BLACKROCK MUNIHOLDINGS NEW JERSEY QUALITY FUND, INC.
Form 497
January 23, 2015
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BLACKROCK MUNIYIELD NEW JERSEY QUALITY FUND, INC.

BLACKROCK MUNIHOLDINGS NEW JERSEY QUALITY FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

January 21, 2015

Dear Common Shareholder:

You are cordially invited to attend a joint special shareholder meeting (the Special Meeting) of BlackRock MuniYield New Jersey Quality Fund, Inc. (MJI or the Target Fund) and BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ or the Acquiring Fund and together with the Target Fund, the Funds), to be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, New Jersey 08540-6455, on March 12, 2015 at 4:00 p.m. (Eastern time). Before the Special Meeting, I would like to provide you with additional background information and ask for your vote on important proposals affecting the Funds.

Common Shareholders of MJI: You and the preferred shareholders of the Target Fund are being asked to vote as a single class on a proposal to approve the reorganization of the Target Fund into the Acquiring Fund (the Reorganization). Preferred shareholders of the Target Fund are also being asked to vote as a separate class on a proposal to approve the Reorganization. The Funds have substantially similar (but not identical) investment objectives, investment policies and investment restrictions.

Common Shareholders of MUJ: You and the preferred shareholders of the Acquiring Fund are being asked to vote as a single class on a proposal to approve the issuance of additional common shares of the Acquiring Fund in connection with the Reorganization. Preferred shareholders of the Acquiring Fund are also being asked to vote as a separate class on a proposal to approve the Reorganization.

The enclosed Joint Proxy Statement/Prospectus is only being delivered to the Funds common shareholders. The preferred shareholders of each Fund are also being asked to attend the Special Meeting and to vote as a separate class with respect to the proposals describe above. Each Fund is delivering to its preferred shareholders a separate Joint Proxy Statement with respect to the proposals described above.

The Board of Directors of each Fund believes the proposal that the common shareholders of its Fund are being asked to vote upon is in the best interests of its respective Fund and its shareholders and unanimously recommends that you vote **FOR** such proposal.

The enclosed materials explain these proposals in more detail, and I encourage you to review them carefully. As a shareholder, your vote is important, and we hope that you will respond today to ensure that your shares will be represented at the Special Meeting. You may vote using one of the methods below by following the instructions on your proxy card:

By touch-tone telephone;

By internet;

By returning the enclosed proxy card in the postage-paid envelope; or

In person at the Special Meeting.

If you do not vote using one of these methods described above, you may be contacted by Georgeson Inc., our proxy solicitor, to vote your shares over the telephone.

As always, we appreciate your support.

Sincerely,

JOHN M. PERLOWSKI

President and Chief Executive Officer of the Funds

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Please vote now. Your vote is important.

To avoid the wasteful and unnecessary expense of further solicitation(s), we urge you to indicate your voting instructions on the enclosed proxy card, date and sign it and return it promptly in the postage-paid envelope provided, or record your voting instructions by telephone or via the internet, no matter how large or small your holdings may be. If you submit a properly executed proxy but do not indicate how you wish your common shares to be voted, your common shares will be voted FOR the proposal, as applicable. If your common shares are held through a broker, you must provide voting instructions to your broker about how to vote your common shares in order for your broker to vote your common shares as you instruct at the Special Meeting.

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January 21, 2015

IMPORTANT NOTICE

TO COMMON SHAREHOLDERS OF

BLACKROCK MUNIYIELD NEW JERSEY QUALITY FUND, INC.

BLACKROCK MUNIHOLDINGS NEW JERSEY QUALITY FUND, INC.

QUESTIONS & ANSWERS

Although we urge you to read the entire Joint Proxy Statement/Prospectus, we have provided for your convenience a brief overview of some of the important questions concerning the meeting and the proposals to be voted on. The enclosed Joint Proxy Statement/Prospectus is being sent only to the holders of shares of common stock (Common Shares) of BlackRock MuniYield New Jersey Quality Fund, Inc. (the Target Fund) and BlackRock MuniHoldings New Jersey Quality Fund, Inc. (the Acquiring Fund and together with the Target Fund, the Funds and each, a Fund). Each Fund is separately soliciting the votes of its holders of Variable Rate Demand Preferred Shares (VRDP Shares) through a separate Joint Proxy Statement.

Q: Why is a shareholder meeting being held?

A: *Common Shareholders of BlackRock MuniYield New Jersey Quality Fund, Inc. (NYSE Ticker: MJI)*: You and the holders of the VRDP Shares (VRDP Holders) of your Fund are being asked to vote as a single class on a proposal to approve the Agreement and Plan of Reorganization (the Reorganization Agreement) between the Target Fund and the Acquiring Fund, pursuant to which (i) the Acquiring Fund will acquire substantially all of the Target Fund s assets and assume substantially all of the Target Fund s liabilities in exchange solely for newly issued Common Shares and VRDP Shares of the Acquiring Fund, which will be distributed to the common shareholders (although cash may be distributed in lieu of fractional Common Shares) and VRDP Holders, respectively, of the Target Fund, and (ii) the Target Fund will terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act), and liquidate, dissolve and terminate in accordance with its charter and Maryland law.

Target Fund VRDP Holders are also being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund s registration under the 1940 Act and the dissolution of the Target Fund under Maryland law, through a separate Joint Proxy Statement.

Common Shareholders of BlackRock MuniHoldings New Jersey Quality Fund, Inc. (NYSE Ticker: MUJ): You and the Acquiring Fund VRDP Holders are being asked to vote as a single class on a proposal to approve the issuance of additional Common Shares of the Acquiring Fund in connection with the Reorganization Agreement (the Issuance).

Acquiring Fund VRDP Holders are also being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the issuance of additional Acquiring Fund VRDP Shares, through a separate Joint Proxy Statement.

The transactions contemplated by the Reorganization Agreement, including the Issuance, is referred to herein as the Reorganization . The term Combined Fund refers to the Acquiring Fund as the surviving Fund after the consummation of the Reorganization.

Q: Why has each Fund s Board recommended these proposals?

A: The Board of Directors (each, a Board and each member thereof, a Board Member) of each Fund has determined that the proposed Reorganization would be in the best interests of its Fund. The proposed Reorganization seeks to achieve certain economies of scale and other operational efficiencies by combining two Funds that have substantially similar (but not identical) investment objectives, investment policies, investment restrictions and portfolio compositions and are managed by the same investment advisor, BlackRock Advisors, LLC (the Investment Advisor), and portfolio management team.

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In light of these similarities, the proposed Reorganization is intended to reduce fund redundancies and create a single, larger state fund that may benefit from anticipated operating efficiencies and economies of scale. The proposed Reorganization is intended to result in the following potential benefits to common shareholders:

(i) lower total expenses per Common Share for common shareholders of each Fund (as common shareholders of the Combined Fund following the Reorganization) due to economies of scale resulting from the larger size of the Combined Fund;

(ii) improved secondary market trading of the Common Shares of the Combined Fund; and

(iii) operating and administrative efficiencies for the Combined Fund, including the potential for the following:

(a) greater investment flexibility and investment options;

(b) greater diversification of portfolio investments;

(c) the ability to trade in larger positions and more favorable transaction terms;

(d) benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage; and

(e) benefits from having fewer similar funds in the same fund complex, including a simplified operational model and a reduction in risk of operational, legal and financial errors.

The Board of each Fund, including Board Members thereof who are not interested persons (as defined in the 1940 Act), approved the Reorganization Agreement and the Issuance, as applicable, concluding that the Reorganization is in the best interests of its Fund and that the interests of existing common shareholders and preferred shareholders of its Fund will not be diluted with respect to net asset value (NAV) and liquidation preference, respectively, as a result of the Reorganization. As a result of the Reorganization, however, common and preferred shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds before the Reorganization. The Board s conclusion was based on each Board Member s business judgment after consideration of all relevant factors taken as a whole with respect to its Fund and the Fund s common and preferred shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

Q: How will the Reorganization affect the fees and expenses of the Funds?

A: For the fiscal year ended July 31, 2014, the Total Expense Ratios of the Target Fund and the Acquiring Fund were 1.58% and 1.57%, respectively. Total Expenses means a Fund s total annual operating expenses (including interest expenses and applicable fee waivers). Total Expense Ratio means a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its Common Shares. The Funds estimate that the completion of the Reorganization would result in a Total Expense Ratio for the Combined Fund of 1.53% on a historical and pro forma basis for the 12-month period ended July 31, 2014, representing a reduction in the Total Expense Ratio for the common shareholders of the Target Fund and the Acquiring Fund of 0.05% and 0.04%, respectively.

The Combined Fund will have the same annual contractual investment management fee rate as the Target Fund. The Target Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets. The Acquiring Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.55% of its average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities.

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For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of the VRDP Shares and tender option bond trusts that exceed 35% of total assets minus the sum of the Acquiring Fund accrued liabilities (Voluntary Fee Waiver).

If the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of the Voluntary Fee Waiver.

Based on a pro-forma Lipper expense group for the Combined Fund, the estimated total annual fund operating expenses (excluding investment related expenses) and contractual management fee rate are each expected to be in the first quartile. There can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of the Reorganization.

Q: How will the Reorganization affect the earnings, distributions and undistributed net income of the Funds?

A: The Combined Fund s earnings yield on NAV following the Reorganization is expected to be comparable (i.e., the same or slightly lower or higher) to each Fund s current earnings yield on NAV; thus, assuming that the Reorganization is consummated and that the Acquiring Fund s distribution policy remains in place after the Reorganization, common shareholders of each Fund may experience a distribution rate on NAV comparable (i.e., the same or slightly lower or higher) to their current distribution rate on NAV. The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. A Fund s earnings and net investment income are variables which depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized by the Fund, the costs of such leverage, the performance of its investments, the movement of interest rates and general market conditions.

If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund s common shareholders prior to the effective date of the Reorganization (the Closing Date) (the Pre-Reorganization Declared UNII Distributions). The declaration date, ex-dividend date (the Ex-Dividend Date) and record date of the Pre-Reorganization Declared UNII Distributions will occur prior to the Closing Date. However, all or a significant portion of the Pre-Reorganization Declared UNII Distributions may be paid in one or more distributions to common shareholders of the Funds entitled to such Pre-Reorganization Declared UNII Distributions after the Closing Date. In addition, BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ) does not currently expect to declare any distributions during the first two months following the Closing Date. Accordingly, persons who purchase Common Shares of any of the Funds on or after the Ex-Dividend Date for the Pre-Reorganization Declared UNII Distributions should not expect to receive any distributions from any Fund until distributions, if any, are declared by the Board of the Combined Fund and paid to shareholders entitled to any such distributions. No such distributions are expected to be paid by the Combined Fund until at least approximately three months following the Closing Date.

The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. Each Fund reserves the right to change its distribution policy with respect to common share distributions and the basis for establishing the rate of its monthly distributions for the Common Shares at any time and may do so without prior notice to common shareholders. The payment of any distributions by any Fund is subject to, and will only be made when, as and if, declared by the Board of such Fund. There is no assurance the Board of any Fund will declare any distributions for such Fund. To the extent any Pre-Reorganization Declared UNII Distributions is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. Federal income tax purposes.

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Q: Have Common Shares of each Fund historically traded at a premium or discount?

A: The Common Shares of each Fund have historically traded at both a premium and a discount. The table below sets forth the market price, NAV, and the premium/discount to NAV of each Fund as of December 31, 2014.

Fund	Market Price	NAV	Premium/(Discount) to NAV
MUJ	$14.50	$16.21	(10.55)%
MJI	$14.46	$16.13	(10.35)%

To the extent the Target Fund Common Shares are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganization, the Target Fund s common shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. To the extent the Target Fund Common Shares are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganization, Target Fund common shareholders may be negatively impacted if the Reorganization is consummated. Acquiring Fund common shareholders would only benefit from a premium/discount perspective to the extent the Acquiring Fund s post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at a narrower discount to NAV or wider premium to NAV than the Common Shares of any individual Fund prior to the Reorganization.

In the Reorganization, common shareholders of the Target Fund will receive Acquiring Fund Common Shares based on the relative NAVs (not the market values) of the respective Fund s Common Shares. The market value of the Common Shares of the Combined Fund may be less than the market value of the Common Shares of each respective Fund prior to the Reorganization.

Q: How will holders of VRDP Shares be affected by the Reorganization?

A: As of the date of the enclosed Joint Proxy Statement/Prospectus, each Fund has VRDP Shares outstanding. As of December 31, 2014, the Target Fund has 644 Series W-7 VRDP Shares outstanding, and the Acquiring Fund has 1,727 Series W-7 VRDP Shares outstanding. In connection with the Reorganization, the Acquiring Fund expects to issue 644 additional VRDP Shares to Target Fund VRDP Holders. Following the completion of the Reorganization, the Combined Fund is expected to have 2,371 VRDP Shares outstanding.

Upon the closing of the Reorganization, Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the effective date of the Reorganization if such dividends have not been paid prior to such effective date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially identical to the outstanding Target Fund VRDP Shares, held by such holders immediately prior to the closing of the Reorganization.

The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

The terms of the outstanding Target Fund VRDP Shares are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares. The Funds VRDP Shares have the same $100,000 liquidation

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preference per share, maturity date, dividend period, dividend payment date, voting rights, redemption provisions, remarketing procedures, mandatory purchase events, mandatory tender events, transfer restrictions and covenants with respect to effective leverage, asset coverage and eligible investments. The Funds VRDP Shares also have the same mechanism for determining the applicable dividend rate and maximum rate, and the same liquidity provider, remarketing agent and tender and paying agent. Each Fund s VRDP Shares are currently in a three year special rate period that will end on April 19, 2017. The terms applicable to each Fund s VRDP Shares during the special rate period are also substantially identical. During the special rate period, the Funds VRDP Shares have the same mechanism for determining the applicable dividend rate and maximum rate, redemption premiums and transfer restrictions.

None of the expenses of the Reorganization are expected to be borne by the VRDP Holders of the Funds.

Following the Reorganization, the VRDP Holders of each Fund will be VRDP Holders of the larger Combined Fund that will have a larger asset base and more VRDP Shares outstanding than either Fund individually. With respect to matters requiring all preferred shareholders to vote separately or common and preferred shareholders to vote together as a single class, following the Reorganization, holders of VRDP Shares of the Combined Fund will hold a smaller percentage of the outstanding preferred shares of the Combined Fund as compared to their percentage holdings of outstanding preferred shares of their respective Fund prior to the Reorganization.

Q: How similar are the Funds?

A: The Funds have the same investment advisor, portfolio managers, officers and directors. Each Fund is organized as a Maryland corporation with its Common Shares listed on the New York Stock Exchange and privately placed VRDP Shares outstanding. Each Fund is managed by a team of investment professionals comprised of Michael Kalinoski, Theodore R. Jaeckel, Jr. and Walter O Connor.

The investment objective, significant investment strategies and operating policies, and investment restrictions of the Combined Fund will be those of the Acquiring Fund.

Investment Objectives:

The Target Fund s investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes and New Jersey personal income tax as is consistent with its investment policies and prudent investment management.

The Acquiring Fund s investment objective is to provide shareholders with current income exempt from federal income tax and New Jersey personal income taxes.

New Jersey Municipal Bonds:

Each Fund invests at least 80% of its assets in municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes.

Investment Grade Securities:

Each Fund currently invests primarily in investment grade municipal bonds.

Leverage:

Each Fund utilizes leverage in the form of VRDP Shares and tender option bonds.

It is not anticipated that there will be any significant disposition of the holdings in any Fund as a result of the Reorganization because of the similarities among the portfolio guidelines of the Funds. The risk/return profile of the Combined Fund is expected to remain comparable to those of each Fund before the Reorganization because of the similarities in the investment policies of each Fund.

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Q: How will the Reorganization be effected?

A: Assuming the Reorganization receives the requisite shareholder approvals, the Acquiring Fund will acquire substantially all of the Target Fund s assets and assume substantially all of the Target Fund s liabilities in exchange solely for newly issued Common Shares and VRDP Shares of the Acquiring Fund, which will be distributed to the shareholders of the Target Fund (although cash may be distributed in lieu of fractional Common Shares). The Target Fund will then terminate its registration under the 1940 Act and liquidate, dissolve and terminate in accordance with its charter and Maryland law.

Shareholders of the Target Fund will become shareholders of the Acquiring Fund. Common shareholders of the Target Fund will receive newly issued Common Shares of the Acquiring Fund, par value $0.10 per share, the aggregate NAV (not the market value) of which will equal the aggregate NAV (not the market value) of the Common Shares of the Target Fund such shareholders held immediately prior to the closing of the Reorganization (although common shareholders may receive cash for fractional Common Shares). The NAV of the Target Fund and the Acquiring Fund immediately prior to the closing of the Reorganization will be reduced by the costs of the Reorganization borne by each Fund, if any. The NAV of Target Fund Common Shares will not be diluted as a result of the Reorganization. The common shareholders of each Fund have substantially similar voting rights and rights with respect to the payment of dividends and distribution of assets upon liquidation of their respective Fund and have no preemptive, conversion or exchange rights.

Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the effective date of the Reorganization if such dividends have not been paid prior to such effective date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially identical to the outstanding Target Fund VRDP Shares held by such holders immediately prior to the closing of the Reorganization.

Shareholders of the Acquiring Fund will remain shareholders of the Acquiring Fund, which will have additional Common Shares and VRDP Shares outstanding after the Reorganization.

Q: Will I have to pay any U.S. federal income taxes as a result of the Reorganization?

A: The Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). If the Reorganization so qualifies, in general, shareholders of the Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund shares for Acquiring Fund shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional Common Shares). Additionally, the Target Fund will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to the Reorganization.

Shareholders of each Fund may receive distributions prior to, or after, the consummation of the Reorganization, including distributions attributable to their proportionate share of each Fund s undistributed net investment income declared prior to the consummation of the Reorganization or the Combined Fund built-in gains, if any, recognized after the Reorganization, when such income and gains are eventually distributed by the Combined Fund. To the extent that such a distribution is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. federal income tax purposes.

The Funds shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganization, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

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Q: Will I have to pay any sales load, commission or other similar fees in connection with the Reorganization?

A: You will pay no sales loads or commissions in connection with the Reorganization. Regardless of whether the Reorganization is completed, however, the costs associated with the proposed Reorganization, including the costs associated with the shareholder meeting, will be borne directly by each of the respective Funds incurring the expense or will otherwise be allocated among the Funds proportionately or on another reasonable basis as discussed more fully in the Joint Proxy Statement/Prospectus.

