

trust and is registered under the Act as a closed-end management investment company. The primary investment objective of NREIF and NREIF2 is to seek high current income through investment in real estate investment trust ("REIT") securities. The primary investment objective of NREGIF is total return, and NREGIF has a policy of concentrating its investments in REIT securities. The primary investment objective of both NPCIF and NPCIF2 is high current income through investment in preferred and convertible securities. The primary investment objective of NDDIF is high current income and total return, through investment in income producing and dividend-paying securities. Common shares of NREIF are currently listed and traded on the American Stock Exchange ("AMEX") and common shares of NPCIF and NPCIF2 are currently listed and traded on the New York Stock Exchange ("NYSE"). It is anticipated that the common shares of NREIF2, NREGIF and NDDIF will also be listed and traded on the AMEX or NYSE. The preferred shares of NREIF (known as taxable auctioned preferred shares or "TAPS") and NPCIF and NPCIF2 (known as "FundPreferred shares") are not listed on an exchange, but may be purchased and sold by investors at an auction (normally held weekly) with or through a broker-dealer that has entered into an agreement with the auction agent and the respective Current Fund. Applicants state that it is also contemplated that the preferred shares of NREIF2, NREGIF and NDDIF will not be listed on an exchange either, but will trade periodically at auction in the same manner as the TAPS and FundPreferred shares.

2. NIAC, an investment adviser registered under the Investment Advisers Act of 1940 ("Advisers Act"), serves as investment adviser to the Current Funds. Security Capital Research and Management Incorporated ("Security Capital"), an investment adviser registered under the Advisers Act, is or will be the subadviser to NREIF, NREIF2 and NREGIF. Spectrum Asset Management, Inc. and Frole, Revy Investment Co., Inc., investment advisers registered under the Advisers Act, will serve as subadvisers to NPCIF and NPCIF2. Security Capital, NWQ Investment Management Company, LLC, Wellington Management Company, LLP and Symphony Asset Management, LLC, each an investment adviser registered under the Advisers Act, will serve as subadvisers to a portion of the assets of NDDIF.

3. The board of directors of each Current Fund ("Board"), including a majority of the trustees who are not

"interested persons," as defined in section 2(a)(19) of the Act ("Independent Trustees"), of such Fund, each concluded that the proposed distribution policy of such Fund ("Distribution Policy") with respect to its common stock would be in the best interests of the Fund's common shareholders.³ The Distribution Policy would permit each Fund to make periodic long-term capital gains distributions as often as monthly with respect to its common stock, so long as it maintains in effect a Distribution Policy with regard to its common stock of at least a minimum fixed percentage per year of the net asset value ("NAV") or market price per share of its common stock or at least a minimum fixed dollar amount per year. Although applicants do not currently contemplate implementing a Distribution Policy for the preferred shares of the Current Funds, applicants request relief to permit each Fund to make periodic long term capital gains distributions with regard to any series of its preferred stock as often as distributions are specified in the terms of its preferred stock, so long as it maintains in effect a Distribution Policy with respect to such series of its preferred stock of a specified percentage of liquidation preference of such series of preferred stock, whether such specified percentage is determined at the time the preferred stock is initially issued, pursuant to periodic remarketing or auctions. Applicants believe that the discount at which each Fund's common stock may trade may be reduced if the Funds are permitted to pay capital gains dividends more frequently than permitted under rule 19b-1 under the Act. In addition, applicants state that to the extent that any of the Fund's preferred stock pays dividends less frequently than investors in that type of preferred stock would expect, such Fund is at a competitive disadvantage and, consequently, is likely to be required to pay a higher dividend rate

³ The Boards of the Current Funds made the above determination at meetings held on the following respective dates: NREIF—October 3, 2001, NREIF2 and NREGIF—January 9, 2002, NPCIF—February 20, 2003, NPCIF2—May 11–15, 2003, and NDDIF—July 28–30, 2003. Applicants state that if, in the future, the Board of each Current Fund decides to implement a Distribution Policy with respect to its preferred shares, such Board, including a majority of Independent Trustees, will make a similar finding prior to implementing such Distribution Policy in reliance on the order. Applicants state that the Board of each Future Fund intending to rely on the requested order, including a majority of its Independent Trustees, will make a similar finding prior to implementing a Distribution Policy with respect to the common or preferred stock of the respective Fund in reliance on the order.

on its preferred stock than issuers who pay at the desired frequency.

4. Applicants state that the Distribution Policy with respect to common stock of the Funds and any Distribution Policy with respect to preferred stock of the Funds will not be related to one another in any way. Applicants state that the Distribution Policy with respect to each Fund's common stock will be initially established and reviewed at least annually in light of the Fund's performance by the Board of the Fund.

5. Applicants request relief to permit each Fund, so long as it maintains in effect a Distribution Policy, to make periodic long-term capital gains distributions, as often as monthly, on its outstanding common stock and as specified by the terms of any preferred stock outstanding.

Applicants' Legal Analysis

1. Section 19(b) of the Act provides that a registered investment company may not, in contravention of such rules, regulations, or orders as the Commission may prescribe, distribute long-term capital gains more often than once every twelve months. Rule 19b-1(a) under the Act permits a registered investment company, with respect to any one taxable year, to make one capital gains distribution, as defined in section 852(b)(3)(c) of the Internal Revenue Code of 1986, as amended (the "Code"). Rule 19b-1(a) also permits a supplemental distribution to be made pursuant to section 855 of the Code not exceeding 10% of the total amount distributed for the year. Rule 19b-1(f) permits one additional long-term capital gains distribution to be made to avoid the excise tax under section 4982 of the Code.

2. Applicants assert that rule 19b-1 under the Act, by limiting the number of net long-term capital gains distributions that the Funds may make with respect to any one year, would prevent implementation of the Funds' proposed Distribution Policy. Applicants state that because each Fund expects to realize net long-term capital gains as often as every month, the combination of Revenue Ruling 89-81 and the accounting interpretation relating to rule 19b-1 would cause each Fund to treat a portion of such net long-term capital gains as being distributed each time it has incremental or undistributed long-term capital gains for the current distribution period. Applicants state that Revenue Ruling 89-81 takes the position that if a regulated investment company has two classes of shares, it may not designate distributions made to either class in any