM believes that these unique characteristics also present unique risks that may be managed to realize the benefits of the asset class.

After-Tax Income Potential. The primary source of total return from municipal securities comes from the tax-exempt income derived therefrom. NAM believes that, at acceptable levels of credit risk and maturity principal risk, the municipal securities market offers the potential for higher after-tax income when compared with other fixed income markets.

Managing Multi-Faceted Risks. Risk in the municipal securities market is derived from multiple sources, including credit risk at the issuer and sector levels, structural risks such as call risk, yield curve risk, and legislative and tax-related risks. NAM believes that managing these risks at both the individual security and Fund portfolio levels is an important element of realizing the after-tax income and total return potential of the asset class.

Opportunities for Diversification. As of April 30, 2007, the municipal securities market aggregated approximately $2.4 trillion, with over 50,000 issuers, and a wide array of financing purposes, security terms, offering structures and credit quality. NAM believes that the size and depth of the municipal securities market may facilitate the creation of a diversified portfolio that reduces exposure to the risks of individual issuers and may lower correlations to other credit and market risks within an investor s overall portfolio.

Market Inefficiencies. NAM believes that the scale and intricacy of the municipal securities market often results in pricing anomalies and other inefficiencies that can be identified and capitalized on through trading strategies.

Investment Process

NAM believes that a bottom-up, value-oriented investment strategy that seeks to identify underrated and undervalued securities and sectors is positioned to capture the opportunities inherent in the municipal securities

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market and potentially outperform the general municipal securities market over time. The primary elements of NAM s investment process are:

Credit Analysis and Surveillance. NAM focuses on bottom-up, fundamental analysis of municipal securities issuers. Analysts screen each sector for issuers that meet the fundamental tests of creditworthiness and favor those securities with demonstrable growth potential, solid coverage of debt service and a priority lien on hard assets, dedicated revenue streams or tax resources. As part of NAM s overall risk management process, analysts actively monitor the credit quality of portfolio holdings.

Sector Analysis. Organized by sector, analysts continually assess the key issues and trends affecting each sector in order to maintain a sector outlook. Evaluating such factors as historical default rates and average credit spreads within each sector, analysts provide top-down analysis that supports decisions to overweight or underweight a given sector in a portfolio.

Diversification. NAM seeks to invest in a large number of sectors, states and specific issuers in order to help insulate a portfolio from events that affect any individual industry, geographic location or credit.

Portfolio managers normally seek to limit exposure to individual credits over the long-term. Portfolio managers also seek to diversify other portfolio level risks, including exposure to calls, and to manage a portfolio s interest rate sensitivity within tolerance bands relative to the relevant benchmark.

Trading Strategies. Through its trading strategies, NAM seeks to enhance portfolio value by trading to take advantage of inefficiencies found in the municipal market. This may entail selling issues NAM deems to be overvalued and purchasing issues NAM considers to be undervalued.

Sell Discipline. NAM generally sells securities when it (i) determines a security has become overvalued or over-rated, (ii) identifies credit deterioration, or (iii) modifies a portfolio strategy, such as sector allocation. NAM may also sell securities when such securities exceed the portfolio s diversification targets.

Investment Policies

Under normal circumstances, the Fund will invest its Managed Assets in a portfolio of municipal securities that pay interest that is exempt from regular federal income tax. It is a fundamental policy of the Fund that its investment in municipal securities paying interest that is exempt from regular federal income tax will, under normal circumstances, comprise at least 80% of the Fund s Managed Assets. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Up to 30% of the Fund s Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. For a discussion of how the federal alternative minimum tax may affect shareholders, see Tax Matters.

The Fund will invest at least 50% of its Managed Assets in investment grade quality municipal securities. A security is considered investment grade quality if it is rated within the four highest grades (Baa or BBB or better by Moody s, S&P or Fitch) by all NRSROs that rate such security, or if it is unrated but judged to be of comparable quality by NAM.

The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade. Below investment grade quality municipal securities include those municipal securities that are rated investment grade by one or more NRSROs but rated below investment grade by at least one NRSRO. No more than 5% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities).

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As of July 31, 2007, the Fund invested approximately 52% of its Managed Assets in investment grade municipal securities rated investment grade or unrated but judged to be of comparable quality by NAM and approximately 48% of its Managed Assets in municipal securities, rated below investment grade or unrated but judged to be of comparable quality by NAM. The relative percentages of the value of the Fund s Managed Assets attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund s assets by NAM, market value fluctuations, issuance of additional shares and other events.