Common shareholders of the Funds will indirectly bear the costs of the Reorganization. The expenses of the Reorganization are estimated to be $300,000 for the Target Fund and $350,000 for the Acquiring Fund. Because of the expected expense savings and other benefits for each Fund, the Investment Advisor recommended and the Board of each Fund has approved that its respective Fund be responsible for a portion of its own Reorganization expenses. The Investment Advisor will bear approximately $185,000 of the Target Fund s Reorganization expenses and approximately $100,000 of the Acquiring Fund s reorganization expenses. The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.

VRDP Holders are not expected to bear any costs of the Reorganization.

Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganization (*e.g.*, expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganization or other action taken by the shareholder in connection with the Reorganization).

Q: What shareholder approvals are required to complete the Reorganization?

A: The Reorganization is contingent upon the following approvals:

- The approval of the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund s registration under the 1940 Act and the dissolution of the Target Fund under Maryland law, by the Target Fund s common shareholders and VRDP Holders voting as a single class;

- The approval of the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund s registration under the 1940 Act and the dissolution of the Target Fund under Maryland law, by Target Fund VRDP Holders voting as a separate class;

- The approval of the Reorganization Agreement and the transactions contemplated therein, including the issuance of additional Acquiring Fund VRDP Shares, by Acquiring Fund VRDP Holders voting as a separate class; and

- The approval of the Issuance by the Acquiring Fund s common shareholders and VRDP Holders voting as a single class.

If the requisite shareholder approvals are not obtained, each Fund s Board may take such actions as it deems in the best interests of its Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone Maryland corporation registered under the 1940 Act as a non-diversified closed-end investment management company advised by the Investment Advisor. The Investment Advisor may, in connection with the ongoing management of each Fund and its product line, recommend alternative proposals to the Board of each Fund.

In order for the Reorganization to occur, each Fund must obtain all requisite shareholder approvals with respect to the Reorganization, as well as certain consents, confirmations and/or waivers from various third parties, including the liquidity provider with respect to the outstanding VRDP Shares. Because the closing of the Reorganization is contingent upon the Target Fund and the Acquiring Fund obtaining the requisite shareholder approvals and third party consents and satisfying (or obtaining the waiver of) other closing vii

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conditions, it is possible that the Reorganization will not occur, even if shareholders of either Fund entitled to vote on the Reorganization approve the Reorganization and such Fund satisfies all of its closing conditions, if the other Fund does not obtain its requisite shareholder approvals or satisfy its closing conditions. The VRDP Shares were issued on a private placement basis to one or a small number of institutional holders. To the extent that one or more VRDP Holder of a Fund owns, holds or controls, individually or in the aggregate, all or a significant portion of such Fund s outstanding VRDP Shares, the shareholder approval required for the Reorganization may turn on the exercise of voting rights by such particular shareholder(s) and its (or their) determination as to the favorability of the proposal with respect to its (or their) interests. The Funds exercise no influence or control over the determinations of such shareholder(s) with respect to the proposal; there is no guarantee that such shareholder(s) will approve the proposal, over which it (or they) may exercise effective disposition power.

Q: Why is the vote of shareholders of the Acquiring Fund being solicited in connection with the Reorganization?

A: The rules of the New York Stock Exchange (on which the Acquiring Fund Common Shares are listed) require the Acquiring Fund s shareholders to approve the Issuance. If the Issuance is not approved, then the Reorganization will not occur.

We are also seeking the approval of the Reorganization Agreement and the transactions contemplated therein, including the issuance of additional Acquiring Fund VRDP Shares, by the Acquiring Fund VRDP Holders voting as a separate class pursuant to the governing document of the Acquiring Fund VRDP Shares. If Acquiring Fund VRDP Holders do not approve the Reorganization Agreement as a separate class, then the Reorganization will not occur.

Q: How does the Board of my Fund suggest that I vote?

A: After careful consideration, the Board of your Fund unanimously recommends that you vote FOR each of the items proposed for your Fund.

Q: How do I vote my proxy?

A: You may cast your vote by mail, phone, internet or in person at the Special Meeting. To vote by mail, please mark your vote on the enclosed proxy card and sign, date and return the card in the postage-paid envelope provided. If you choose to vote by phone or internet, please refer to the instructions found on the proxy card accompanying the Joint Proxy Statement/Prospectus. To vote by phone or internet, you will need the control number that appears on the proxy card.

Q: Whom do I contact for further information?

A: You may contact your financial advisor for further information. You may also call Georgeson Inc., the Funds proxy solicitor, at 1-866-828-4305.

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BLACKROCK MUNIYIELD NEW JERSEY QUALITY FUND, INC.

BLACKROCK MUNIHOLDINGS NEW JERSEY QUALITY FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON MARCH 12, 2015

Notice is hereby given that a joint special meeting of shareholders (the Special Meeting) of BlackRock MuniYield New Jersey Quality Fund, Inc. (NYSE Ticker: MJI) (the Target Fund) and BlackRock MuniHoldings New Jersey Quality Fund, Inc. (NYSE Ticker: MUJ) (the Acquiring Fund and, together with the Target Fund, each, a Fund) will be held at the offices of BlackRock Advisors, LLC, 1 University Square Drive, Princeton, New Jersey 08540-6455, on March 12, 2015 at 4:00 p.m. (Eastern time) for the following purposes:

Proposal 1: The Reorganization of the Funds
For Shareholders of the Target Fund:

Proposal 1(A): The holders of shares of common stock (Common Shares) and holders of Variable Rate Demand Preferred Shares (VRDP Shares) of the Target Fund are being asked to vote as a single class on a proposal to approve an Agreement and Plan of Reorganization between the Target Fund and the Acquiring Fund (the Reorganization Agreement), pursuant to which (i) the Acquiring Fund will acquire substantially all of the Target Fund s assets and assume substantially all of the Target Fund s liabilities in exchange solely for newly issued Common Shares and VRDP Shares of the Acquiring Fund, which will be distributed to the common shareholders and holders of VRDP Shares (VRDP Holders), respectively, of the Target Fund (although cash may be distributed in lieu of fractional Common Shares), and (ii) the Target Fund will terminate its registration under the Investment Company Act of 1940, as amended, and liquidate, dissolve and terminate in accordance with its charter and Maryland law.

Proposal 1(B): The VRDP Holders of the Target Fund are being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund s registration under the 1940 Act and the dissolution of the Target Fund under Maryland law.

For Shareholders of the Acquiring Fund:

Proposal 1(C): The VRDP Holders of the Acquiring Fund are being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the issuance of additional Acquiring Fund VRDP Shares.

Proposal 2: The Issuance of Additional Acquiring Fund Common Shares
Proposal 2: The common shareholders and VRDP Holders of the Acquiring Fund are being asked to vote as a single class on a proposal to approve the issuance of additional Common Shares of the Acquiring Fund in connection with the Reorganization Agreement.

Shareholders of record of each Fund as of the close of business on January 12, 2015 are entitled to notice of and to vote at the Special Meeting or any adjournment or postponement thereof.

The Funds are soliciting the vote of their common shareholders on Proposal 1(A) and Proposal 2 through a Joint Proxy Statement/Prospectus.

Each Fund is separately soliciting the votes of its respective VRDP Holders on each of the foregoing proposals through a separate Joint Proxy Statement and not through the Joint Proxy Statement/Prospectus.

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THE BOARD OF DIRECTORS (EACH, A BOARD) OF EACH OF THE FUNDS RECOMMENDS THAT YOU VOTE YOUR SHARES BY INDICATING YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, DATING AND SIGNING SUCH PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHICH IS ADDRESSED FOR YOUR CONVENIENCE AND NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES, OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET.

THE BOARD OF THE TARGET FUND UNANIMOUSLY RECOMMENDS THAT COMMON SHAREHOLDERS OF THE TARGET FUND CAST THEIR VOTE:

FOR THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/ PROSPECTUS.

THE BOARD OF THE TARGET FUND UNANIMOUSLY RECOMMENDS THAT PREFERRED SHAREHOLDERS OF THE TARGET FUND CAST THEIR VOTE:

FOR THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT.

THE BOARD OF THE ACQUIRING FUND UNANIMOUSLY RECOMMENDS THAT COMMON SHAREHOLDERS OF THE ACQUIRING FUND CAST THEIR VOTE:

FOR THE ISSUANCE OF ADDITIONAL COMMON SHARES IN CONNECTION WITH THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT/PROSPECTUS.

THE BOARD OF THE ACQUIRING FUND UNANIMOUSLY RECOMMENDS THAT PREFERRED SHAREHOLDERS OF THE ACQUIRING FUND CAST THEIR VOTE:

FOR THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT.

FOR THE ISSUANCE OF ADDITIONAL COMMON SHARES IN CONNECTION WITH THE REORGANIZATION AGREEMENT AS DESCRIBED IN THE JOINT PROXY STATEMENT.

IN ORDER TO AVOID THE ADDITIONAL EXPENSE OF FURTHER SOLICITATION, WE ASK THAT YOU MAIL YOUR PROXY CARD OR RECORD YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET PROMPTLY.

For the Board of Directors of the Funds

JOHN M. PERLOWSKI

President and Chief Executive Officer of the Funds

January 21, 2015

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YOUR VOTE IS IMPORTANT.

PLEASE VOTE PROMPTLY BY SIGNING AND RETURNING THE

ENCLOSED PROXY CARD OR BY RECORDING YOUR VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET, NO MATTER HOW MANY SHARES YOU OWN.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR

THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON MARCH 12, 2015.

THE PROXY STATEMENT FOR THIS MEETING IS AVAILABLE AT:

HTTPS://WWW.PROXY-DIRECT.COM/BLK-26289

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Joint Proxy Statement/Prospectus

BLACKROCK MUNIYIELD NEW JERSEY QUALITY FUND, INC.

BLACKROCK MUNIHOLDINGS NEW JERSEY QUALITY FUND, INC.

100 Bellevue Parkway

Wilmington, Delaware 19809

(800) 882-0052

This Joint Proxy Statement/Prospectus is furnished to you as a common shareholder of BlackRock MuniYield New Jersey Quality Fund, Inc. (NYSE Ticker: MJI) (MJI or the Target Fund) and/or BlackRock MuniHoldings New Jersey Quality Fund, Inc. (NYSE Ticker: MUJ) (MUJ or the Acquiring Fund and together with the Target Fund, each, a Fund). A special meeting (the Special Meeting) of shareholders of each Fund will be held at the offices of BlackRock Advisors, LLC (the Investment Advisor), 1 University Square Drive, Princeton, New Jersey 08540-6455, on March 12, 2015 at 4:00 p.m. (Eastern time) to consider the items listed below and discussed in greater detail elsewhere in this Joint Proxy Statement/Prospectus. If you are unable to attend the Special Meeting or any adjournment or postponement thereof, the Board of Directors of your Fund (the Board) recommends that you vote your shares of common stock (Common Shares) by completing and returning the enclosed proxy card or by recording your voting instructions by telephone or via the internet. The approximate mailing date of this Joint Proxy Statement/Prospectus and accompanying form of proxy is February 2, 2015.

The purposes of the Special Meeting are:

Proposal 1: The Reorganization of the Funds

For Shareholders of the Target Fund:

Proposal 1(A): The common shareholders and holders of Variable Rate Demand Preferred Shares (VRDP Shares) of the Target Fund are being asked to vote as a single class on a proposal to approve an Agreement and Plan of Reorganization between the Target Fund and the Acquiring Fund (the Reorganization Agreement), pursuant to which (i) the Acquiring Fund will acquire substantially all of the Target Fund s assets and assume substantially all of the Target Fund s liabilities in exchange solely for newly issued Common Shares and VRDP Shares (collectively, the Shares) of the Acquiring Fund, which will be distributed to the Target Fund s common shareholders (although cash may be distributed in lieu of fractional Common Shares) and holders of VRDP Shares (VRDP Holders), respectively, and (ii) the Target Fund will terminate its registration under the Investment Company Act of 1940, as amended (the 1940 Act), and liquidate, dissolve and terminate in accordance with its charter and Maryland law.

Proposal 1(B): The VRDP Holders of the Target Fund are being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the termination of the Target Fund s registration under the 1940 Act and the dissolution of the Target Fund under Maryland law.

For Shareholders of the Acquiring Fund:

Proposal 1(C): The VRDP Holders of the Acquiring Fund are being asked to vote as a separate class on a proposal to approve the Reorganization Agreement and the transactions contemplated therein, including the issuance of additional Acquiring Fund VRDP Shares.

Proposal 2: The Issuance of Additional Acquiring Fund Common Shares

Proposal 2: The common shareholders and VRDP Holders of the Acquiring Fund are being asked to vote as a single class on a proposal to approve the issuance of additional Common Shares of Acquiring Fund in connection with the Reorganization Agreement (the Issuance).

Shareholders of record of each Fund as of the close of business on January 12, 2015 (the Record Date) are entitled to notice of and to vote at the Special Meeting or any adjournment or postponement thereof.

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Shareholders of each Fund are entitled to one vote for each Share held, with no Shares having cumulative voting rights. VRDP Holders of each Fund will have equal voting rights with the common shareholders of such Fund with respect to the proposals that require the vote of the Fund s VRDP Shares and Common Shares as a single class. The quorum and voting requirements for each Fund are described in the section herein entitled Voting Information and Requirements.

This Joint Proxy Statement/Prospectus is only being delivered to the commons shareholders of each Fund. Each Fund is separately soliciting the votes of its respective VRDP Holders on each of the foregoing proposals that require the vote of VRDP Holders through a separate joint proxy statement and not through this Joint Proxy Statement/Prospectus.

The Reorganization Agreement that Fund shareholders are being asked to consider involves transactions, including the Issuance, that will be referred to in this Joint Proxy Statement/Prospectus as the Reorganization. The Fund surviving the Reorganization is referred to herein as the Combined Fund.

Each Fund is organized as a Maryland corporation. Each Fund is a non-diversified closed-end investment company registered under the 1940 Act. The Reorganization seeks to achieve certain economies of scale and other operational efficiencies by combining two Funds that have substantially similar (but not identical) investment policies and investment restrictions.

In the Reorganization, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for newly issued Common Shares and VRDP Shares of the Acquiring Fund in the form of book entry interests. The Acquiring Fund will list the newly issued Common Shares on the New York Stock Exchange (NYSE). Such newly issued Acquiring Fund Shares will be distributed to the Target Fund shareholders (although cash may be distributed in lieu of fractional Common Shares) and the Target Fund will terminate its registration under the 1940 Act and liquidate, dissolve and terminate in accordance with its charter and Maryland law. The Acquiring Fund will continue to operate after the Reorganization as a registered, non-diversified, closed-end management investment company with the investment objective, investment policies and investment restrictions described in this Joint Proxy Statement/Prospectus.

As a result of the Reorganization, each common shareholder of the Target Fund will own Acquiring Fund Common Shares that (except for cash payments received in lieu of fractional Common Shares) will have an aggregate net asset value (NAV) (not the market value) immediately after the closing of the Reorganization equal to the aggregate NAV (not the market value) of that shareholder s Target Fund Common Shares immediately prior to the effective date of the Reorganization (Closing Date). The NAV of the Target Fund and the Acquiring Fund immediately prior to the closing of the Reorganization will be reduced by the costs of the Reorganization borne by each Fund, if any. The value of each Fund s net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding VRDP Shares of such Fund.

Each outstanding VRDP Share of the Target Fund will, without any action on the part of the holder thereof, be exchanged for one newly issued VRDP Share of the Acquiring Fund, which will have terms that are substantially identical to the terms of the Target Fund s outstanding VRDP Shares. The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

If the requisite shareholder approvals are not obtained, each Fund s Board may take such actions as it deems in the best interests of its Fund, including conducting additional solicitations with respect to the proposals or continuing to operate the Fund as a stand-alone fund and the Investment Advisor may, in connection with the ongoing management of each Fund and its product line, recommend alternative proposals to the Board of each Fund.

The Board of each Fund has determined that including these proposals in one Joint Proxy Statement/Prospectus will reduce costs and is in the best interests of each Fund s shareholders.

This Joint Proxy Statement/Prospectus sets forth concisely the information that common shareholders of each Fund should know before voting on the proposal and constitutes an offering of the Acquiring Fund Common Shares. Please read it carefully and retain it for future reference. A Statement of Additional Information, dated January 21, 2015, relating to this Joint Proxy Statement/Prospectus (the Statement of Additional Information) has been filed with the United States Securities and Exchange Commission (the SEC) and is incorporated herein by reference. Copies of each Fund s most recent annual report and semi-annual report can be obtained on a website maintained by BlackRock, Inc. (BlackRock) at www.blackrock.com. In addition, each Fund will furnish, without charge, a copy of the Statement of Additional Information, or its most recent annual report or semi-annual report to any shareholder upon request. Any such request should be directed to BlackRock by calling (800) 882-0052 or by writing to the respective Fund at 100 Bellevue Parkway, Wilmington, Delaware 19809. The Statement of Additional Information and the annual and semi-annual reports of each Fund are available on the EDGAR Database on the SEC s website at www.sec.gov. The address of the principal executive offices of the Funds is 100 Bellevue Parkway, Wilmington, Delaware 19809, and the telephone number is (800) 882-0052.

The Funds are subject to the informational requirements of the Securities Exchange Act of 1934 (the Exchange Act) and the 1940 Act and, in accordance therewith, file reports, proxy statements, proxy materials and other information with the SEC. Materials filed with the SEC can be reviewed and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or downloaded from the SEC s website at www.sec.gov. Information on the operation of the SEC s Public Reference Room may be obtained by calling the SEC at (202) 551-8090. You may also request copies of these materials, upon payment at the prescribed rates of a duplicating fee, by electronic request to the SEC s e-mail address (publicinfo@sec.gov) or by writing the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, Washington, D.C. 20549-0102.

BlackRock updates performance information for the Funds, as well as certain other information for the Funds, on a monthly basis on its website in the Closed-End Funds section of www.blackrock.com. Shareholders are advised to periodically check the website for updated performance information and other information about the Funds. References to BlackRock s website are intended to allow investors public access to information regarding the Funds and do not, and are not intended to, incorporate BlackRock s website in this Joint Proxy Statement/Prospectus.

Please note that only one copy of shareholder documents, including annual or semi-annual reports and proxy materials, may be delivered to two or more shareholders of the Funds who share an address, unless the Funds have received instructions to the contrary. This practice is commonly called householding and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded indefinitely unless you instruct us otherwise. To request a separate copy of any shareholder document or for instructions as to how to request a separate copy of these documents or as to how to request a single copy if multiple copies of these documents are received, shareholders should contact the Fund at the address and phone number set forth above.

