

reorganization of MSF initiated by NLICA, and does not anticipate that it would have any role in future decisions relating to the GVIT Government Bond Fund or the J.P. Morgan GVIT Balanced Fund.

24. Prior to the April 28, 2002 reorganization, the majority of the assets in the MSF Bond and Balanced Portfolios belonged to owners of variable annuity and variable life insurance contracts issued by NLICA and its affiliates and only relatively small portions of each consisted of assets beneficially owned by owners of the Contracts.

Portfolios	Approximate percent represented by NLIC contracts	Approximate percent represented by contracts issued by NLICA or its affiliates
MSF Bond	24.5	75.5
MSF Balanced	16.1	83.9

25. NLIC believes that many of the owners of the Contracts who invested in the MSF Bond and Balanced Portfolios did so at the time these Portfolios were managed by SAC, and that most would prefer to invest in funds or portfolios selected by NLIC and over which NLIC has some influence.

26. Because the MSF Bond and Balanced Portfolios were only very recently reorganized into the GVIT Government Bond Fund or the J.P. Morgan GVIT Balanced Fund, Applicants believe that it is appropriate to compare and contrast the SVPT Bond and Balanced Funds with the MSF Bond and Balanced Portfolios. For the reasons explained below, Applicants assert that owners of the Contracts will be better off invested in the SVPT Bond and Balanced Funds than they would have been in the corresponding MSF Funds.

27. Projected expense levels for the SVPT Bond and Balanced Funds are the same as those recently experienced by the MSF Bond and Balanced Portfolios because each SVPT Fund will be capped by NLIC for two years at levels equal to the percentage expense levels experienced by its corresponding MSF Portfolio for the 2002 fiscal year. Likewise, the management fee rates (including breakpoints) of the SVPT Bond and Balanced Funds are the same as that of their corresponding MSF Portfolios. In addition, for those Contract owners who were Contract owners on the date of the proposed substitutions, NLIC will not increase Account or other asset-based expenses

under the Contracts for a period of 24 months following the date of the proposed substitutions.

28. The projected expense levels for the SVPT Bond and Balanced Funds are substantially lower than those recently experienced by, or currently anticipated for, the J.P. Morgan GVIT Balanced Fund and the GVIT Government Bond Fund. Therefore, from an expense perspective, Contract owners will be substantially better off invested in the SVPT Bond Fund or Balanced Fund than they would be in the J.P. Morgan GVIT Balanced Fund or the GVIT Government Bond Fund.

29. NLIC notes that the equity portion of the SVPT Balanced Fund would be managed in a different style from that recently employed by the MSF Balanced Portfolio, utilizing a more value-oriented style similar to that employed by Sentinel Balanced Fund, as contrasted with the more growth-oriented style employed by Fred Alger Management. The J.P. Morgan GVIT Balanced Fund does not lean towards either a growth-oriented or a value-oriented investment style with regard to the equity portion of its portfolio. In this respect, it differs somewhat from both the MSF Balanced Portfolio and the SVPT Balanced Fund. NLIC expects that the fixed-income portion of the SVPT Balanced Fund would be comparable to the fixed-income portion of the MSF Balanced Portfolio, as managed before April 28, 2003. However, the J.P. Morgan GVIT Balanced Fund differs from both the MSF Balanced Portfolio and the SVPT Balanced Fund in that the fixed-income portion of the J.P. Morgan GVIT Balanced Fund has greater flexibility to invest in lower quality debt instruments and emerging market securities. NLIC also notes that it already has available to the Accounts three equity portfolios managed by Fred Alger Management, the Alger American Growth Portfolio, the Alger American Leveraged AllCap Portfolio, and the Alger American Small Capitalization Portfolio. As a result, any Contract owners who wish to invest a portion of their Contract value using Alger's equity investment style would be able to do so by allocating assets to one of these investment choices.

30. NLIC expects that the SVPT Bond Fund would be similar in investment style and categories of investments to the MSF Bond Portfolio as recently operated, and certainly similar to the MSF Bond Portfolio as managed by SAC prior to 2001. In contrast, the Gartmore GVIT Government Bond Fund is limited to investments in U.S. government and agency bonds, bills, and notes, while the

SVPT Bond Fund would (as did the MSF Bond Portfolio) be able to invest in investment grade corporate issuers.

31. As the two new SVPT Portfolios will initially be relatively small in size (the SVPT Bond Fund is expected to initially have net assets of approximately \$19 million, and the SVPT Balanced Fund is expected to initially have net assets of approximately \$12 million), NLIC does not anticipate earning material profits from the management of these assets in the first few years after the proposed substitutions. Rather, its motivation is to complete the termination of the joint use of the MSF Portfolios (now GVIT Funds) which it initially sought in 2000, and to regain a level of control over its Contract owner assets which it lost as its joint venture with PMLIC ended.

32. In light of the significant beneficial ownership position of NLICA (and affiliate) contract owners, Contract owners and future NLIC contract owners cannot expect to command an influential (much less a majority) voting position in either of the GVIT Bond or Balanced Funds in the event that they, as a group, desire that such a Fund move in a direction different from that generally desired by owners of NLICA (or its affiliates') contracts. In addition, unless the growth in the number of Contracts or the assets supporting them increases at a much greater rate than those of similar contracts issued by NLICA and its affiliates, owners of Contracts have no prospects of ever gaining a position capable of influencing the future direction of these Funds.

33. NLIC also notes that it has had no prior business relationship with Nationwide, which now controls NLICA, or with Gartmore, the investment advisor to J.P. Morgan GVIT Balanced Fund and GVIT Government Bond Fund. NLIC has never selected a Nationwide-controlled entity to provide investment advisory services to its Contract owners, and while it has no particular problem with Nationwide, NLIC believes that it should not be forced into a position of offering investment portfolios managed by Nationwide-affiliated entities simply because Nationwide has acquired PMLIC.

34. The following charts show the approximate year-end size (in net assets), expense ratio (ratio of operating expenses as a percentage of average net assets), and annual total returns for each of the past three years for each of the Funds and Portfolios involved in the proposed substitutions.