Municipal 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 Moody s, S&P s and Fitch s ratings of municipal securities is set forth in Appendix A to the SAI. The Fund may also invest in securities of other open-or closed-end investment companies that invest primarily in municipal securities of the types in which the Fund may invest directly. See The Fund s Investments Other Investment Companies and Portfolio Composition.

The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies which provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund s income. The Fund may use any insurer, regardless of its rating. A municipal security will be deemed to have the rating of its insurer. The insurance feature does not guarantee the market value of the insured obligations or the net asset value of the Common Shares.

The Fund presently intends to limit its investment in tobacco settlement bonds to no more than 10% of its Managed Assets.

Upon NAM s recommendation, during temporary defensive periods and in order to keep the Fund s cash fully invested, including the period during which the net proceeds of any offering of Common Shares or MuniPreferred shares are being invested, the Fund may deviate from its investment objectives and 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 its investment objectives without the approval of the holders of a majority of the outstanding Common Shares and MuniPreferred shares voting together as a single class, and of the holders of a majority of the outstanding MuniPreferred shares voting as a separate class. When used with respect to particular shares of the Fund, a majority of the outstanding shares means (i) 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 (ii) more than 50% of the shares, whichever is less. See Description of MuniPreferred Shares Voting Rights for additional information with respect to the voting rights of holders of MuniPreferred shares.

If you are, or as a result of investment in the Fund would become, subject to the federal alternative minimum tax, the Fund may not be a suitable investment for you because the Fund expects that a significant portion of its investments will pay interest that is taxable under the federal alternative minimum tax. Special rules apply to corporate holders. In addition, distributions of net capital gain will be subject to capital gains taxes. See Tax Matters.

Municipal Securities

Municipal securities are either general obligation or revenue bonds and typically are issued to finance public projects (such as roads or public buildings), to pay general operating expenses, or to refinance outstanding debt.

Municipal securities may also be issued for private activities, such as housing, medical and educational facility construction, or for privately owned industrial development and pollution control projects. General obligation bonds are backed by the full faith and credit, or taxing authority, of the issuer and may be repaid from any revenue source; revenue bonds may be repaid only from the revenues of a specific facility or source. The Fund may also purchase municipal securities that represent lease obligations, municipal notes, pre-refunded municipal securities, private activity bonds, tender option bonds and other forms of municipal securities.

The municipal securities in which the Fund will invest are generally issued by states, cities and local authorities and certain possessions and territories of the United States (such as Puerto Rico and Guam), and pay interest that, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by NAM to be reliable), is exempt from regular federal income tax, although the interest may be subject to the federal alternative minimum tax.

The yields on municipal securities depend on a variety of factors, including prevailing interest rates and the condition of the general money market and the municipal bond market, the size of a particular offering, the maturity of the obligation and the rating of the issue. The market value of municipal securities will vary with changes in interest rate levels and as a result of changing evaluations of the ability of their issuers to meet interest and principal payments.

The Fund will primarily invest in municipal securities with long-term maturities in order to maintain a weighted average maturity of 15 to 30 years, but the weighted average maturity of obligations held by the Fund may be shorter, depending on market conditions. In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument s expected principal and interest payments. Duration differs from maturity in that it considers a security s yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

Municipal Leases and Certificates of Participation. The Fund also 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 which is issued by a state or local government to acquire equipment and facilities. Income from such obligations is generally 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. The Fund s distributions of its interest income from private activity bonds may subject certain investors to the federal alternative minimum tax.

Tender Option Bonds. A tender option bond is a municipal security (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term, tax-exempt rates. The bond is typically issued with the agreement of a third party, such as a bank, broker-dealer or other financial institution, which grants the 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 equal to the difference between the bond s fixed coupon rate and the rate, as determined by a remarketing or similar agent at or near the commencement of such period, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered bonds in the event of certain defaults or a significant downgrade in the credit rating assigned to the issuer of the bond. The Fund intends to invest in tender option bonds the interest on which will, in the opinion of bond counsel, counsel for the issuer of interests therein or counsel selected by NAM, be exempt from regular federal income tax. However, because there can be no assurance that the Internal Revenue Service (the IRS) will agree with such counsel s opinion in any particular case, there is a risk that the Fund will not be considered the owner of such tender option bonds and thus will not be entitled to treat such interest as exempt from such tax. Additionally, the federal income tax treatment of certain other aspects of these investments, including the proper tax treatment of tender option bonds and the associated fees in relation to various regulated investment company tax provisions, is unclear. The Fund intends to manage its portfolio in a manner designed to eliminate or minimize any adverse impact from the tax rules applicable to these investments.