The Common Shares of BlackRock MuniHoldings New Jersey Quality Fund, Inc. are listed on the NYSE under the ticker symbol MUJ and will continue to be so listed after the completion of the Reorganization. The Common Shares of BlackRock MuniYield New Jersey Quality Fund, Inc. are listed on the NYSE under the ticker symbol MJI. Reports, proxy statements and other information concerning the Funds may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

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This Joint Proxy Statement/Prospectus serves as a prospectus of the Acquiring Fund in connection with the Issuance. No person has been authorized to give any information or make any representation not contained in this Joint Proxy Statement/Prospectus and, if so given or made, such information or representation must not be relied upon as having been authorized. This Joint Proxy Statement/Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

Photographic identification and proof of ownership will be required for admission to the meeting. For directions to the meeting, please contact Georgeson Inc., the firm assisting us in the solicitation of proxies, at 1-866-828-4305.

THE SEC HAS NOT APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Joint Proxy Statement/Prospectus is January 21, 2015.

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SUMMARY

The following is a summary of certain information contained elsewhere in this Joint Proxy Statement/Prospectus and is qualified in its entirety by reference to the more complete information contained in this Joint Proxy Statement/Prospectus and in the Statement of Additional Information. Shareholders should read the entire Joint Proxy Statement/Prospectus carefully.

The Proposed Reorganization

Assuming the Reorganization receives the requisite shareholder approvals, the Acquiring Fund will acquire substantially all of the assets and assume substantially all of the liabilities of the Target Fund in exchange solely for newly issued Acquiring Fund Shares in the form of book entry interests. The Acquiring Fund will list the newly issued Common Shares on the NYSE. Such newly issued Acquiring Fund Shares will be distributed to the Target Fund shareholders (although cash may be distributed in lieu of fractional Common Shares) and the Target Fund will terminate its registration under the 1940 Act and liquidate, dissolve and terminate in accordance with its charter and Maryland law. The Acquiring Fund will continue to operate after the Reorganization as a registered, non-diversified, closed-end management investment company with the investment objective, investment policies and investment restrictions described in this Joint Proxy Statement/Prospectus.

As a result of the Reorganization, each common shareholder of the Target Fund will own Acquiring Fund Common Shares that (except for cash payments received in lieu of fractional Common Shares) will have an aggregate NAV (not the market value) immediately after the closing of the Reorganization equal to the aggregate NAV (not the market value) of that shareholder s Target Fund Common Shares immediately prior to the Closing Date. The NAV of the Target Fund and the Acquiring Fund immediately prior to the closing of the Reorganization will be reduced by the costs of the Reorganization borne by each Fund, if any. The value of each Fund s net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding VRDP Shares of such Fund.

Each outstanding VRDP Share of the Target Fund will, without any action on the part of the holder thereof, be exchanged for one newly issued VRDP Share of the Acquiring Fund, which will have terms that are substantially identical to the terms of the Target Fund s outstanding VRDP Shares. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

Subject to the requisite approval of the shareholders of each Fund with respect to the Reorganization, it is expected that the Closing Date of the Reorganization will be sometime during the second quarter of 2015, but it may be at a different time as described herein.

If the Reorganization is not consummated, then each Fund will continue to operate for the time being as a stand-alone Maryland corporation and will continue to be advised by the Investment Advisor. However, if the Reorganization is not consummated, the

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Investment Advisor may, in connection with ongoing management of each Fund and its product line, recommend alternative proposals to the Board of each Fund.

Background and Reasons for the Proposed Reorganization

The proposed Reorganization seeks to achieve certain economies of scale and other operational efficiencies by combining two funds that have substantially similar (but not identical) investment objectives, investment policies, investment restrictions and portfolio compositions and are managed by the same investment advisor and portfolio management team.

The proposed Reorganization is intended to result in the following potential benefits to common shareholders: (i) lower total expenses per Common Share for common shareholders of each Fund (as common shareholders of the Combined Fund following the Reorganization) due to economies of scale resulting from the larger size of the Combined Fund; (ii) improved secondary market trading of the Common Shares; and (iii) operating and administrative efficiencies for the Combined Fund, including the potential for the following: (a) greater investment flexibility and investment options; (b) greater diversification of portfolio investments; (c) the ability to trade in larger positions and more favorable transaction terms; (d) benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage; and (e) benefits from having fewer similar funds in the same fund complex, including a simplified operational model and a reduction in risk of operational, legal and financial errors.

The Board of Directors (the Board) of each Fund, including the directors (Board Members) who are not interested persons of each Fund (as defined in the 1940 Act) (Independent Board Members), has unanimously approved the Reorganization, concluding that the Reorganization is in the best interests of its Fund and that the interests of existing common shareholders and VRDP Holders of its Fund will not be diluted with respect to NAV and liquidation preference, respectively, as a result of the Reorganization. As a result of the Reorganization, however, common and preferred shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds before the Reorganization. The Board s conclusion was based on each Board Member s business judgment after consideration of all relevant factors taken as a whole with respect to its Fund and the Fund s common and preferred shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors. Please see Information about the Reorganization Reasons for the Reorganization for additional information about the factors considered by each Board.

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Net and Managed Assets

As of December 31, 2014, the Target Fund has $143,452,473 in net assets and $225,896,742 in managed assets, and the Acquiring Fund has $345,402,806 in net assets and $552,802,116 in managed assets.

Total Expenses and Management Fees

For the fiscal year ended July 31, 2014, the Total Expense Ratios of the Target Fund and the Acquiring Fund were 1.58% and 1.57%, respectively. Total Expenses means a Fund s total annual operating expenses (including interest expenses and applicable fee waivers). Total Expense Ratio means a Fund s Total Expenses expressed as a percentage of its average net assets attributable to its Common Shares. The Funds estimate that the completion of the Reorganization would result in a Total Expense Ratio for the Combined Fund of 1.53% on a historical and pro forma basis for the 12-month period ended July 31, 2014, representing a reduction in the Total Expense Ratio for the common shareholders of the Target Fund and the Acquiring Fund of 0.05% and 0.04%, respectively.

The Combined Fund will have the same annual contractual investment management fee rate as the Target Fund. The Target Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets. The Acquiring Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.55% of its average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities.

For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of the VRDP Shares and tender option bond trusts that exceed 35% of total assets minus the sum of the Acquiring Fund s accrued liabilities (Voluntary Fee Waiver).

If the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of the Voluntary Fee Waiver.
Based on a pro-forma Lipper expense group for the Combined Fund, the estimated total annual fund operating expenses (excluding investment related expenses) and contractual management fee rate are each expected to be in the first quartile.

There can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of the Reorganization.

Earnings, Distributions and Undistributed Net Investment Income

Earnings and Distribution Rate: The Combined Fund s earnings yield on NAV following the Reorganization is expected to be comparable (i.e., the same or slightly lower or higher) to each Fund s current earnings yield on NAV; thus, assuming that the Reorganization is consummated and that the Acquiring Fund s distribution policy remains in place after the Reorganization, common shareholders of each Fund may experience a distribution rate on NAV comparable (i.e., the same or slightly lower or higher) to their current distribution rate on NAV. The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. A Fund s earnings and net investment income are variables which depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized by the Fund, the costs of such leverage, the performance of its investments, the movement of interest rates and general market conditions. There can be no assurance that the future earnings of a Fund, including the Combined Fund after the Reorganization, will remain constant.

Distribution Policy: Each Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to holders of such Fund s shares of common stock, except as described below under Undistributed Net Investment Income. Each Fund intends to pay any capital gains distributions at least annually. A return of capital distribution may involve a return of the common shareholder s original investment. Though not currently taxable, such a distribution may lower a common shareholder s basis in such Fund, thus potentially subjecting the common shareholder to future tax consequences in connection with the sale of Fund Common Shares, even if sold at a loss to the common shareholder s original investment. When total distributions exceed total return performance for the period, the difference will reduce a Fund s total assets and NAV and, therefore, could have the effect of increasing the Fund s expense ratio and reducing the amount of assets the Fund has available for long term investment.

Automatic Dividend Reinvestment: Common shareholders of each Fund will automatically have all dividends and distributions reinvested in Common Shares of such Fund in accordance with such Fund s dividend reinvestment plan, unless an election is made to receive cash by contacting the Reinvestment Plan Agent (as defined herein), at (800) 699-1236. See Automatic Dividend Reinvestment Plan.

Undistributed Net Investment Income: If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund s common shareholders prior to the Closing Date (the Pre-Reorganization Declared UNII Distributions). The declaration date, ex-dividend date (the Ex-Dividend Date) and record date of the Pre-Reorganization Declared UNII Distributions will occur prior to the Closing Date. However, all or a significant portion of the Pre-Reorganization Declared UNII Distributions may be paid in one or more distributions to common shareholders of the Funds entitled to such Pre-Reorganization Declared UNII

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Distributions after the Closing Date. In addition, BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ) does not currently expect to declare any distributions during the first two months following the Closing Date. Accordingly, persons who purchase Common Shares of any of the Funds on or after the Ex-Dividend Date for the Pre-Reorganization Declared UNII Distributions should not expect to receive any distributions from any Fund until distributions, if any, are declared by the Board of the Combined Fund and paid to shareholders entitled to any such distributions. No such distributions are expected to be paid by the Combined Fund until at least approximately three months following the Closing Date.

The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. Each Fund reserves the right to change its distribution policy with respect to common share distributions and the basis for establishing the rate of its monthly distributions for the Common Shares at any time and may do so without prior notice to common shareholders. The payment of any distributions by any Fund is subject to, and will only be made when, as and if, declared by the Board of such Fund. There is no assurance the Board of any Fund will declare any distributions for such Fund. To the extent any Pre-Reorganization Declared UNII Distributions is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. Federal income tax purposes.

Premium/Discount to NAV of Common Shares

The Common Shares of each Fund have historically traded at both a premium and a discount. The table below sets forth the market price, NAV, and the premium/discount to NAV of each Fund as of December 31, 2014.

Fund	Market Price	NAV	Premium/(Discount) to NAV
MUJ	$14.50	$16.21	(10.55)%
MJI	$14.46	$16.13	(10.35)%

To the extent the Target Fund Common Shares are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganization, the Target Fund s common shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. To the extent the Target Fund Common Shares are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganization, Target Fund common shareholders may be negatively impacted if the Reorganization is consummated. Acquiring Fund common shareholders would only benefit from a premium/discount perspective to the extent the Acquiring Fund s post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at

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a narrower discount to NAV or wider premium to NAV than the Common Shares of any individual Fund prior to the Reorganization.

In the Reorganization, common shareholders of the Target Fund will receive Acquiring Fund Common Shares based on the relative NAVs (not the market values) of the respective Fund s Common Shares. The market value of the Common Shares of the Combined Fund may be less than the market value of the Common Shares of each respective Fund prior to the Reorganization.

VRDP Shares

As of December 31, 2014, the Target Fund has 644 Series W-7 VRDP Shares outstanding, and the Acquiring Fund has 1,727 Series W-7 VRDP Shares outstanding. In connection with the Reorganization, the Acquiring Fund expects to issue 644 additional VRDP Shares to Target Fund VRDP Holders. Following the completion of the Reorganization, the Combined Fund is expected to have 2,371 VRDP Shares outstanding.

Upon the closing of the Reorganization, Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially identical to the outstanding Target Fund VRDP Shares, held by such holders immediately prior to the closing of the Reorganization.

The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

The terms of the outstanding Target Fund VRDP Shares are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares. The Funds VRDP Shares have the same $100,000 liquidation preference per share, maturity date, dividend period, dividend payment date, voting rights, redemption provisions, remarketing procedures, mandatory purchase events, mandatory tender events, transfer restrictions and covenants with respect to effective leverage, asset coverage and eligible investments. The

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	Funds VRDP Shares also have the same mechanism for determining the applicable dividend rate and maximum rate, and the same liquidity provider, remarketing agent and tender and paying agent. Each Fund s VRDP Shares are currently in a three year special rate period that will end on April 19, 2017. The terms applicable to each Fund s VRDP Shares during the special rate period are also substantially identical. During the special rate period, the Funds VRDP Shares have the same mechanism for determining the applicable dividend rate and maximum rate, redemption premiums and transfer restrictions.
	None of the expenses of the Reorganization are expected to be borne by the VRDP Holders of the Funds.
	Following the Reorganization, the VRDP Holders of each Fund will be VRDP Holders of the larger Combined Fund that will have a larger asset base and more VRDP Shares outstanding than either Fund individually. With respect to matters requiring all preferred shareholders to vote separately or common and preferred shareholders to vote together as a single class, following the Reorganization, holders of VRDP Shares of the Combined Fund will hold a smaller percentage of the outstanding preferred shares of the Combined Fund as compared to their percentage holdings of outstanding preferred shares of their respective Fund prior to the Reorganization.
Appraisal Rights	Under Maryland law, stockholders of an investment company whose shares are traded publicly on a national securities exchange, such as Common Shares of the Target Fund, are not entitled to demand the fair value of their shares in connection with a reorganization. However, because the Target Fund s VRDP Shares are not traded publicly on a national securities exchange and the Target Fund will be selling substantially all of its assets to the Acquiring Fund in the Reorganization, the holders of Target Fund VRDP Shares will be entitled under Maryland law to demand and receive payment of the fair value of such Target Fund VRDP Shares upon the consummation of the Reorganization.
Certain U.S. Federal Income Tax Consequences of the Reorganization	The Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code). If the Reorganization so qualifies, in general, shareholders of the Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund shares for Acquiring Fund shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional Common Shares). Additionally, the Target Fund will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to the Reorganization.
	Shareholders of each Fund may receive distributions prior to, or after, the consummation of the Reorganization, including distributions

attributable to their proportionate share of each Fund s undistributed net investment income declared prior to the consummation of the Reorganization or the Combined Fund built-in gains, if any, recognized after the Reorganization, when such income and gains are eventually distributed by the Combined Fund. To the extent that such a distribution is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. federal income tax purposes.

The Funds shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganization, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

General Information and History

Each Fund is organized as a corporation under the laws of the State of Maryland as a non-diversified, closed-end management investment company registered under the 1940 Act.

Each Fund s principal office is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and its telephone number is (800) 882-0052.

Each Fund has a July 31 fiscal year end.

The Acquiring Fund Common Shares are listed on the NYSE as MUJ.

The Target Fund Common Shares are listed on the NYSE as MJI.

Each Fund has VRDP Shares outstanding. Each Fund s VRDP Shares are not listed on a national stock exchange and have not been registered under the Securities Act, or any state securities laws, and unless so registered, may not be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Investment Objectives and Policies

The Funds have substantially similar (but not identical) investment objectives, investment policies and investment restrictions. The investment objective, significant investment strategies and operating policies, and investment restrictions of the Combined Fund will be those of the Acquiring Fund.

Investment Objectives:

The Target Fund s investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes and New Jersey personal income tax as is consistent with its investment policies and prudent investment management.

The Acquiring Fund s investment objective is to provide shareholders with current income exempt from federal income tax and New Jersey personal income taxes.

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New Jersey Municipal Bonds:

Each Fund invests at least 80% of its assets in municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes.

Investment Grade Securities:

Each Fund currently invests primarily in investment grade municipal bonds.

Leverage:

Each Fund utilizes leverage in the form of VRDP Shares and tender option bonds.

Fund Management

The Board of each Fund is responsible for the overall supervision of the operations of its respective Fund and performs the various duties imposed on the directors of investment companies by the 1940 Act and under applicable state law. Each Fund has the same Board Members and officers.

Investment Advisor

BlackRock Advisors, LLC serves as the investment advisor for each Fund and is expected to continue to serve as investment advisor for the Combined Fund.

Portfolio Management Team

Each Fund is managed by a team of investment professionals comprised of Michael Kalinoski, CFA, Director at BlackRock, Theodore R. Jaeckel, Jr., CFA, Managing Director at BlackRock, and Walter O Connor, CFA, Managing Director at BlackRock. After the Reorganization, it is expected that each Fund s current portfolio management team will continue to comprise the team of investment professionals for the Combined Fund.

Other Service Providers

The other professional service providers for the Funds are as follows:

Service	**Service Providers to the Funds**
Custodian	State Street Bank and Trust Company
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company, N.A.
Liquidity Provider to VRDP Shares	Bank of America, N.A.
Remarketing Agent to VRDP Shares	Merrill Lynch, Pierce, Fenner & Smith Incorporated
Tender and Paying Agent to VRDP Shares	The Bank of New York Mellon
Accounting Services Provider	State Street Bank and Trust Company
Independent Registered Public Accounting Firm	Deloitte & Touche LLP
Fund Counsel	Skadden, Arps, Slate, Meagher & Flom LLP

Counsel to the Independent Board Members	Debevoise & Plimpton LLP

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EXPENSE TABLE FOR COMMON SHAREHOLDERS

The following table illustrates the anticipated reduction or increases in the Total Expense Ratio for the common shareholders of each Fund expected as a result of the completion of the Reorganization. The table sets forth (i) the Total Expense Ratio for each Fund for the 12-month period ended July 31, 2014; and (ii) the *pro forma* Total Expense Ratio for the Combined Fund, assuming the Reorganization had taken place on July 31, 2014.

	Target Fund (MJI)	Acquiring Fund (MUJ)	Pro Forma Combined Fund (MUJ)[(a)]
Shareholder Transaction Expenses			
Maximum Sales Load (as a percentage of the offering price) imposed on purchases of Common Shares[(b)]	None	None	None
Dividend Reinvestment and Cash Purchase Plan Fees	$0.02 per share for open-market purchases of Common Shares[(c)]	Same as MJI	Same as MJI
Annual Total Expenses (as a percentage of average net assets attributable to Common Shares)			
Investment Management Fees[(d)]	0.82%	0.84%	0.82%
Other Expenses	0.43%	0.40%	0.38%
Interest Expenses[(e)]	0.33%	0.33%	0.33%
Total Annual Fund Operating Expenses[(d)(e)]	1.58%	1.57%	1.53%

(a) Assumes the Reorganization had taken place on July 31, 2014.

(b) No sales load will be charged in connection with the issuance of Acquiring Fund Common Shares as part of the Reorganization. Common Shares are not available for purchase from the Funds but may be purchased on the NYSE through a broker-dealer subject to individually negotiated commission rates. Common Shares purchased in the secondary market may be subject to brokerage commissions or other charges.

(c) The Reinvestment Plan Agent s fees for the handling of the reinvestment of dividends will be paid by the Fund. However, you will pay a $0.02 per share fee incurred in connection with open-market purchases of Common Shares pursuant to the Dividend Reinvestment Plan, which will be deducted from the value of the dividend. You will also be charged a $0.02 per share fee if you direct the Reinvestment Plan Agent to sell your Common Shares held in a dividend reinvestment account. Per share fees include any applicable brokerage commissions the Reinvestment Plan Agent is required to pay. See Automatic Dividend Reinvestment Plan for additional information.