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.

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. This type of transaction may involve an element of risk because no interest accrues on the bonds prior to settlement and, because bonds are subject to market fluctuations, the value of the bonds at time of delivery may be less (or more) than cost. A separate account of the Fund will be established with its custodian consisting of cash, cash equivalents, or liquid securities having a market value at all times at least equal to the amount of the commitment.

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 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.

Derivatives. The Fund may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts, options on financial futures, options on swap contracts or other derivative securities whose prices, in NAM s opinion, correlate with the prices of the Fund s investments. NAM uses derivatives to shorten or lengthen the effective duration, and therefore the interest rate risk, of the Fund s portfolio, and to adjust other aspects of the portfolio s risk/return profile. The Fund may use these instruments if the Fund deems it more efficient from a transaction cost, total return or income standpoint than investing in cash securities.

The Fund may invest up to 10% of its Managed Assets in residual interest municipal obligations, often referred to as inverse floating rate securities or inverse floaters . These instruments represent a leveraged investment in underlying fixed-rate municipal bonds. Compared to such underlying fixed-rate municipal bonds, the value of inverse floaters will fluctuate to a greater extent in response to changes in prevailing long-term interest rates. Moreover, the income earned on inverse floaters will fluctuate inversely in relation to changes in prevailing short-term interest rates, such that an increase (decrease) in short-term market interest rates will decrease (increase) the income received from such obligations.

Other Investment Companies. The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies (including exchange-traded funds (ETFs) that invest primarily in municipal securities of the types in which the Fund may invest directly. In addition, the Fund may invest a portion of its Managed Assets in pooled investment vehicles (other than investment companies) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund generally expects that it may invest in other investment companies and/or other pooled investment vehicles either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its common shares or MuniPreferred shares, or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. 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. 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 an investment company relative to available municipal security investments.

In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled Risk Factors, the net asset value and market value of leveraged shares will be more volatile and the yield to common shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

PORTFOLIO COMPOSITION

As of July 31, 2007, 100% of the market value of the Fund s portfolio was invested in long-term municipal bonds. The following table sets forth certain information with respect to the composition of the Fund s investment portfolio as of July 31, 2007.

Credit Rating*	Percent
AAA/U.S. guaranteed	24%
AA	1%
A	10%
BBB	8%
BB or Lower	18%
N/R	39%
Total	100%

* Using the higher of S&P s or Moody s rating.

USE OF LEVERAGE

In addition to Common Shares, the Fund also offers MuniPreferred Shares. As of July 31, 2007, there were $155 million in MuniPreferred Shares outstanding. The MuniPreferred Shares have seniority over the Common Shares. MuniPreferred Shares leverage the Common Shares. Following an offering of additional Common Shares, the Fund may offer additional MuniPreferred Shares to maintain a desired leverage ratio. Leverage involves special risks. There is no assurance that the Fund s leveraging strategy will be successful. The Fund will seek to invest the proceeds of any future MuniPreferred Shares offerings in long-term municipal securities.

The MuniPreferred Shares pay dividends at rates based on short -term periods (ranging from seven days to five years) (which are reset periodically pursuant to an auction). So long as the Fund s portfolio is invested in securities that provide a higher rate of return than the dividend rate of the MuniPreferred Shares (after taking expenses into consideration), the leverage will cause you to receive a higher current rate of return than if the Fund were not leveraged.

Changes in the value of the Fund s bond portfolio (including bonds bought with the proceeds of the MuniPreferred Shares offering) will be borne entirely by the Common Shareholders. If there is a net decrease (or increase) in the value of the Fund s investment portfolio, the leverage will decrease (or increase) the net asset value per Common Share to a greater extent than if the Fund were not leveraged.