(d) The Target Fund pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of the Target Fund s average daily net assets. The Acquiring Fund pays the Investment Advisor an annual contractual management fee rate of 0.55% of the Acquiring Fund s average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities. For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of preferred shares and tender option bond investments that exceed 35% of total assets minus the sum of the Acquiring Fund s accrued liabilities. This fee waiver is voluntary and may be reduced or discontinued at any time without notice. Without this voluntary fee waiver, the Acquiring Fund s Investment Management Fees would be 0.91% and its Total Annual Fund Operating Expenses would be 1.64%. If the Reorganization is consummated, the annual contractual management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of this voluntary fee waiver.

(e) The total expense table includes interest expenses associated with the Funds investments in tender option bonds (also known as inverse floaters). Although such interest expenses are actually paid by special purpose vehicles in which the Funds invest, they are recorded on the Funds financial statements for accounting purposes. Each Fund uses leverage to seek to enhance its returns to common shareholders. This leverage generally takes two forms: the issuance of preferred shares and investment in tender option bonds. Both forms of leverage benefit common shareholders if the cost of the leverage is lower than the returns earned by a Fund when it invests the proceeds from the leverage. Under applicable accounting rules, however, only the cost of the leverage associated with investments in tender option bonds is included for purposes of reporting a Fund s Total Annual Fund Operating Expenses. Therefore, the level of a Fund s

Total Annual Fund Operating Expenses that includes interest expense is dependent upon the amount of its leverage in the form of preferred shares versus the amount of its leverage in the form of investments in tender option bonds, even though both types of leverage have similar effects on

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returns experienced by common shareholders. Furthermore, the amount of each Fund s leverage in the form of tender option bonds has varied from time to time over the past year. The Total Annual Fund Operating Expenses (excluding interest expense) for the Funds are as follows:

Target Fund (MJI)	Acquiring Fund (MUJ)	*Pro Forma* Combined Fund (MUJ)
1.25%	1.25%	1.21%

The following example is intended to help you compare the costs of investing in the Common Shares of the Combined Fund *pro forma* if the Reorganization is completed with the costs of investing in the Target Fund and the Acquiring Fund without the Reorganization. An investor in Common Shares would pay the following expenses on a $1,000 investment, assuming (1) the Total Annual Fund Operating Expenses for each Fund set forth in the total expenses table above and (2) a 5% annual return throughout the period:

	1 Year	3 Years	5 Years	10 Years
Target Fund (MJI)	$ 16	$ 50	$ 86	$ 188
Acquiring Fund (MUJ)	$ 16	$ 50	$ 86	$ 187
Pro Forma Combined Fund (MUJ)	$ 16	$ 48	$ 83	$ 182

The examples set forth above assume Common Shares of each Fund were owned as of the completion of the Reorganization and the reinvestment of all dividends and distributions and uses a 5% annual rate of return as mandated by SEC regulations. The examples should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be more or less than those assumed for purposes of the examples.

The Investment Advisor will bear a portion of each Fund s costs with respect to the Reorganization. The expenses of the Reorganization are estimated to be $300,000 for the Target Fund and $350,000 for the Acquiring Fund, without consideration of any amount to be borne by the Investment Advisor. The Investment Advisor has agreed to pay approximately $185,000 of the Target Fund s costs of the Reorganization and $100,000 of the Acquiring Fund s costs of the Reorganization. The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Comparison of Risks

The Combined Fund will be managed in accordance with the same investment objective and investment policies, and subject to the same risks, as the Acquiring Fund. The Funds have substantially similar (but not identical) investment policies and investment restrictions and are subject to substantially similar investment risks. Each Fund invests at least 80% of its assets in municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes. Each Fund also currently invests primarily in investment grade municipal bonds. Please see Comparison of the Funds Investments in this Joint Proxy Statement/Prospectus for a more detailed description of the salient differences between the Funds.

Risks that predominately affect the Common Shares of the Funds include risks associated with municipal obligations, including New Jersey municipal obligations, interest rate risk, credit risk, non-diversification risk and leverage risk. In addition, as exchange-traded closed-end funds, the Funds are subject to the risk that the Funds Common Shares may trade at a discount from the Funds NAV. Accordingly, the Funds are primarily designed for long-term investors and should not be considered a vehicle for trading purposes. In the normal course of business, each Fund invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (issuer

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credit risk). The value of securities held by the Funds may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Funds; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Funds may be exposed to counterparty credit risk, or the risk that an entity with which the Funds have unsettled or open transactions may fail to or be unable to perform on its commitments.

The Combined Fund will be managed in accordance with the same investment objective and investment policies, and subject to the same risks, as the Acquiring Fund. Risk is inherent in all investing. An investment in the Common Shares of the Acquiring Fund should not be considered a complete investment program. Each shareholder should take into account the Acquiring Fund s investment objective as well as the shareholder s other investments when considering an investment in the Acquiring Fund. You may lose part or all of your investment in the Acquiring Fund or your investment may not perform as well as other similar investments.

Risks Related to the Reorganization

Expenses.

While the Funds currently estimate that the Reorganization will result in reduced aggregate expenses of the Combined Fund by approximately $196,117 per year, the realization of these reduced expenses will not affect holders of the Funds proportionately, and may take longer than expected to be realized or may not be realized at all.

For the fiscal year ended July 31, 2014, the Total Expense Ratios of the Target Fund and the Acquiring Fund was 1.58% and 1.57%, respectively. As of July 31, 2014, the historical and *pro forma* Total Expense Ratios applicable to the Reorganization are as follows:

Target Fund (MJI)	Acquiring Fund (MUJ)	Pro Forma Combined Fund (MUJ)
1.58%	1.57%	1.53%

The Funds estimate that the completion of the Reorganization would result in a Total Expense Ratio for the Combined Fund of 1.53% on a historical and pro forma basis for the 12-month period ended July 31, 2014, representing a reduction in the Total Expense Ratio for the common shareholders of the Target Fund and the Acquiring Fund of 0.05% and 0.04%, respectively.

The Combined Fund will have the same annual contractual investment management fee rate as the Target Fund. The Target Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets. The Acquiring Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.55% of its average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities.

For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of the VRDP Shares and tender option bond trusts that exceed 35% of total assets minus the sum of the Acquiring Fund s accrued liabilities (Voluntary Fee Waiver).

If the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of the Voluntary Fee Waiver.

Based on a pro-forma Lipper expense group for the Combined Fund, the estimated total annual fund operating expenses (excluding investment related expenses) and contractual management fee rate are each expected to be in the first quartile.

There can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of the Reorganization. Please see the Expense Table For Common Shareholders for additional information about the Funds expenses.

Earnings and Distribution Rate.

The Combined Fund s earnings yield on NAV following the Reorganization is expected to be comparable (i.e., the same or slightly lower or higher) to each Fund s current earnings yield on NAV; thus, assuming that the Reorganization is consummated and that the Acquiring Fund s distribution policy remains in place after the Reorganization, common shareholders of each Fund may experience a distribution rate on NAV comparable (i.e., the same or slightly lower or higher) to their current distribution rate on NAV. The Combined Fund s earnings and distribution rate on NAV may change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. It is also anticipated that shareholders of the Target Fund may benefit from other potential benefits associated with the Reorganization (including as a result of the Combined Fund s larger size) as more fully discussed herein. See Information About the Reorganization Reasons for the Reorganization. A Fund s earnings and net investment income are variables which depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized by the Fund, the costs of such leverage, the performance of its investments, the movement of interest rates and general market conditions. There can be no assurance that the future earnings of a Fund, including the Combined Fund after the Reorganization, will remain constant.

Undistributed Net Investment Income.

If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund s common shareholders prior to the Closing Date (the Pre-Reorganization Declared UNII Distributions). The declaration date, ex-dividend date (the Ex-Dividend Date) and record date of the Pre-Reorganization Declared UNII Distributions will occur prior to the Closing Date. However, all or a significant portion of the Pre-Reorganization Declared UNII Distributions may be paid in one or more distributions to common shareholders of the Funds entitled to such Pre-Reorganization Declared UNII Distributions after the Closing Date. In addition, BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ) does not currently expect to declare any distributions during the first two months following the Closing Date. Accordingly, persons who purchase Common Shares of any of the Funds on or after the Ex-Dividend Date for the Pre-Reorganization Declared UNII Distributions should not expect to receive any distributions from any Fund until distributions, if any, are declared by the Board of the Combined Fund and paid to shareholders entitled to any such distributions. No such distributions are expected to be paid by the Combined Fund until at least approximately three months following the Closing Date.

The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. Each Fund reserves the right to change its distribution policy with respect to common share distributions and the basis for establishing the rate of its monthly distributions for the Common Shares at any time and may do so without prior notice to common shareholders. The payment of any distributions by any Fund is subject to, and will only be made when, as and if, declared by the Board of such Fund. There is no assurance the Board of any Fund will declare any distributions for such Fund. To the extent any Pre-Reorganization Declared UNII Distributions is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. Federal income tax purposes.

Premium/Discount to NAV.

As with any capital stock, the price of each Fund s Common Shares will fluctuate based on market conditions and other factors. If Common Shares are sold, the price received may be more or less than the original investment. Each Fund s Common Shares are designed for long-term investors and should not be treated as

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trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their NAV. This risk may be greater for investors who sell their Common Shares in a relatively short period of time after the completion of the Reorganization.

The Common Shares of each Fund have historically traded at both a premium and a discount. The table below sets forth the market price, NAV, and the premium/discount to NAV of each Fund as of December 31, 2014.

Fund	Market Price	NAV	Premium/(Discount) to NAV
MUJ	$14.50	$16.21	(10.55)%
MJI	$14.46	$16.13	(10.35)%

To the extent the Target Fund Common Shares are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganization, the Target Fund s common shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. To the extent the Target Fund Common Shares are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganization, Target Fund common shareholders may be negatively impacted if the Reorganization is consummated. Acquiring Fund common shareholders would only benefit from a premium/discount perspective to the extent the Acquiring Fund s post-Reorganization discount (or premium) improves.

There can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at a narrower discount to NAV or wider premium to NAV than the Common Shares of any individual Fund prior to the Reorganization. Upon consummation of the Reorganization, the Acquiring Fund Common Shares may trade at a price that is less than the Acquiring Fund s current trading market price. In the Reorganization, common shareholders of the Target Fund will receive Common Shares of the Acquiring Fund based on the relative NAVs (not the market values) of each respective Fund s Common Shares. The market value of the Common Shares of the Combined Fund may be less than the market value of the Common Shares of each respective Fund prior to the Reorganization.

Tax Considerations.

The Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. If the Reorganization so qualifies, in general, shareholders of the Target Fund will recognize no gain or loss for U.S. federal income tax purposes upon the exchange of their Target Fund Shares for Acquiring Fund Shares pursuant to the Reorganization (except with respect to cash received in lieu of fractional Common Shares). Additionally, the Target Fund will recognize no gain or loss for U.S. federal income tax purposes by reason of the Reorganization. Neither the Acquiring Fund nor its shareholders will recognize any gain or loss for U.S. federal income tax purposes pursuant to the Reorganization.

Shareholders of each Fund may receive distributions prior to, or after, the consummation of the Reorganization, including distributions attributable to their proportionate share of each Fund s undistributed net investment income declared prior to the consummation of the Reorganization or the Combined Fund built-in gains, if any, recognized after the Reorganization, when such income and gains are eventually distributed by the Combined Fund. To the extent that such a distribution is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. federal income tax purposes.

The Funds shareholders should consult their own tax advisers regarding the U.S. federal income tax consequences of the Reorganization, as well as the effects of state, local and non-U.S. tax laws, including possible changes in tax laws.

See Certain Federal Income Tax Consequences of the Reorganization for a summary of certain U.S. federal income tax consequences of the Reorganization.

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General Risks of Investing in the Acquiring Fund

The Combined Fund will be managed in accordance with the same investment objective and investment policies, and subject to the same risks, as the Acquiring Fund. Risk is inherent in all investing. The value of your investment in the Acquiring Fund, as well as the amount of return you receive on your investment, may fluctuate significantly from day to day and over time. The Acquiring Fund is not meant to provide a vehicle for those who wish to exploit short-term swings in the stock market and is intended for long-term investors. An investment in Common Shares of the Acquiring Fund should not be considered a complete investment program. Each shareholder should take into account the Acquiring Fund s investment objective as well as the shareholder s other investments when considering an investment in the Acquiring Fund. You may lose part or all of your investment in the Acquiring Fund or your investment may not perform as well as other similar investments. The risks that predominately affect Common Shares of the Acquiring Fund include the following:

Non-Diversified Status. The Acquiring Fund is a non-diversified fund. As defined in the 1940 Act, a non-diversified fund may have a significant part of its investments in a smaller number of issuers than can a diversified fund. Having a larger percentage of assets in a smaller number of issuers makes a non-diversified fund, like the Acquiring Fund, more susceptible to the risk that one single event or occurrence can have a significant adverse impact upon the Acquiring Fund.

Investment and Market Discount Risk. An investment in the Acquiring Fund s Common Shares is subject to investment risk, including the possible loss of the entire amount that you invest. As with any stock, the price of the Acquiring Fund s Common Shares will fluctuate with market conditions and other factors. Common Shares are designed for long-term investors and the Acquiring Fund should not be treated as a trading vehicle. Shares of closed-end management investment companies frequently trade at a discount from their NAV. This risk is separate and distinct from the risk that the Acquiring Fund s NAV could decrease as a result of its investment activities. At any point in time an investment in the Acquiring Fund s Common Shares may be worth less than the original amount invested, even after taking into account distributions paid by the Acquiring Fund. This risk may be greater for investors who sell their Common Shares in a relatively short period of time after completion of the Reorganization.

Municipal Bond Market Risk. Economic exposure to the municipal bond market involves certain risks. The Acquiring Fund s economic exposure to municipal bonds includes municipal bonds in the Acquiring Fund s portfolio and municipal bonds to which the Acquiring Fund is exposed through the ownership of residual interest municipal tender option bonds (TOBs Residuals). The municipal market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms capital was severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal bonds. Certain municipal bonds may not be registered with the SEC or any state securities commission and will not be listed on any national securities exchange. The amount of public information available about the municipal bonds to which the Acquiring Fund is economically exposed is generally less than that for corporate equities or bonds, and the investment performance of the Acquiring Fund may therefore be more dependent on the analytical abilities of the Investment Advisor than would be a stock fund or taxable bond fund. The secondary market for municipal bonds, particularly the below investment grade bonds to which the Acquiring Fund may be economically exposed, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the ability to sell such bonds at attractive prices or at prices approximating those at which the Acquiring Fund currently values them.

In addition, many state and municipal governments that issue securities are under significant economic and financial stress and may not be able to satisfy their obligations. 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. The taxing power of any governmental entity may be limited by provisions of state constitutions or laws and an entity s credit will depend on many factors, including the entity s tax base, the extent to which the entity relies on federal or state aid, and other factors which are beyond the entity s control. In addition, laws enacted in the future by Congress or state

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legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations or on the ability of municipalities to levy taxes. Issuers of municipal bonds might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal bonds could experience delays in collecting principal and interest and such holders may not, in all circumstances, be able to collect all principal and interest to which they are entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Acquiring Fund may take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Acquiring Fund s operating expenses. Any income derived from the Acquiring Fund s ownership or operation of such assets may not be tax-exempt.

Risk Factors and Special Considerations Relating to New Jersey Municipal Bonds. The Acquiring Fund ordinarily will invest at least 80% of its total assets in New Jersey Municipal Bonds; therefore, it is more susceptible to factors adversely affecting issuers of New Jersey Municipal Bonds than is a municipal bond fund that is not concentrated in issuers of New Jersey Municipal Bonds to this degree. Briefly summarized below are important financial concerns relating to the Acquiring Fund s investments in New Jersey municipal obligations. The information set forth below and in Appendix B to the Statement of Additional Information is derived from sources that are generally available to investors. This information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State of New Jersey. It should be noted that the information recorded here primarily is based on the economic and budget forecasts found in certain recent publications issued by New Jersey. The accuracy and completeness of those publications have not been independently verified. There may be significant changes in circumstances altering the economic and budget predictions since the time of those publications or after the publication of this Joint Proxy Statement/Prospectus.

The Acquiring Fund is susceptible to certain factors which could adversely affect issuers of New Jersey municipal obligations. The ability of issuers to pay interest on, and repay principal of, New Jersey municipal obligations may be affected by: (1) amendments to the Constitution of the State of New Jersey and other statutes that limit the taxing and spending authority of New Jersey government entities; (2) the general financial and economic profile as well as the political climate of New Jersey, its public authorities and political subdivisions; and (3) a change in New Jersey laws and regulations or subsequent court decisions that may affect, directly or indirectly, New Jersey municipal obligations. The Fund s yield and share price are sensitive to these factors as one or more of such factors could undermine New Jersey issuers efforts to borrow, inhibit secondary market liquidity and erode credit ratings. Furthermore, it should be noted that the creditworthiness of obligations issued by local New Jersey issuers may be unrelated to the creditworthiness of obligations issued by New Jersey and that there is no obligation on the part of New Jersey to make payment on such local obligations in the event of default.

The State Department of the Treasury s Office of Management and Budget s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013 reported that for fiscal year 2013, State revenues, including transfers, totaled $56.8 billion or an increase of $2.1 billion when compared to the prior fiscal year, and State expenses totaled $61.2 billion, for a decrease of $77.8 million in comparison to the prior fiscal year. In addition, according to estimates from the Department of the Treasury, Office of Revenue and Economic Analysis, New Jersey s total revenues for fiscal year 2015 will be $34.4 billion, $1.9 billion, or 5.8% above the revised projected fiscal year 2014 level.

As of June 30, 2013, New Jersey s outstanding long-term debt obligations for governmental activities totaled $78.4 billion, representing a $6.6 billion increase from the prior fiscal year. Long-term bonded debt obligations totaled $40.4 billion, while other long-term obligations totaled $38 billion.

New Jersey s various outstanding general obligation bonds were rated A with a negative outlook by Fitch Ratings (Fitch) as of September 5, 2014, A1 with a negative outlook by Moody s Investors Service, Inc. (Moody s) as of May 14, 2014, and A with a stable outlook by Standard & Poor s Ratings Group, a division of

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The McGraw-Hill Companies, Inc. (S&P) as of September 10, 2014. These ratings reflect New Jersey s credit quality only, and do not indicate the creditworthiness of other tax-exempt securities in which the Acquiring Fund may invest.