The Fund pays NAM a management fee based on a percentage of Managed Assets. Managed Assets include the proceeds realized from the Fund s use of leverage. NAM will base its decision whether and how much to leverage the Fund based solely on its assessment of whether such use of leverage will advance the Fund s investment objective. NAM will be responsible for using leverage to achieve the Fund s investment objective. However, the fact that a decision to increase the Fund s leverage will have the effect of increasing Managed Assets and therefore NAM s management fee means that NAM may have an incentive to increase the Fund s use of leverage. NAM will seek to manage that incentive by only increasing the Fund s use of leverage when they determine that such increase is consistent with the Fund s investment objective, and by periodically reviewing the Fund s performance and use of leverage with the Fund s Board of Trustees.

For tax purposes, the Fund is currently required to allocate net capital gain and other taxable income, if any, between the Common Shares and MuniPreferred Shares in proportion to total dividends paid to each class for the year in which the net capital gain or other taxable income is realized. If net capital gain or other taxable income is

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allocated to MuniPreferred Shares (instead of solely tax-exempt income), the Fund will likely have to pay higher total dividends to MuniPreferred Shareholders or make special payments to MuniPreferred Shareholders to compensate them for the increased tax liability. This would reduce the total amount of dividends paid to the Common Shareholders, but would increase the portion of the dividend that is tax-exempt. On an after-tax basis, Common Shareholders may still be better off than if they had been allocated all of the Fund s net capital gain or other taxable income (resulting in a higher amount of total dividends), but received a lower amount of tax-exempt income. If the increase in dividend payments or the special payments to MuniPreferred Shareholders are not entirely offset by a reduction in the tax liability of, and an increase in the tax-exempt dividends received by, the Common Shareholders, the advantage of the Fund s leveraged structure to Common Shareholders will be reduced.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance, the value of the Fund s asset coverage is at least 200% of the liquidation value of the outstanding preferred shares (*i.e*., such liquidation value may not exceed 50% of the Fund s asset coverage). In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Fund s asset coverage is at least 200% of such liquidation value. If MuniPreferred Shares are issued, the Fund intends, to the extent possible, to purchase or redeem MuniPreferred Shares from time to time to the extent necessary in order to maintain coverage of any MuniPreferred Shares of at least 200%. When the Fund has MuniPreferred Shares outstanding, two of the Fund s trustees will be elected by the holders of MuniPreferred Shares, voting separately as a class. The remaining trustees of the Fund are elected by holders of Common Shares and MuniPreferred Shares voting together as a single class. In the event the Fund fails to pay dividends on MuniPreferred Shares for two years, MuniPreferred Shareholders would be entitled to elect a majority of the trustees of the Fund.

The Fund may be subject to certain restrictions imposed by guidelines of one or more rating agencies that may issue ratings for MuniPreferred Shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will impede NAM from managing the Fund s portfolio in accordance with the Fund s investment objectives and policies.

The Fund may also borrow money for repurchase of its shares or as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities.

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on Common Share total return, assuming investment portfolio total returns (comprised of income and changes in the value of bonds held in the Fund s portfolio net of expenses) at the assumed portfolio total return rates provided in the table. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns expected to be experienced by the Fund. The table further reflects the issuance of MuniPreferred ratio representing 30% of the Fund s total capital as well as the current annual weighted average dividend rate of 3.54% on the Fund s $155 million of MuniPreferred shares outstanding as of July 31, 2007. See Risk Factors Leverage Risk and Use of Leverage.

Assumed Portfolio Total Return	-10.00%	-5.00%	0.00%	5.00%	10.00%
Common Share Total Return	-16.37%	-9.02%	-1.67%	5.69%	13.04%

Common Share total return is composed of two elements the Common Share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends on MuniPreferred Shares) and gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the tax-exempt interest it receives on its municipal securities investments is entirely offset by losses in the value of those securities.

RISK FACTORS

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 MuniPreferred shares.