The foregoing information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal bonds held by the Acquiring Fund are subject. See Appendix B to the Statement of Additional Information for a further discussion of factors affecting New Jersey municipal securities. The information set forth above and in Appendix B to the Statement of Additional Information is derived from sources that are generally available to investors. This information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State of New Jersey.

Fixed Income Securities Risks. Fixed income securities in which the Acquiring Fund may invest are generally subject to the following risks:

Interest Rate Risk. The market value of bonds and other fixed-income securities changes in response to interest rate changes and other factors. Interest rate risk is the risk that prices of bonds and other fixed-income securities will increase as interest rates fall and decrease as interest rates rise. The Acquiring Fund may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates. The magnitude of these fluctuations in the market price of bonds and other fixed-income securities is generally greater for those securities with longer maturities. Fluctuations in the market price of the Acquiring Fund s investments will not affect interest income derived from instruments already owned by the Acquiring Fund, but will be reflected in the Acquiring Fund s NAV. The Acquiring Fund may lose money if short-term or long-term interest rates rise sharply in a manner not anticipated by the Acquiring Fund s management. To the extent the Acquiring Fund invests in debt securities that may be prepaid at the option of the obligor (such as mortgage-related securities), the sensitivity of such securities to changes in interest rates may increase (to the detriment of the Acquiring Fund) when interest rates rise. Moreover, because rates on certain floating rate debt securities typically reset only periodically, changes in prevailing interest rates (and particularly sudden and significant changes) can be expected to cause some fluctuations in the NAV of the Acquiring Fund to the extent that it invests in floating rate debt securities. These basic principles of bond prices also apply to U.S. government securities. A security backed by the full faith and credit of the U.S. government is guaranteed only as to its stated interest rate and face value at maturity, not its current market price. Just like other fixed-income securities, government-guaranteed securities will fluctuate in value when interest rates change.

The Acquiring Fund s use of leverage, as described below, will tend to increase the Acquiring Fund s interest rate risk. The Acquiring Fund may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of fixed income securities held by the Acquiring Fund and decreasing the Acquiring Fund s exposure to interest rate risk. The Acquiring 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 Acquiring Fund to reduce interest rate risk will be successful or that any hedges that the Acquiring Fund may establish will perfectly correlate with movements in interest rates.

Issuer Risk. The value of fixed income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer s goods and services, historical and prospective earnings of the issuer and the value of the assets of the issuer.

Credit Risk. Credit risk is the risk that one or more fixed income securities in the Acquiring Fund s portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. In addition, to the extent the Acquiring Fund uses credit derivatives, such use will expose it to additional risk in the event that the bonds underlying the derivatives default. The degree of credit risk depends on the issuer s financial condition and on the terms of the securities.

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Prepayment Risk. During periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For fixed rate securities, such payments often occur during periods of declining interest rates, forcing the Acquiring Fund to reinvest in lower yielding securities, resulting in a possible decline in the Acquiring Fund s income and distributions to shareholders. This is known as prepayment or call risk. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Acquiring Fund, prepayment risk may be enhanced.

Reinvestment Risk. Reinvestment risk is the risk that income from the Acquiring Fund s portfolio will decline if the Acquiring Fund invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Acquiring Fund portfolio s current earnings rate.

Duration and Maturity Risk. The Investment Advisor may seek to adjust the portfolio s duration or maturity based on their assessment of current and projected market conditions and all factors that the Investment Advisor deems relevant. Any decisions as to the targeted duration or maturity of any particular category of investments or of the Acquiring Fund s portfolio generally will be made based on all pertinent market factors at any given time. The Acquiring Fund may incur costs in seeking to adjust the portfolio average duration or maturity. There can be no assurance that the Investment Advisor s assessment of current and projected market conditions will be correct or that any strategy to adjust the portfolio s duration or maturity will be successful at any given time. Generally speaking, the longer the duration of the Acquiring Fund s portfolio, the more exposure the Acquiring Fund will have to the interest rate risks described above.

Municipal Securities Risks. Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers of municipal securities, and the possibility of future legislative changes which could affect the market for and value of municipal securities. These risks include:

General Obligation Bonds Risks. The full faith, credit and taxing power of the municipality that issues a general obligation bond secures payment of interest and repayment of principal. Timely payments depend on the issuer s credit quality, ability to raise tax revenues and ability to maintain an adequate tax base.

Revenue Bonds Risks. Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal bonds generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. Payments of interest and principal on revenue bonds are made only from the revenues generated by a particular facility, class of facilities or the proceeds of a special tax or other revenue source. These payments depend on the money earned by the particular facility or class of facilities, or the amount of revenues derived from another source. Such bonds are generally nonrecourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Increases in interest rates payable on senior obligations may make it more difficult for issuers to meet payment obligations on subordinated bonds.

Private Activity Bonds Risks. Municipalities and other public authorities issue private activity bonds to finance development of industrial facilities for use by a private enterprise. The private enterprise pays the principal and interest on the bond, and the issuer does not pledge its full faith, credit and taxing power for repayment. If the private enterprise defaults on its payments, the Acquiring Fund may not receive any income or get its money back from the investment. These bonds may subject certain investors in the Acquiring Fund to the federal alternative minimum tax.

Moral Obligation Bonds Risks. Moral obligation bonds are generally issued by special purpose public authorities of a state or municipality. If the issuer is unable to meet its obligations, repayment of these bonds becomes a moral commitment, but not a legal obligation, of the state or municipality.

Municipal Notes Risks. Municipal notes are shorter term municipal debt obligations. They may provide interim financing in anticipation of, and are secured by, tax collection, bond sales or revenue receipts. If there is a shortfall in the anticipated proceeds, the notes may not be fully repaid and the Acquiring Fund may lose money.

Municipal Lease Obligations Risks. In a municipal lease obligation, the issuer agrees to make payments when due on the lease obligation. The issuer will generally appropriate municipal funds for that purpose, but is not obligated to do so. Although the issuer does not pledge its unlimited taxing power for payment of the lease obligation, the lease obligation is secured by the leased property. However, if the issuer does not fulfill its payment obligation it may be difficult to sell the property and the proceeds of a sale may not cover the Acquiring Fund s loss.

Municipal leases and certificates of participation involve special risks not normally associated with general obligations or revenue bonds. 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 nonappropriation 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 that the governmental issuer is prevented from maintaining occupancy of the lease premises or utilizing the leased equipment. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of nonappropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover ownership of the assets.

Certificates of participation, which represent interests in unmanaged pools of municipal leases or installment contracts, involve the same risks as the underlying municipal leases. In addition, the Acquiring Fund may be dependent upon the municipal authority issuing the certificate of participation to exercise remedies with respect to the underlying securities.

Certificates of participation also entail a risk of default or bankruptcy, both of the issuer of the municipal lease and also the municipal agency issuing the certificate of participation.

Tax-Exempt Status Risk. In making investments, the Acquiring Fund and the Investment Advisor will rely on the opinion of issuers bond counsel and, in the case of derivative securities, sponsors counsel, on the tax-exempt status of interest on municipal obligations and payments under tax-exempt derivative securities. Neither the Acquiring Fund nor the Investment Advisor will independently review the bases for those tax opinions. If any of those tax opinions are ultimately determined to be incorrect or if events occur after the security is acquired that impact the security s tax-exempt status, the Acquiring Fund and its shareholders could be subject to substantial tax liabilities. An assertion by the Internal Revenue Service (IRS) that a portfolio security is not exempt from U.S. federal income tax (contrary to indications from the issuer) could affect the Acquiring Fund s and shareholder s income tax liability for the current or past years and could create liability for information reporting penalties. In addition, an IRS assertion of taxability may impair the liquidity and the fair market value of the securities.

Taxability Risk. The Acquiring Fund intends to minimize the payment of taxable income to shareholders by investing in tax-exempt or municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for U.S. federal income tax purposes. Such securities, however, may be determined to pay, or have paid, taxable income subsequent to the Acquiring Fund s acquisition of the securities. In that event, the IRS may demand that the Acquiring Fund pay U.S. federal income taxes on the affected interest income, and, if the Acquiring Fund agrees to do so, the Acquiring Fund s yield could be adversely affected. In addition, the treatment of dividends

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previously paid or to be paid by the Acquiring Fund as exempt interest dividends could be adversely affected, subjecting the Acquiring Fund s shareholders to increased U.S. federal income tax liabilities. In addition, future laws, regulations, rulings or court decisions may cause interest on municipal securities to be subject, directly or indirectly, to U.S. federal income taxation or interest on state municipal securities to be subject to state or local income taxation, or the value of state municipal securities to be subject to state or local intangible personal property tax, or may otherwise prevent the Acquiring Fund from realizing the full current benefit of the tax-exempt status of such securities. Any such change could also affect the market price of such securities, and thus the value of an investment in the Acquiring Fund.

Leverage Risk. The use of leverage creates an opportunity for increased net investment income dividends to Common Shares, but also creates risks for the holders of Common Shares. There is no assurance that the Acquiring Fund s intended leveraging strategy will be successful. Leverage involves risks and special considerations for common shareholders, including:

- the likelihood of greater volatility of net asset value, market price and dividend rate of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in interest rates on borrowings and short-term debt or in the interest or dividend rates on any leverage that the Acquiring Fund must pay will reduce the return to the common shareholders;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Common Shares than if the Acquiring Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares;
- when the Acquiring Fund uses financial leverage, the investment advisory fees payable to the Investment Advisor will be higher than if the Acquiring Fund did not use leverage; and
- leverage may increase operating costs, which may reduce total return.

Any decline in the net asset value of the Acquiring Fund s investments will be borne entirely by the holders of Common Shares. Therefore, if the market value of the Acquiring Fund s portfolio declines, leverage will result in a greater decrease in net asset value to the holders of Common Shares than if the Acquiring Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the Common Shares. There can be no assurance that the Acquiring Fund will reduce leverage in the future or that any reduction, if undertaken, will benefit the holders of Common Shares. Changes in the future direction of interest rates are very difficult to predict accurately. If the Acquiring Fund were to reduce leverage based on a prediction about future changes to interest rates, and that prediction turned out to be incorrect, the reduction in leverage would likely operate to reduce the income and/or total returns to holders of Common Shares relative to the circumstance where the Acquiring Fund had not reduced leverage. The Acquiring Fund may decide that this risk outweighs the likelihood of achieving the desired reduction to volatility in income and share price if the prediction were to turn out to be correct, and determine not to reduce leverage.

The Acquiring Fund currently utilizes leverage through the issuance of VRDP Shares (see Information about the VRDP Shares of the Funds) and investments in TOBs Residuals (see Tender Option Bond Risk). The use of TOBs Residuals may require the Acquiring Fund to segregate or designate on its books and records assets to cover its obligations. While the segregated or earmarked assets may be invested in liquid securities, they may not be used for other operational purposes. Consequently, the use of leverage may limit the Acquiring Fund s flexibility and may require that the Acquiring Fund sell other portfolio investments to pay Fund expenses, to maintain assets in an amount sufficient to cover the Acquiring Fund s leveraged exposure or to meet other obligations at a time when it may be disadvantageous to sell such assets.

Certain types of leverage used by the Acquiring Fund may result in the Acquiring Fund being subject to covenants relating to asset coverage and portfolio composition requirements. The Acquiring Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies that issue ratings for

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the Acquiring Fund VRDP Shares, an agreement with the liquidity provider for the Acquiring Fund VRDP Shares or the governing instrument for the Acquiring Fund VRDP Shares. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. The Investment Advisor does not believe that these covenants or guidelines will impede it from managing the Acquiring Fund s portfolio in accordance with the Acquiring Fund s investment objective and policies.

While there are any preferred shares of the Acquiring Fund outstanding, the Acquiring Fund may not declare any cash dividend or other distribution on its Common Shares, unless at the time of such declaration, (i) all accrued preferred shares dividends have been paid and (ii) the value of the Acquiring Fund s total assets (determined after deducting the amount of such dividend or other distribution), less all liabilities and indebtedness of the Acquiring Fund, is at least 200% (as required by the 1940 Act) of the liquidation preference of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus any accrued and unpaid dividends thereon, whether or not earned or declared on a cumulative basis). In addition to the requirements of the 1940 Act, the Acquiring Fund may be required to comply with other asset coverage requirements as a condition of the Acquiring Fund obtaining a rating of its preferred shares from a nationally recognized rating service or other asset coverage requirements under an agreement with the liquidity provider of the Acquiring Fund VRDP Shares. These requirements may include an asset coverage test more stringent than that under the 1940 Act. This limitation on the Acquiring Fund s ability to make distributions on its Common Shares could in certain circumstances impair the ability of the Acquiring Fund to maintain its qualification for taxation as a regulated investment company under the Code. The Acquiring Fund may, however, to the extent possible, purchase or redeem preferred shares from time to time to maintain compliance with such asset coverage requirements and may pay special dividends to the holders of the preferred shares in certain circumstances in connection with any such impairment of the Acquiring Fund s status as a regulated investment company under the Code.

The Acquiring Fund may invest in the securities of other investment companies. Such securities may also be leveraged, and will therefore be subject to the leverage risks described above. This additional leverage may in certain market conditions reduce the net asset value of the Acquiring Fund s Common Shares and the returns to the holders of Common Shares.

Tender Option Bond Risk. TOBs Residuals are derivative municipal securities that have embedded in them the risk of economic leverage. There is no assurance that the Acquiring Fund s strategy of using TOBs Residuals to leverage its assets will be successful.

Distributions on TOBs Residuals will bear an inverse relationship to short-term municipal bond interest rates. Distributions on the TOBs Residuals paid to the Acquiring Fund will be reduced or, in the extreme, eliminated as short-term municipal interest rates rise and will increase when short-term municipal interest rates fall. The amount of such reduction or increase is a function, in part, of the amount of short-term floating rate interests (TOBs Floaters) sold by the issuer of these securities relative to the amount of the TOBs Residuals that it sells. The greater the amount of TOBs Floaters sold relative to the TOBs Residuals, the more volatile the distributions on the TOBs Residuals will be. Short-term interest rates are at historic lows and may be more likely to rise in the current market environment.

The Acquiring Fund s use of TOBs Residuals creates economic leverage. Any economic leverage achieved through the Acquiring Fund s investment in TOBs Residuals will the possibility that Common Share long-term returns will be diminished if the cost of the TOBs Floaters issued by a tender option bond trust (each, a TOBs Trust) exceeds the return on the securities in the TOBs Trust. If the income and gains earned on municipal securities owned by a TOBs Trust that issues TOBs Residuals to the Acquiring Fund are greater than the payments due on the TOBs Floaters issued by the TOBs Trust, the Acquiring Fund s returns will be greater than if it had not invested in the TOBs Residuals.

Although the Acquiring Fund generally would unwind a TOBs transaction rather than try to sell a TOBs Residual, if it did try to sell a TOBs Residual, its ability to do so would depend on the liquidity of the TOBs

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Residual. TOBs Residuals have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in the TOBs Trust. The market price of TOBs Residuals is more volatile than the underlying securities due to leverage. The leverage attributable to such TOBs Residuals may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the Common Shares may be greater for a fund that relies primarily on TOBs Residuals to achieve a desired effective leverage ratio. If the Acquiring Fund desires to retain the municipal bonds transferred to a TOBs Trust, the Acquiring Fund may be required to sell its TOBs Residuals at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

If the Acquiring Fund has a need for cash and the securities in the TOBs Trust are not actively trading due to adverse market conditions;

If the sponsors of TOBs Trusts (as a collective group or individually) experience financial hardship and consequently seek to terminate TOBs Trusts sponsored by them; and

If the value of an underlying security declines significantly and if additional collateral has not been posted by the Acquiring Fund.

The use of TOBs Residuals requires the Acquiring Fund to segregate assets to cover its obligations. While the segregated assets may be invested in liquid securities, they may not be used for other operational purposes. Consequently, the use of leverage may limit the Acquiring Fund s flexibility and may require that the Acquiring Fund sell other portfolio investments to pay Fund expenses, to maintain assets in an amount sufficient to cover the Acquiring Fund s leveraged exposure or to meet other obligations at a time when it may be disadvantageous to sell such assets.

Please see The Acquiring Fund s Investments Leverage TOBs Residuals for additional information.

Insurance Risk. Insurance guarantees that interest payments on a municipal security will be made on time and that the principal will be repaid when the security matures. Insurance is expected to protect the Acquiring Fund against losses caused by a municipal security issuer s failure to make interest and principal payments. However, insurance does not protect the Acquiring Fund or its shareholders against losses caused by declines in a municipal security s value. Also, the Acquiring Fund cannot be certain that any insurance company will make the payments it guarantees. Certain significant providers of insurance for municipal securities have recently incurred significant losses as a result of exposure to sub-prime mortgages and other lower credit quality investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such losses have reduced the insurers capital and called into question their continued ability to perform their obligations under such insurance if they are called upon to do so in the future. While an insured municipal security will typically be deemed to have the rating of its insurer, if the insurer of a municipal security suffers a downgrade in its credit rating or the market discounts the value of the insurance provided by the insurer, the rating of the underlying municipal security will be more relevant and the value of the municipal security would more closely, if not entirely, reflect such rating. The Acquiring Fund may lose money on its investment if the insurance company does not make payments it guarantees. If a municipal security s insurer fails to fulfill its obligations or loses its credit rating, the value of the security could drop.

Yield and Ratings Risk. The yields on certain obligations are dependent on a variety of factors, including general market conditions, conditions in the particular market for the obligation, the financial condition of the issuer, the size of the offering, the maturity of the obligation and the ratings of the issue. The ratings of Moody s, S&P and Fitch, which are described in Appendix C to the Statement of Additional Information, represent their respective opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, the Investment Advisor also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Acquiring Fund

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invests in securities that have not been rated by a rating agency, the Acquiring Fund s ability to achieve its investment objective will be more dependent on the Investment Advisor s credit analysis than would be the case when the Acquiring Fund invests in rated securities.

Unrated Securities Risk. Because the Acquiring Fund may purchase securities that are not rated by any rating organization, the Investment Advisor may, after assessing their credit quality, internally assign ratings to certain of those securities in categories similar to those of rating organizations. Some unrated securities may not have an active trading market or may be difficult to value, which means the Acquiring Fund might have difficulty selling them promptly at an acceptable price. To the extent that the Acquiring Fund invests in unrated securities, the Acquiring Fund s ability to achieve its investment objective will be more dependent on the Investment Advisor s credit analysis than would be the case when the Acquiring Fund invests in rated securities.

Zero Coupon Securities Risk. Zero coupon securities are securities that are sold at a discount to par value and do not pay interest during the life of the security. The discount approximates the total amount of interest the security will accrue and compound over the period until maturity at a rate of interest reflecting the market rate of the security at the time of issuance. Upon maturity, the holder of a zero coupon security is entitled to receive the par value of the security.

While interest payments are not made on zero coupon securities, holders of such securities are deemed to have received income (phantom income) annually, notwithstanding that cash may not be received currently. The effect of owning instruments that do not make current interest payments is that a fixed yield is earned not only on the original investment but also, in effect, on all discount accretion during the life of the obligations. This implicit reinvestment of earnings at a fixed rate eliminates the risk of being unable to invest distributions at a rate as high as the implicit yield on the zero coupon bond, but at the same time eliminates the holder s ability to reinvest at higher rates in the future. For this reason, some of these securities may be subject to substantially greater price fluctuations during periods of changing market interest rates than are comparable securities that pay interest currently. Longer term zero coupon bonds are more exposed to interest rate risk than shorter term zero coupon bonds. These investments benefit the issuer by mitigating its need for cash to meet debt service, but also require a higher rate of return to attract investors who are willing to defer receipt of cash.

The Acquiring Fund accrues income with respect to these securities for U.S. federal income tax and accounting purposes prior to the receipt of cash payments. Zero coupon securities may be subject to greater fluctuation in value and less liquidity in the event of adverse market conditions than comparably rated securities that pay cash interest at regular intervals.

Further, to maintain its qualification for pass-through treatment under the Federal tax laws, the Acquiring Fund is required to distribute income to its shareholders and, consequently, may have to dispose of other, more liquid portfolio securities under disadvantageous circumstances or may have to leverage itself by borrowing in order to generate the cash to satisfy these distributions. The required distributions may result in an increase in the Acquiring Fund s exposure to zero coupon securities.

In addition to the above-described risks, there are certain other risks related to investing in zero coupon securities. During a period of severe market conditions, the market for such securities may become even less liquid. In addition, as these securities do not pay cash interest, a Fund s investment exposure to these securities and their risks, including credit risk, will increase during the time these securities are held in the Acquiring Fund s portfolio.

Variable Rate Demand Obligations Risk. Variable rate demand obligations are floating rate securities that combine an interest in a long-term municipal bond with a right to demand payment before maturity from a bank or other financial institution. If the bank or financial institution is unable to pay, the Acquiring Fund may lose money.

Indexed and Inverse Securities Risk. Investments in inverse floaters, residual interest tender option bonds and similar instruments expose the Acquiring Fund to the same risks as investments in fixed income securities and derivatives, as well as other risks, including those associated with leverage and increased volatility. An investment in these securities typically will involve greater risk than an investment in a fixed rate security. Distributions on inverse floaters, residual interest tender option bonds and similar instruments will typically bear an inverse relationship to short term interest rates and typically will be reduced or, potentially, eliminated as interest rates rise. Inverse floaters, residual interest tender option bonds and similar instruments will underperform the market for fixed rate securities in a rising interest rate environment. Inverse floaters may be considered to be leveraged to the extent that their interest rates vary by a magnitude that exceeds the magnitude of the change in a reference rate of interest (typically a short term interest rate). The leverage inherent in inverse floaters is associated with greater volatility in their market values. Investments in inverse floaters, residual interest tender option bonds and similar instruments that have fixed income securities underlying them will expose the Acquiring Fund to the risks associated with those fixed income securities and the values of those investments may be especially sensitive to changes in prepayment rates on the underlying fixed income securities.

When-Issued and Delayed Delivery Transactions Risk. When-issued and delayed delivery transactions occur when securities are purchased or sold by the Acquiring Fund with payment and delivery taking place in the future to secure an advantageous yield or price. Securities purchased on a when-issued or delayed delivery basis may expose the Acquiring Fund to counterparty risk of default as well as the risk that securities may experience fluctuations in value prior to their actual delivery. The Acquiring Fund will not accrue income with respect to a when-issued or delayed delivery security prior to its stated delivery date. Purchasing securities on a when-issued or delayed delivery basis can involve the additional risk that the price or yield available in the market when the delivery takes place may not be as favorable as that obtained in the transaction itself.

Swaps. Swap agreements are types of derivatives. In order to seek to hedge the value of the Acquiring Fund s portfolio, to hedge against increases in the Acquiring Fund s cost associated with the interest payments on its outstanding borrowings or to seek to increase the Acquiring Fund s return, the Acquiring Fund may enter into interest rate or credit default swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by the Acquiring Fund, which would cause the Acquiring Fund to make payments to its counterparty in the transaction that could adversely affect Fund performance. In addition to the risks applicable to swaps generally, credit default swap transactions involve special risks because they are difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty). The Acquiring Fund is not required to enter into interest rate or credit default swap transactions for hedging purposes or to enhance its return and may choose not to do so.

Repurchase Agreements Risk. Repurchase agreements typically involve the acquisition by the Acquiring Fund of fixed income securities from a selling financial institution such as a bank, savings and loan association or broker-dealer. The agreement provides that the Acquiring Fund will sell the securities back to the institution at a fixed time in the future. The Acquiring Fund does not bear the risk of a decline in the value of the underlying security unless the seller defaults under its repurchase obligation. In the event of the bankruptcy or other default of a seller of a repurchase agreement, the Acquiring Fund could experience both delays in liquidating the underlying securities and losses, including possible decline in the value of the underlying security during the period in which the Acquiring Fund seeks to enforce its rights thereto; possible lack of access to income on the underlying security during this period; and expenses of enforcing its rights. The value of the collateral underlying the repurchase agreement will be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement. In the event of a default or bankruptcy by a selling financial institution, the Acquiring Fund generally will seek to liquidate such collateral. However, the exercise of the Acquiring Fund s right to liquidate such collateral could involve certain costs or delays and, to the extent that proceeds from any sale upon a default of the obligation to repurchase were less than the repurchase price, the Acquiring Fund could suffer a loss.

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Investment in Other Investment Companies Risk. As with other investments, investments in other investment companies are subject to market and selection risk. In addition, if the Acquiring Fund acquires shares of investment companies, including ones affiliated with the Acquiring Fund, the Acquiring Fund s common shareholders will bear both their proportionate share of expenses in the Acquiring Fund (including management and advisory fees) and, indirectly, the expenses of the investment companies. To the extent the Acquiring Fund is held by an affiliated fund, the ability of the Acquiring Fund itself to hold other investment companies may be limited.

Restricted and Illiquid Securities Risk. The Acquiring Fund may invest in illiquid or less liquid securities or securities in which no secondary market is readily available or which are otherwise illiquid, including private placement securities. The Acquiring Fund may not be able to readily dispose of such securities at prices that approximate those at which the Acquiring Fund could sell such securities if they were more widely-traded and, as a result of such illiquidity, the Acquiring Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. Limited liquidity can also affect the market price of securities, thereby adversely affecting the Acquiring Fund s NAV and ability to make dividend distributions. The financial markets in general have in recent years experienced periods of extreme secondary market supply and demand imbalance, resulting in a loss of liquidity during which market prices were suddenly and substantially below traditional measures of intrinsic value. During such periods, some securities could be sold only at arbitrary prices and with substantial losses. Periods of such market dislocation may occur again at any time.

Restricted securities are securities that may not be sold to the public without an effective registration statement under the Securities Act, or that may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. When registration is required to sell a security, the Acquiring Fund may be obligated to pay all or part of the registration expenses and considerable time may pass before the Acquiring Fund is permitted to sell a security under an effective registration statement. If adverse market conditions develop during this period, the Acquiring Fund might obtain a less favorable price than the price that prevailed when the Acquiring Fund decided to sell. The Acquiring Fund may be unable to sell restricted and other illiquid securities at opportune times or prices.

Strategic Transactions Risk. The Acquiring Fund may engage in various derivative transactions for duration management and other risk management purposes (Strategic Transactions). The risks associated with Strategic Transactions include (i) the imperfect correlation between the value of such instruments and the underlying assets, (ii) the possible default of the counterparty to the transaction, (iii) illiquidity of the derivative instruments, and (iv) high volatility losses caused by unanticipated market movements, which are potentially unlimited. Although both over-the-counter and exchange-traded derivatives markets may experience the lack of liquidity, over-the-counter non-standardized derivative transactions are generally less liquid than exchange-traded instruments. Furthermore, the Acquiring Fund s ability to successfully use Strategic Transactions depends on the Investment Advisor s ability to predict pertinent securities prices, interest rates, currency exchange rates and other economic factors, which cannot be assured. The use of Strategic Transactions may result in losses greater than if they had not been used, may require the Acquiring Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Acquiring Fund can realize on an investment or may cause the Acquiring Fund to hold a security that it might otherwise sell. Additionally, segregated liquid assets, amounts paid by a Fund as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Acquiring Fund for investment purposes.

Derivatives Risk. Derivatives are financial contracts or instruments whose value depends on, or is derived from, the value of an underlying asset, reference rate or index (or relationship between two indices). The Acquiring Fund s use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, market risk, credit risk and management risk. They also involve the risk of mispricing or improper valuation.

Derivatives also involve the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. In this regard, the Acquiring Fund seeks to achieve its investment objective, in part, by investing in derivatives positions that are designed to closely track the performance (or inverse performance) of an index on a daily basis. However, the overall investment strategies of the Acquiring Fund are not designed or expected to produce returns which replicate the performance (or inverse performance) of the particular index, and the degree of variation could be substantial, particularly over longer periods. There are a number of factors which may prevent the Acquiring Fund, or the derivatives or other strategies used by the Acquiring Fund, from achieving desired correlation (or inverse correlation) with an index, such as the impact of fees, expenses and transaction costs, the timing of pricing, and disruptions or illiquidity in the markets for derivative instruments or securities in which the Acquiring Fund invests.

The Acquiring Fund s investments in a derivative instrument could lose more than the principal amount invested. Also, suitable derivative transactions may not be available in all circumstances and there can be no assurance that the Acquiring Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. Although the Investment Advisor seeks to use derivatives to further the Acquiring Fund s investment objective, there is no assurance that the use of derivatives will achieve this result.

Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Acquiring Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Acquiring Fund to be more volatile than if the Acquiring Fund had not been leveraged.

Counterparty Risk. The Acquiring Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Acquiring Fund. Because derivative transactions in which the Acquiring Fund may engage may involve instruments that are not traded on an exchange but are instead traded between counterparties based on contractual relationships, the Acquiring Fund is subject to the risk that a counterparty will not perform its obligations under the related contracts. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Acquiring Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganization proceedings. The Acquiring Fund may obtain only a limited recovery, or may obtain no recovery, in such circumstances. Although the Acquiring Fund intends to enter into transactions only with counterparties that the Investment Advisor believes to be creditworthy, there can be no assurance that, as a result, a counterparty will not default and that the Acquiring Fund will not sustain a loss on a transaction. In the event of the counterparty s bankruptcy or insolvency, the Acquiring Fund s collateral may be subject to the conflicting claims of the counterparty s creditors, and the Acquiring Fund may be exposed to the risk of a court treating the Acquiring Fund as a general unsecured creditor of the counterparty, rather than as the owner of the collateral. There can be no assurance that a clearing organization, or its members, will satisfy its obligations to the Acquiring Fund.

In addition, the Acquiring Fund is subject to the risk that issuers of the instruments in which it invests and trades may default on their obligations under those instruments, and that certain events may occur that have an immediate and significant adverse effect on the value of those instruments. There can be no assurance that an issuer of an instrument in which the Acquiring Fund invests will not default, or that an event that has an immediate and significant adverse effect on the value of an instrument will not occur, and that the Acquiring Fund will not sustain a loss on a transaction as a result.

Legal, Tax and Regulatory Risks. Legal, tax and regulatory changes could occur that may materially adversely affect the Acquiring Fund. For example, the regulatory and tax environment for derivative instruments in which the Acquiring Fund may participate is evolving, and changes in the regulation or taxation of derivative instruments may materially adversely affect the value of derivative instruments held by the Acquiring Fund and the ability of the Acquiring Fund to pursue its investment strategies.

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To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies (RICs), the Acquiring Fund must, among other things, derive in each taxable year at least 90% of its gross income from certain prescribed sources and distribute for each taxable year at least 90% of its investment company taxable income (generally, ordinary income plus the excess, if any, of net short-term capital gain over net long-term capital loss) and its net tax-exempt interest income. If for any taxable year the Acquiring Fund does not qualify as a RIC, all of its taxable income for that year (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions would be taxable as ordinary dividends to the extent of the Acquiring Fund s current and accumulated earnings and profits.

1940 Act Regulation. The Acquiring Fund is a registered closed-end investment company and as such is subject to regulations under the 1940 Act. Generally speaking, any contract or provision thereof that is made, or where performance involves a violation of the 1940 Act or any rule or regulation thereunder is unenforceable by either party unless a court finds otherwise.

Legislation Risk. At any time after the date of this Joint Proxy Statement/Prospectus, legislation may be enacted that could negatively affect the assets of the Acquiring Fund. Legislation or regulation may change the way in which the Acquiring Fund itself is regulated. The Investment Advisor cannot predict the effects of any new governmental regulation that may be implemented and there can be no assurance that any new governmental regulation will not adversely affect the Acquiring Fund s ability to achieve its investment objective.

LIBOR Risk. According to various reports, certain financial institutions, commencing as early as 2005 and throughout the global financial crisis, routinely made artificially low submissions in the London Interbank Offered Rate (LIBOR) setting process. Since the LIBOR scandal came to light, several financial institutions have been fined significant amounts by various financial regulators in connection with allegations of manipulation of LIBOR. Other financial institutions in various countries are being investigated for similar actions. These developments may have adversely affected the interest rates on securities whose interest payments were determined by reference to LIBOR. Any future similar developments could, in turn, reduce the value of such securities owned by the Acquiring Fund.

Risks Associated with Recent Market Events. In the recent past, the debt and equity capital markets in the United States were negatively impacted by significant write-offs in the financial services sector relating to sub-prime mortgages and the repricing of credit risk in the broadly syndicated market, among other things. These events, along with the downgrade to the United States credit rating, deterioration of the housing market, the failure of major financial institutions and the resulting United States federal government actions led in the recent past, and may lead in the future, to worsening general economic conditions, which did, and could, materially and adversely impact the broader financial and credit markets and reduce the availability of debt and equity capital for the market as a whole and financial firms in particular. These events may increase the volatility of the value of securities owned by the Acquiring Fund and/or result in sudden and significant valuation increases or decreases in its portfolio. These events also may make it more difficult for the Acquiring Fund to accurately value its securities or to sell its securities on a timely basis.

While the extreme volatility and disruption that U.S. and global markets experienced for an extended period of time beginning in 2007 and 2008 has generally subsided, uncertainty and periods of volatility remain, and risks to a robust resumption of growth persist. In 2010, several EU countries, including Greece, Ireland, Italy, Spain and Portugal, began to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Monetary Union (EMU) member countries. Recent downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, the policy of the Board of Governors of the Federal Reserve System (Federal Reserve), including with respect to certain interest rates and the decision to begin tapering its quantitative easing policy, may adversely affect the value, volatility and

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liquidity of dividend and interest paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could impair the Acquiring Fund s ability to achieve its investment objective.

General market uncertainty and consequent repricing of risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of securities and significant and rapid value decline in certain instances. Additionally, periods of market volatility remain, and may continue to occur in the future, in response to various political, social and economic events both within and outside of the United States. These conditions resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many securities remaining illiquid and of uncertain value. Such market conditions may make valuation of some of the Acquiring Fund s securities uncertain and/or result in sudden and significant valuation increases or declines in its holdings.

EMU and Redenomination Risk. As the European debt crisis has progressed the possibility of one or more Eurozone countries exiting the EMU, or even the collapse of the Euro as a common currency, has arisen, creating significant volatility at times in currency and financial markets generally. The effects of the collapse of the Euro, or of the exit of one or more countries from the EMU, on the U.S. and global economy and securities markets are impossible to predict and any such events could have a significant adverse impact on the value and risk profile of the Acquiring Fund s portfolio. Any partial or complete dissolution of the EMU could have significant adverse effects on currency and financial markets, and on the values of the Acquiring Fund s portfolio investments. If one or more EMU countries were to stop using the Euro as its primary currency, the Acquiring Fund s investments in such countries may be redenominated into a different or newly adopted currency. As a result, the value of those investments could decline significantly and unpredictably. In addition, securities or other investments that are redenominated may be subject to foreign currency risk, liquidity risk and valuation risk to a greater extent than similar investments currently denominated in Euros. To the extent a currency used for redenomination purposes is not specified in respect of certain EMU-related investments, or should the Euro cease to be used entirely, the currency in which such investments are denominated may be unclear, making such investments particularly difficult to value or dispose of. The Acquiring Fund may incur additional expenses to the extent it is required to seek judicial or other clarification of the denomination or value of such securities.

Market Disruption and Geopolitical Risk. The aftermath of the war in Iraq, instability in Afghanistan, Pakistan, Egypt, Libya, Syria and the Middle East, the ongoing epidemic of the Ebola virus disease in West Africa, possible terrorist attacks in the United States and around the world, growing social and political discord in the United States, the European debt crisis, further downgrades of U.S. Government securities and other similar events may result in market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The effects of these events or similar events in the future on the U.S. economy and securities markets. Non-investment grade and equity securities tend to be more volatile than investment grade fixed income securities; therefore these events and other market disruptions may have a greater impact on the prices and volatility of non-investment grade and equity securities than on investment grade fixed income securities. There can be no assurance that these events and other market disruptions will not have other material and adverse implications.

Regulation and Government Intervention Risk. The recent instability in the financial markets discussed above has led the U.S. Government and certain foreign governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity, including through direct purchases of equity and debt securities. Federal, state, and other governments, their regulatory agencies or self-regulatory organizations may take actions that affect the regulation of the issuers in which the Acquiring Fund invests in ways that are unforeseeable. Legislation or regulation may also change the way in which the Acquiring Fund is regulated. Such legislation or regulation could limit or preclude the Acquiring Fund s ability to achieve its investment objective.

Congress has enacted sweeping financial legislation, the Dodd-Frank Act, signed into law by President Obama on July 21, 2010, regarding the operation of banks, private fund managers and other financial institutions, which includes provisions regarding the regulation of derivatives. Many provisions of the Dodd-Frank Act have been or

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will be implemented through regulatory rulemakings and similar processes over a period of time. The impact of the Dodd-Frank Act, and of follow-on regulation, on trading strategies and operations is impossible to predict, and may be adverse. Practices and areas of operation subject to significant change based on the impact, direct or indirect, of the Dodd-Frank Act and follow-on regulation, may change in manners that are unforeseeable, with uncertain effects. By way of example and not limitation, direct and indirect changes from the Dodd-Frank Act and follow-on regulation may occur to a significant degree with regard to, among other areas, financial consumer protection, bank ownership of and involvement with private funds, proprietary trading, registration of investment advisers, and the trading and use of many derivative instruments, including swaps. There can be no assurance that such legislation or regulation will not have a material adverse effect on the Acquiring Fund. In addition, Congress may address tax policy, which also could have uncertain direct and indirect impacts on trading and operations, as well as, potentially, the operations and structure of the Acquiring Fund.