Market Discount from Net Asset Value and Expected Reductions in Net Asset Value

Shares of closed-end investment companies like the Fund frequently trade at prices lower than their net asset value, which creates a risk of loss for investors when they sell shares purchased in the initial public offering. This characteristic is a risk separate and distinct from the risk that the Fund s net asset value could decrease as a result of investment activities. Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether Common Shares will trade at, above or below net asset value. Proceeds from the sale of Common Shares in this offering will be reduced by shareholder transaction costs (if applicable, which vary depending on the offering method used). The net asset value per Common Share will also be reduced by the amount of offering costs borne by the Fund. The net asset value per Common Share also will be reduced by costs associated with any future issuances of MuniPreferred shares. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Interest Rate Risk

Interest rate risk is the risk that the debt 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 debt securities generally fluctuate more than the prices of shorter-term debt securities as interest rates change. To the extent the Fund invests in debt securities that may be prepaid at the option of the obligor, the sensitivity of such securities to changes in interest rates may increase (to the detriment of the Fund) when interest rates rise. Moreover, because rates on certain floating rate debt securities in which the Fund may invest typically reset only periodically, changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuations in the Fund s net asset value. The Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of the Fund s debt securities and decreasing the Fund s exposure to interest rate risk. The Fund is not required to hedge its exposure to interest rate risk and may choose not to do so. In addition, there is no assurance that any attempts by the Fund to reduce interest rate risk will be successful.

Credit and Below Investment Grade Risk

Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. In general, lower-rated municipal securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund s net asset value or dividends. The Fund may invest up to 50% of its Managed Assets in municipal securities that are rated below investment grade at the time of investment or that are unrated but judged to be of comparable quality by NAM. No more than 5% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality, commonly referred to as junk bonds, are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for municipal securities of below investment grade quality tend to

be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund is subject to the following specific risks:

- increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and
- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a below investment grade issuer to make principal payments and interest payments compared to an investment grade issuer. The principal amount of below investment grade securities outstanding has proliferated in the past decade as an increasing number of issuers have used below investment grade securities for financing. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. If the national economy enters into a recessionary phase, potentially decreasing the tax and other revenue of municipal issuers, or interest rates rise sharply, increasing the interest cost on variable rate instruments and negatively impacting economic activity, the number of defaults by below investment grade municipal issuers is likely to increase. Similarly, down-turns in profitability in specific industries could adversely affect private activity bonds. The market values of lower quality debt securities tend to reflect individual developments of the issuer to a greater extent than do higher quality securities, which react primarily to fluctuations in the general level of interest rates. Factors having an adverse impact on the market value of lower quality securities may have an adverse impact on the Fund s net asset value and the market value of its Common Shares. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in payment of principal or interest on its portfolio holdings. In certain circumstances, the Fund may be required to foreclose on an issuer s assets and take possession of its property or operations. In such circumstances, the Fund would incur additional costs in disposing of such assets and potential liabilities from operating any business acquired.

The secondary market for below investment grade securities may not be as liquid as the secondary market for more highly rated securities, a factor that may have an adverse effect on the Fund s ability to dispose of a particular security. There are fewer dealers in the market for below investment grade municipal securities than the market for investment grade municipal securities. The prices quoted by different dealers for below investment grade municipal securities may vary significantly, and the spread between the bid and ask price is generally much larger for below investment grade municipal securities than for higher quality instruments. Under adverse market or economic conditions, the secondary market for below investment grade securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund s net asset value.

Issuers of such below investment grade securities are highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risk associated with acquiring the securities of such issuers generally is greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, highly leveraged issuers of below investment grade securities may experience financial stress. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer s ability to service its debt obligations also may be adversely affected by specific developments, the issuer s inability to meet specific projected forecasts or the unavailability of additional financing. The risk of loss from default by the issuer is significantly greater for the holders of below investment grade securities because such securities are generally unsecured and are often subordinated to other creditors of the issuer. Prices and yields of below investment grade securities will fluctuate over time and, during periods of economic uncertainty, volatility of below investment grade securities may adversely affect the Fund s net asset value. In addition, investments in below investment grade zero coupon bonds rather than income-bearing below investment grade securities, may be more speculative and may be subject to greater fluctuations in value due to changes in interest rates.

The Fund may invest in distressed securities, which are securities issued by companies that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition by the Fund. The issuers of such securities may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. Distressed securities frequently do not produce income while they are outstanding and may require the Fund to bear certain extraordinary expenses in order to protect and recover its investment.

Investments in lower rated or unrated securities may present special tax issues for the Fund to the extent that the issuers of these securities default on their obligations pertaining thereto, and the federal income tax consequences to the Fund as a holder of such distressed securities may not be clear.

Municipal Securities Market Risk

Investing in the municipal securities market involves certain risks. 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 investment performance of the Fund may therefore be more dependent on the analytical abilities of NAM than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, 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.

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. 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 con