Further, the Dodd-Frank Act created the Financial Stability Oversight Council (FSOC), an interagency body charged with identifying and monitoring systemic risks to financial markets. The FSOC has the authority to require that non-bank financial companies that are predominantly engaged in financial activities, such as the Acquiring Fund and the Investment Advisor, whose failure it determines would pose systemic risk, be placed under the supervision of the Federal Reserve. The FSOC has the authority to recommend that the Federal Reserve adopt more stringent prudential standards and reporting and disclosure requirements for non-bank financial companies supervised by the Federal Reserve. The FSOC also has the authority to make recommendations to the Federal Reserve on various other matters that may affect the Acquiring Fund, including requiring financial firms to submit resolution plans, mandating credit exposure reports, establishing concentration limits and limiting short-term debt. The FSOC may also recommend that other federal financial regulators impose more stringent regulation upon, or ban altogether, financial activities of any financial firm that poses what it determines are significant risks to the financial system. In the event that the FSOC designates the Acquiring Fund or the Investment Advisor as a systemic risk to be placed under the Federal Reserve s supervision, the Acquiring Fund or the Investment Advisor could face stricter prudential standards, including risk-based capital requirements, leverage limits, liquidity requirements, concentration requirements and overall risk management requirements, among other restrictions. Such requirements could hinder the Acquiring Fund s ability to meet its investment objective and may place the Acquiring Fund at a disadvantage with respect to its competitors.

Additionally, BlackRock is, for purposes of the Bank Holding Company Act of 1956, as amended, and any rules or regulations promulgated thereunder from time to time, currently considered a subsidiary of The PNC Financial Services Group, Inc. (PNC), which is subject to regulation and supervision as a financial holding company by the Federal Reserve. The Volcker Rule contained in Section 619 of the Dodd-Frank Act will limit the ability of banking entities, which would include BlackRock by virtue of its relationship with PNC, to sponsor, invest in or serve as investment manager of certain private investment funds. On December 10, 2013, U.S. financial regulators adopted final regulations (the Final Regulations) to implement the statutory mandate of the Volcker Rule. Pursuant to the Dodd-Frank Act, the Volcker Rule s effective date was July 21, 2012 and the Final Regulations become effective on April 14, 2014; however, concurrent with the adoption of the Final Regulations the Federal Reserve granted a statutorily permitted conformance period, essentially making the effective date of the Volcker Rule and the Final Regulations July 21, 2015. The Volcker Rule and the Final Regulations could have a significant negative impact on BlackRock and the Investment Advisor. BlackRock may attempt to take certain actions to lessen the impact of the Volcker Rule, although no assurance can be given that such actions would be successful and no assurance can be given that such actions would not have a significant negative impact on the Acquiring Fund. Upon the end of the applicable conformance period, BlackRock s relationship with PNC may require BlackRock to curtail some or all of the Acquiring Fund s activities with respect to PNC (if any).

The continuing implementation of the Dodd-Frank Act could also adversely affect the Investment Advisor and the Acquiring Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny and the implementation of enhanced and new regulatory requirements may increase the

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Investment Advisor s and the Acquiring Fund s exposure to potential liabilities, and in particular liabilities arising from violating any such enhanced and/or new regulatory requirements. Increased regulatory oversight could also impose administrative burdens on the Investment Advisor and the Acquiring Fund, including, without limitation, responding to investigations and implementing new policies and procedures. The ultimate impact of the Dodd-Frank Act, and any resulting regulation, is not yet certain and the Investment Advisor and the Acquiring Fund may be affected by the new legislation and regulation in ways that are currently unforeseeable.

In connection with an ongoing review by the SEC and its staff of the regulation of investment companies use of derivatives, on August 31, 2011 the SEC issued a concept release to seek public comment on a wide range of issues raised by the use of derivatives by investment companies. The SEC noted that it intends to consider the comments to help determine whether regulatory initiatives or guidance are needed to improve the current regulatory regime for investment companies and, if so, the nature of any such initiatives or guidance. While the nature of any such regulations is uncertain at this time, it is possible that such regulations could limit the implementation of the Acquiring Fund s use of derivatives, which could have an adverse impact on the Acquiring Fund. The Investment Advisor cannot predict the effects of these regulations on the Acquiring Fund s portfolio. The Investment Advisor intends to monitor developments and seek to manage the Acquiring Fund s portfolio in a manner consistent with achieving the Acquiring Fund s investment objective, but there can be no assurance that it will be successful in doing so.

Certain lawmakers support an increase in federal revenue as a component of a plan to address the growing federal budget deficit. Also, comprehensive federal tax reform is the subject of political attention.

In the aftermath of the recent financial crisis, there appears to be a renewed popular, political and judicial focus on finance related consumer protection. Financial institution practices are also subject to greater scrutiny and criticism generally. In the case of transactions between financial institutions and the general public, there may be a greater tendency toward strict interpretation of terms and legal rights in favor of the consuming public, particularly where there is a real or perceived disparity in risk allocation and/or where consumers are perceived as not having had an opportunity to exercise informed consent to the transaction. In the event of conflicting interests between retail investors holding common shares of a closed-end investment company such as the Acquiring Fund and a large financial institution, a court may similarly seek to strictly interpret terms and legal rights in favor of retail investors.

Potential Conflicts of Interest of the Investment Advisor and Others. BlackRock, the ultimate parent company of the Investment Advisor, and its affiliates, which include the Investment Advisor and PNC (Affiliates), are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Acquiring Fund. BlackRock and its Affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Acquiring Fund. Subject to the requirements of the 1940 Act, BlackRock and its Affiliates intend to engage in such activities and may receive compensation from third parties for their services. Neither BlackRock nor its Affiliates are under any obligation to share any investment opportunity, idea or strategy with the Acquiring Fund. As a result, BlackRock and its Affiliates may compete with the Acquiring Fund for appropriate investment opportunities. The results of the Acquiring Fund s investment activities, therefore, may differ from those of an Affiliate or another account managed by an Affiliate and it is possible that the Acquiring Fund could sustain losses during periods in which one or more Affiliates and other accounts achieve profits on their trading for proprietary or other accounts. The 1940 Act imposes limitations on certain transactions between a registered investment company and affiliated persons of the investment company, as well as affiliated persons of such affiliated persons. Among others, affiliated persons of an investment company include its investment adviser; officers; directors/trustees; any person who directly or indirectly controls, is controlled by or is under common control with such investment company; any person directly or indirectly owning, controlling or holding with power to vote, five percent or more of the outstanding voting securities of such investment company; and any person five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such investment company. BlackRock has adopted policies and procedures designed to address potential conflicts of interests. For additional information about potential conflicts of interest and the way in which BlackRock addresses such conflicts, please see Conflicts of Interest in the Statement of Additional Information.

Market and Selection Risk. Market risk is the possibility that the market values of securities owned by the Acquiring Fund will decline. There is a risk that equity and/or bond markets will go down in value, including the possibility that such markets will go down sharply and unpredictably. Stock markets are volatile, and the price of equity securities fluctuates based on changes in a company s financial condition and overall market and economic conditions. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by the Acquiring Fund. Also, the price of common stocks is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which the Acquiring Fund has exposure. Common stock prices fluctuate for several reasons, including changes in investors perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur.

Selection risk is the risk that the securities that the Investment Advisor selects for the Acquiring Fund will underperform the equity and/or bond market, the market relevant indices or other funds with a similar investment objective and investment strategies.

Defensive Investing Risk. For defensive purposes, the Acquiring Fund may allocate a substantial portion of its assets into cash or short-term tax-exempt or taxable fixed income securities. In doing so, the Acquiring Fund may succeed in avoiding losses but may otherwise fail to achieve its investment objective. Further, the value of short-term fixed income securities may be affected by changing interest rates and by changes in credit ratings of the investments. If the Acquiring Fund holds cash uninvested it will be subject to the credit risk of the depository institution holding the cash.

Decision-Making Authority Risk. Investors have no authority to make decisions or to exercise business discretion on behalf of the Acquiring Fund, except as set forth in the Acquiring Fund s governing documents. The authority for all such decisions is generally delegated to the Board, who in turn, has delegated the day-to-day management of its Fund s investment activities to the Investment Advisor, subject to oversight by the Board.

Management Risk. The Acquiring Fund is subject to management risk because it is an actively managed investment portfolio. The Investment Advisor and the individual portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Acquiring Fund, but there can be no guarantee that these will produce the desired results. The Acquiring Fund may be subject to a relatively high level of management risk because the Acquiring Fund may invest in derivative instruments, which may be highly specialized instruments that require investment techniques and risk analyses different from those associated with equities and bonds.

Reliance on the Investment Advisor. The Acquiring Fund is dependent upon services and resources provided by the Investment Advisor, and therefore the Investment Advisor s parent, BlackRock. The Investment Advisor is not required to devote its full time to the business of the Acquiring Fund and there is no guarantee or requirement that any investment professional or other employee of the Investment Advisor will allocate a substantial portion of his or her time to the Acquiring Fund. The loss of one or more individuals involved with the Investment Advisor could have a material adverse effect on the performance or the continued operation of the Acquiring Fund.

Reliance on Service Providers. The Acquiring Fund must rely upon the performance of service providers to perform certain functions, which may include functions that are integral to the Acquiring Fund s operations and financial performance. Failure by any service provider to carry out its obligations to the Acquiring Fund in accordance with the terms of its appointment, to exercise due care and skill or to perform its obligations to the Acquiring Fund at all as a result of insolvency, bankruptcy or other causes could have a material adverse effect on the Acquiring Fund s performance and returns to common shareholders. The termination of the Acquiring Fund s relationship with any service provider, or any delay in appointing a replacement for such service provider, could materially disrupt the business of the Acquiring Fund and could have a material adverse effect on the Acquiring Fund s performance and returns to common shareholders.

Information Technology Systems. The Acquiring Fund is dependent on the Investment Advisor for certain management services as well as back-office functions. The Investment Advisor depends on information technology systems in order to assess investment opportunities, strategies and markets and to monitor and control risks for the Acquiring Fund. It is possible that a failure which causes disruptions to these information technology systems could materially limit the Investment Advisor s ability to adequately assess and adjust investments, formulate strategies and provide adequate risk control. Any such information technology-related difficulty could harm the performance of the Acquiring Fund. Further, failure of the back-office functions of the Investment Advisor to process trades in a timely fashion could prejudice the investment performance of the Acquiring Fund.

Cyber Security Risk. With the increased use of technologies such as the Internet to conduct business, the Acquiring Fund is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through hacking or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber security failures or breaches by the Acquiring Fund s investment adviser and other service providers (including, but not limited to, fund accountants, custodians, transfer agents and administrators), and the issuers of securities in which the Acquiring Fund invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the Acquiring Fund s ability to calculate its net asset value, impediments to trading, the inability of Acquiring Fund shareholders to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While the Acquiring Fund has established business continuity plans in the event of, and risk management systems to prevent, such cyber attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, the Acquiring Fund cannot control the cyber security plans and systems put in place by service providers to the Acquiring Fund and issuers in which the Acquiring Fund invests. The Acquiring Fund and its shareholders could be negatively impacted as a result.

Misconduct of Employees and of Service Providers. Misconduct or misrepresentations by employees of the Investment Advisor or the Acquiring Fund s service providers could cause significant losses to the Acquiring Fund. Employee misconduct may include binding the Acquiring Fund to transactions that exceed authorized limits or present unacceptable risks and unauthorized trading activities, concealing unsuccessful trading activities (which, in any case, may result in unknown and unmanaged risks or losses) or making misrepresentations regarding any of the foregoing. Losses could also result from actions by the Acquiring Fund s service providers, including, without limitation, failing to recognize trades and misappropriating assets. In addition, employees and service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting the Acquiring Fund s business prospects or future marketing activities. Despite the Investment Advisor s due diligence efforts, misconduct and intentional misrepresentations may be undetected or not fully comprehended, thereby potentially undermining the Investment Advisor s due diligence efforts. As a result, no assurances can be given that the due diligence performed by the Investment Advisor will identify or prevent any such misconduct.

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

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Shares and distributions on those shares can decline. In addition, during any periods of rising inflation, interest rates on any borrowings by the Acquiring Fund would likely increase, which would tend to further reduce returns to the holders of Common Shares.

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

Portfolio Turnover Risk. The Acquiring Fund s annual portfolio turnover rate may vary greatly from year to year, as well as within a given year. Portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Acquiring Fund. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Acquiring Fund. High portfolio turnover may result in an increased realization of net short-term capital gains by the Acquiring Fund which, when distributed to common and preferred shareholders, will be taxable as ordinary income. Additionally, in a declining market, portfolio turnover may create realized capital losses.

Anti-Takeover Provisions Risk. The Acquiring Fund s charter, bylaws and the Maryland General Corporation Law include provisions that could limit the ability of other entities or persons to acquire control of the Acquiring Fund or convert the Acquiring Fund to open-end status. These provisions could deprive the holders of Common Shares of opportunities to sell their Common Shares at a premium over the then current market price of the Common Shares or at net asset value. See Certain Provisions of the Charter and Bylaws.

INFORMATION ABOUT THE REORGANIZATION

The Reorganization seeks to combine two funds that have the same investment advisor, the same portfolio managers, the same board members, and substantially similar (but not identical), investment objective, investment policies and investment restrictions.

The Reorganization Agreement (a form of which is attached as Appendix A to the Statement of Additional Information) provides for the Acquiring Fund s acquisition of substantially all of the assets of the Target Fund and assumption of substantially all of the liabilities of the Target Fund in exchange for newly issued Acquiring Fund Common Shares, with a par value $0.10 per share, and newly issued Acquiring Fund VRDP Shares, with a par value of $0.10 per share and liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date). The Acquiring Fund will list the newly issued Common Shares on the NYSE. The Target Fund will distribute Acquiring Fund Shares received by it pro rata to Target Fund shareholders (although cash may be paid in lieu of any fractional Common Shares). The newly-issued Acquiring Fund Shares will be issued in the form of book entry interests. Such distribution of Acquiring Fund Shares to Target Fund shareholders will be accomplished by opening new accounts on the books of the Acquiring Fund in the names of the shareholders of the Target Fund and transferring to those shareholder accounts Acquiring Fund Shares.

Each newly-opened account on the books of Acquiring Fund for the former common shareholders of the Target Fund will represent the respective pro rata number of Acquiring Fund Common Shares (rounded down, in the case of fractional Common Shares held other than in an automatic dividend reinvestment plan account (Plan Account), to the next largest number of whole Common Shares) due such common shareholder. No fractional Acquiring Fund Common Shares will be issued (except for Common Shares held in a Plan Account). In the event there are fractional Common Shares in an account other than a Plan Account, the Acquiring Fund s transfer agent will aggregate all such fractional Target Fund Common Shares and sell the resulting whole Common Shares on the NYSE, for the account of all holders of such fractional interests, and each such holder will be entitled to the pro rata share of the proceeds from such sale upon surrender of the Target Fund Common Share certificates. See Terms of the Reorganization Agreement Surrender and Exchange of Share Certificates for a description of the procedures to be followed by the Target Fund s common shareholders to obtain their Acquiring Fund Common Shares (and cash in lieu of fractional Common Shares, if any). Similarly, each newly-opened account on the books of the Acquiring Fund for the Target Fund VRDP Holders would represent the respective pro rata number of Acquiring Fund VRDP Shares due such VRDP Holder.

As a result of the Reorganization, each common shareholder of the Target Fund will own Acquiring Fund Common Shares that (except for cash payments received in lieu of fractional Common Shares) will have an aggregate NAV (not the market value) immediately after the closing of the Reorganization equal to the aggregate NAV (not the market value) of that shareholder s Target Fund Common Shares immediately prior to the Closing Date. The NAV of the Target Fund and the Acquiring Fund immediately prior to the closing of the Reorganization will be reduced by the costs of the Reorganization borne by each Fund, if any. The value of each Fund s net assets will be calculated net of the liquidation preference (including accumulated and unpaid dividends) of all outstanding VRDP Shares of such Fund. The market value of the Common Shares of the Combined Fund may be less than the market value of the Common Shares of each respective Fund prior to the Reorganization. Since Acquiring Fund Common Shares will be issued at NAV in exchange for the Common Shares of the Target Fund having a value equal to the aggregate NAV (not the market value) of those Acquiring Fund Common Shares, the NAV per share of Acquiring Fund Common Shares should remain virtually unchanged by the Reorganization except for the Acquiring Fund s proportion of the applicable costs of the Reorganization. Thus, the Reorganization will result in no dilution of the NAV of Acquiring Fund Common Shares, other than to reflect the applicable costs of the Reorganization.

Upon the closing of the Reorganization, Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially identical to the outstanding Target Fund VRDP Shares held by such holders immediately prior to the closing of the Reorganization.

The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

The terms of the outstanding Target Fund VRDP Shares are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares. The Funds VRDP Shares have the same $100,000 liquidation preference per share, maturity date, dividend period, dividend payment date, voting rights, redemption provisions, remarketing procedures, mandatory purchase events, mandatory tender events, transfer restrictions and covenants with respect to effective leverage, asset coverage and eligible investments. The Funds VRDP Shares also have the same mechanism for determining the applicable dividend rate and maximum rate, and the same liquidity provider, remarketing agent and tender and paying agent. Each Fund s VRDP Shares are currently in a three year special rate period that will end on April 19, 2017. The terms applicable to each Fund s VRDP Shares during the special rate period are also substantially identical. During the special rate period, the Funds VRDP Shares have the same mechanism for determining the applicable dividend rate and maximum rate, redemption premiums and transfer restrictions.

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Since the Acquiring Fund VRDP Shares would be issued at a liquidation preference and value per share equal to the liquidation preference and value per share of the VRDP Shares of the Target Fund, the interests of the Target Fund s VRDP Holders will not be diluted as a result of the Reorganization.

As a result of the Reorganization, a shareholder of any of the Funds will hold a reduced percentage of ownership in the Combined Fund than he or she did in the Target Fund. No sales charge or fee of any kind will be charged to shareholders of the Target Fund in connection with their receipt of Acquiring Fund Shares in the Reorganization.

As soon as practicable after the Closing Date for the Reorganization, the Target Fund will deregister as an investment company under the 1940 Act and liquidate, dissolve and terminate in accordance with its charter and Maryland law. The Acquiring Fund will continue to operate after the Reorganization as a registered, non-diversified, closed-end management investment company with the investment objective, investment policies and investment restrictions described in this Joint Proxy Statement/Prospectus.

If the Reorganization is not consummated, each Fund will continue to operate, for the time being, as a stand-alone Maryland corporation and will continue to be advised by the Investment Advisor. If, however, the Reorganization is not consummated, the Investment Advisor may, in connection with ongoing management of each Fund and its product line, recommend alternative proposals to the Board of each Fund.

The Board s Recommendation

The Board of the Target Fund recommends that the common shareholders of the Target Fund vote FOR the proposed Reorganization Agreement at the Special Meeting to be held on March 12, 2015 at 4:00 p.m. (Eastern time).

The Board of the Acquiring Fund recommends that common shareholders of the Acquiring Fund vote FOR the proposed Issuance at the Special Meeting to be held on March 12, 2015 at 4:00 p.m. (Eastern time).

Shareholder approval of the Reorganization Agreement requires (i) the affirmative vote of the holders of a majority of the outstanding Target Fund Common Shares and Target Fund VRDP Shares voting as a single class, (ii) the affirmative vote of a 1940 Act Majority (as defined below) of Target Fund VRDP Holders voting as a separate class and (iii) the affirmative vote of a majority of the outstanding Acquiring Fund VRDP Holders voting as a separate class. The Issuance requires the affirmative vote of a majority of the votes cast by the Acquiring Fund Common Shares and Acquiring Fund VRDP Shares voting as a single class. A 1940 Act Majority means the affirmative vote of either (i) 67% or more of the voting securities present at the Special Meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy or (ii) more than 50% of the outstanding voting securities of the Fund, whichever is less.

In order for the Reorganization to occur, each Fund must obtain all requisite shareholder approvals with respect to the Reorganization, as well as certain consents, confirmations and/or waivers from various third parties, including the liquidity provider with respect to the outstanding VRDP Shares. Because the closing of the Reorganization is contingent upon the Target Fund and the Acquiring Fund obtaining the requisite shareholder approvals and third party consents and satisfying (or obtaining the waiver of) other closing conditions, it is possible that the Reorganization will not occur, even if shareholders of either Fund entitled to vote on the Reorganization approve the Reorganization and such Fund satisfies all of its closing conditions, if the other Fund does not obtain its requisite shareholder approvals or satisfy its closing conditions. The VRDP Shares were issued on a private placement basis to one or a small number of institutional holders. To the extent that one or more VRDP Holder of a Fund owns, holds or controls, individually or in the aggregate, all or a significant portion of such Fund s outstanding VRDP Shares, the shareholder approval required for the Reorganization may turn on the exercise of voting rights by such particular shareholder(s) and its (or their) determination as to the favorability of the proposal with respect to its (or their) interests. The Funds exercise no influence or control over the determinations of such shareholder(s) with respect to the proposal; there is no guarantee that such shareholder(s) will approve the proposal, over which it (or they) may exercise effective disposition power.

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Subject to the requisite approval of the shareholders of each Fund with regard to the Reorganization, it is expected that the Closing Date will be sometime during the second quarter of 2015, but it may be at a different time as described herein.

For additional information regarding voting requirements, see Voting Information and Requirements.

Reasons for the Reorganization

The Board of each Fund, including the Independent Board Members, has unanimously approved the Reorganization at meetings held on December 4-5, 2014 (the Meeting). Based on the considerations below, the Board of each Fund, including the Independent Board Members, has determined that the Reorganization would be in the best interests of such Fund and that the interests of its existing common shareholders and VRDP Holders would not be diluted with respect to NAV and the liquidation preference, respectively, as a result of the Reorganization. As a result of the Reorganization, however, common and preferred shareholders of each Fund will hold a reduced percentage of ownership in the larger Combined Fund than they did in any of the individual Funds before the Reorganization.

Each Board s determination to approve the Reorganization was made on the basis of each Board Member s business judgment after consideration of all of the factors taken as a whole with respect to each Fund and its shareholders, although individual Board Members may have placed different weight and assigned different degrees of materiality to various factors. Before reaching these conclusions, the Board of each Fund, including the Independent Board Members, engaged in a thorough review process relating to the proposed Reorganization. The Board of each Fund also received a memorandum outlining, among other things, the legal standards and certain other considerations relevant to the Board s deliberations.

The Board of each Fund considered the Reorganization over a series of meetings. In preparation for the Meeting, the Investment Advisor provided each Board with information regarding the proposed Reorganization, including the rationale therefor and alternatives considered to the Reorganization.

Each Board considered a number of factors presented at the time of the Meeting or prior meetings in reaching their determinations, including, but not limited to, the following, which are discussed in further detail below:

- potential for improved economies of scale and a lower Total Expense Ratio with respect to each Fund;
- the potential effects of the Reorganization on the earnings and distributions of each Fund;
- the potential effects of the Reorganization on each Fund s premium/discount to NAV of Common Shares;
- the potential effects of the Reorganization on each Fund s VRDP Shares;
- the compatibility of the Funds investment objectives, investment policies and related risks and risk profiles;
- consistency of portfolio management and portfolio composition;
- the potential for improved secondary market trading, including the potential for greater secondary market liquidity for the Combined Fund s Common Shares, which may result in tighter bid-ask spreads and better trade execution for the Combined Fund s common shareholders when purchasing or selling the Combined Fund s Common Shares;

the potential for operating and administrative efficiencies for the Combined Fund, including the potential for the following benefits:

greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, additional sources of leverage or more competitive leverage terms and more favorable transaction terms;

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- benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage; and

- benefits from having fewer similar funds in the same fund complex, including a simplified operational model and a reduction in risk of operational, legal and financial errors;

- the anticipated tax-free nature of the Reorganization (except with respect to taxable distributions, if any, from any Fund prior to, or after, the consummation of the Reorganization);

- the potential effects on the Funds capital loss carryforwards;

- the potential effects on each Fund s undistributed net investment income;

- the expected costs of the Reorganization;

- the terms of the Reorganization and whether the Reorganization would dilute the interests of shareholders of the Funds;

- the effect of the Reorganization on shareholder rights;

- alternatives to the Reorganization for each Fund; and

- any potential benefits of the Reorganization to the Investment Advisor and its affiliates.

Potential for Improved Economies of Scale and Potential for a Lower Expense Ratio. Each Board considered the fees and Total Expense Ratio of its Fund (including estimated expenses of the Combined Fund after the Reorganization). For the fiscal year ended July 31, 2014, the Total Expense Ratios of the Target Fund and the Acquiring Fund were 1.58% and 1.57%, respectively. The Funds estimate that the completion of the Reorganization would result in a Total Expense Ratio for the Combined Fund of 1.53% on a historical and pro forma basis for the 12-month period ended July 31, 2014, representing a reduction in the Total Expense Ratio for the common shareholders of the Target Fund and the Acquiring Fund of 0.05% and 0.04%, respectively.

The Combined Fund will have the same annual contractual investment management fee rate as the Target Fund. The Target Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets. The Acquiring Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.55% of its average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities.

For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of the VRDP Shares and tender option bond trusts that exceed 35% of total assets minus the sum of the Acquiring Fund s accrued liabilities (Voluntary Fee Waiver).

If the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of the Voluntary Fee Waiver.

Based on a pro-forma Lipper expense group for the Combined Fund, the estimated total annual fund operating expenses (excluding investment related expenses) and contractual management fee rate are each expected to be in the first quartile. There can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of the Reorganization.

Potential Effects of the Reorganization on Earnings and Distributions. The Boards noted that the Combined Fund s earnings yield on NAV following the Reorganization is expected to be comparable (i.e., the same or slightly lower or higher) to each Fund s current earnings yield on NAV; thus, assuming that the Reorganization is consummated and that the Acquiring Fund s distribution policy remains in place after the Reorganization, common shareholders of each Fund may experience a distribution rate on NAV comparable (i.e., the same or

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slightly lower or higher) to their current distribution rate on NAV. The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. A Fund s earnings and net investment income are variables which depend on many factors, including its asset mix, portfolio turnover level, the amount of leverage utilized by the Fund, the costs of such leverage, the performance of its investments, the movement of interest rates and general market conditions.

Potential Effects of the Reorganization on Premium/Discount to NAV of Common Shares. Each Board noted that the Common Shares of its Fund have historically traded at both a premium and a discount. As of December 31, 2014, the NAV per Common Share of the Target Fund was $16.13 and the market price per Common Share of the Target Fund was $14.46, representing a discount to NAV of (10.35)%, and the NAV per Common Share of the Acquiring Fund was $16.21 and the market price per Common Share of the Acquiring Fund was $14.50, representing a discount to NAV of (10.55)%. The Board of the Target Fund noted that To the extent the Target Fund Common Shares are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganization, the Target Fund s common shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. The Board of the Target Fund also noted that To the extent the Target Fund Common Shares are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganization, Target Fund common shareholders may be negatively impacted if the Reorganization is consummated. The Board of the Acquiring Fund noted that Acquiring Fund common shareholders would only benefit from a premium/discount perspective to the extent the Acquiring Fund s post-Reorganization discount (or premium) improves. There can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at a narrower discount to NAV or wider premium to NAV than the Common Shares of any individual Fund prior to the Reorganization.

Potential Effects of the Reorganization on VRDP Shares. The Board noted that each Fund has one series of VRDP Shares outstanding. As of December 31, 2014, the Target Fund has 644 Series W-7 VRDP Shares outstanding, and the Acquiring Fund has 1,727 Series W-7 VRDP Shares outstanding. In connection with the Reorganization, the Acquiring Fund expects to issue 644 additional VRDP Shares to Target Fund VRDP Holders. Following the completion of the Reorganization, the Combined Fund is expected to have 2,371 VRDP Shares outstanding.

The Board noted that upon the closing of the Reorganization, Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued. Target Fund VRDP Holders will receive the same number of Acquiring Fund VRDP Shares, with terms substantially identical to the outstanding Target Fund VRDP Shares, held by such holders immediately prior to the closing of the Reorganization.

The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

The terms of the outstanding Target Fund VRDP Shares are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares. The Funds VRDP Shares have the same $100,000 liquidation preference per share, maturity date, dividend period, dividend payment date, voting rights, redemption provisions, remarketing procedures, mandatory purchase events, mandatory tender events, transfer restrictions and covenants with respect to effective leverage, asset coverage and eligible investments. The Funds VRDP Shares also have the same mechanism for determining the applicable dividend rate and maximum rate, and the same liquidity provider, remarketing agent and tender and paying agent. Each Fund s VRDP Shares are currently in a three year special rate period that will end on April 19, 2017. The terms applicable to each Fund s VRDP Shares during the special rate period are also substantially identical. During the special rate period, the Funds VRDP Shares have the same mechanism for determining the applicable dividend rate and maximum rate, redemption premiums and transfer restrictions.

The Board noted that none of the expenses of the Reorganization are expected to be borne by the VRDP Holders of the Funds.

Following the Reorganization, the VRDP Holders of each Fund will be VRDP Holders of the larger Combined Fund that will have a larger asset base and more VRDP Shares outstanding than either Fund individually. With respect to matters requiring all preferred shareholders to vote separately or common and preferred shareholders to vote together as a single class, following the Reorganization, holders of VRDP Shares of the Combined Fund will hold a smaller percentage of the outstanding preferred shares of the Combined Fund as compared to their percentage holdings of outstanding preferred shares of their respective Fund prior to the Reorganization.

Compatibility of Investment Objectives, Investment Policies and Related Risks and Risk Profiles. Each Board noted that its Fund s shareholders will remain invested in an exchange-listed, non-diversified closed-end management investment company registered under the 1940 Act that will have substantially greater net assets and substantially similar (but not identical) investment objective, investment policies and investment restrictions, subject to the differences described in Comparison of the Funds Investments. Each Fund invests at least 80% of its assets in municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes. Each Fund also currently invests primarily in investment grade municipal bonds and utilize leverage in the form of VRDP Shares and tender option bonds. The risk/return profile of the Combined Fund is expected to remain comparable to those of each Fund before the Reorganization because of the similarities in the investment policies of each Fund.

Consistency of Portfolio Management and Portfolio Composition. Each Board noted that each Fund has the same investment adviser and portfolio managers and that each Fund s shareholders will benefit from the continuing experience and expertise of its current portfolio management team. Each Fund is managed by a team of investment professionals comprised of Michael Kalinoski, Theodore R. Jaeckel, Jr. and Walter O Connor. Each Board also considered the portfolio composition of its Fund and the impact of the Reorganization on the Fund s portfolio. Each Board noted that it is not anticipated that there will be any significant disposition of the holdings in its Fund as a result of the Reorganization because of the similarities among the portfolio guidelines of the Funds.

Potential for Improved Secondary Market Trading for Common Shares. While it is not possible to predict trading levels at the time the Reorganization closes, each Board considered that the Combined Fund may provide greater secondary market liquidity for its Common Shares as it would be larger than any of the Funds, which may result in tighter bid-ask spreads, better trade execution for the Combined Fund s common shareholders when purchasing or selling Combined Fund Common Shares and potential for improved premium/discount levels for the Combined Fund s Common Shares. However, there can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at a narrower discount to NAV or wider premium to NAV than Common Shares of any individual Fund prior to the Reorganization.

Potential for Operating and Administrative Efficiencies. Each Board noted that the Combined Fund may achieve certain operating and administrative efficiencies from its larger net asset size, including greater investment flexibility and investment options, greater diversification of portfolio investments, the ability to trade in larger positions, additional sources of leverage or more competitive leverage terms and more favorable transaction terms.

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Each Board also noted that the Combined Fund may experience potential benefits from having fewer closed-end funds offering similar products in the market, including an increased focus by investors on the remaining funds in the market (including the Combined Fund) and additional research coverage.

Each Board also noted that the Combined Fund may experience potential benefits from having fewer similar funds in the same fund complex, including a simplified operational model, the elimination of complexities involved with having duplicative funds, easier product differentiation for shareholders (including shareholders of the Combined Fund) and reduced risk of operational, legal and financial errors.

Anticipated Tax-Free Reorganization. Each Board noted that it is anticipated that shareholders of its Fund will recognize no gain or loss for U.S. federal income tax purposes as a result of the Reorganization (except with respect to cash received in lieu of fractional Common Shares), as the Reorganization is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code.

Shareholders of each Fund may receive distributions prior to, or after, the consummation of the Reorganization, including distributions attributable to their proportionate share of each Fund s undistributed net investment income declared prior to the consummation of the Reorganization or the Combined Fund built-in gains, if any, recognized after the Reorganization, when such income and gains are eventually distributed by the Combined Fund. To the extent that such a distribution is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. federal income tax purposes.

Capital Loss Carryforward Considerations. Each Board considered that capital loss carryforwards of the Combined Fund attributable to the Target Fund will be subject to tax loss limitation rules by reason of the Target Fund undergoing an ownership change in the Reorganization. Each Board also noted that the Combined Fund s capital loss carryforward loss on a per share basis is expected to be lower than the Target Fund s capital loss carryforward loss per share, but higher than the Acquiring Fund s capital loss carryforward loss per share. Each Board considered that the ability of its Fund to fully utilize its existing capital loss carryforwards depends on many variables and assumptions, including projected performance, and is, therefore, highly uncertain.

Potential Effects of the Reorganization on Undistributed Net Investment Income. If the Reorganization is approved by shareholders, then substantially all of the undistributed net investment income, if any, of each Fund is expected to be declared to such Fund s common shareholders prior to the Closing Date (the Pre-Reorganization Declared UNII Distributions). The declaration date, ex-dividend date (the Ex-Dividend Date) and record date of the Pre-Reorganization Declared UNII Distributions will occur prior to the Closing Date. However, all or a significant portion of the Pre-Reorganization Declared UNII Distributions may be paid in one or more distributions to common shareholders of the Funds entitled to such Pre-Reorganization Declared UNII Distributions after the Closing Date. In addition, BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ) does not currently expect to declare any distributions during the first two months following the Closing Date. Accordingly, persons who purchase Common Shares of any of the Funds on or after the Ex-Dividend Date for the Pre-Reorganization Declared UNII Distributions should not expect to receive any distributions from any Fund until distributions, if any, are declared by the Board of the Combined Fund and paid to shareholders entitled to any such distributions. No such distributions are expected to be paid by the Combined Fund until at least approximately three months following the Closing Date.

The Combined Fund s earnings and distribution rate on NAV will change over time, and depending on market conditions, may be significantly higher or lower than each Fund s earnings and distribution rate on NAV prior to the Reorganization. Each Fund reserves the right to change its distribution policy with respect to common share distributions and the basis for establishing the rate of its monthly distributions for the Common Shares at any time and may do so without prior notice to common shareholders. The payment of any distributions by any Fund is subject to, and will only be made when, as and if, declared by the Board of such Fund. There is no assurance the Board of any Fund will declare any distributions for such Fund. To the extent any Pre-Reorganization Declared UNII Distributions is not an exempt interest dividend (as defined in the Code), the distribution may be taxable to shareholders for U.S. Federal income tax purposes.

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Expected Costs of the Reorganization. Each Board considered the terms and conditions of the Reorganization Agreement, including the estimated costs associated with the Reorganization, and the allocation of such costs among the Funds. Each Board noted, however, that the Investment Advisor anticipated that the projected costs of the Reorganization may be recovered over time. The expenses of the Reorganization are estimated to be $300,000 for the Target Fund and $350,000 for the Acquiring Fund. Because of the expected expense savings and other benefits for each Fund, the Investment Advisor recommended and the Board of each Fund has approved that its respective Fund be responsible for a portion of its own Reorganization expenses. The Board of each Fund noted that the Investment Advisor will bear approximately $185,000 of the Target Fund s Reorganization expenses and $100,000 of the Acquiring Fund s Reorganization expenses. Each Board also noted

that the VRDP Holders of the Funds are not expected to bear any of the costs of the Reorganization, while the common shareholders of the Funds will indirectly bear the costs of the Reorganization.

Terms of the Reorganization and Impact on Shareholders. Each Board noted that the aggregate NAV (not the market value) of the Acquiring Fund Common Shares that Target Fund common shareholders will receive in the Reorganization is expected to equal the aggregate NAV (not the market value) of the Target Fund Common Shares that Target Fund common shareholders owned immediately prior to the closing of the Reorganization. The NAV of the Target Fund and the Acquiring Fund immediately prior to the closing of the Reorganization will be reduced by the costs of the Reorganization borne by each Fund, if any. The NAV of Target Fund Common Shares will not be diluted as a result of the Reorganization. Fractional Acquiring Fund Common Shares will generally not be issued to Target Fund common shareholders in connection with the Reorganization, and Target Fund common shareholders should expect to receive cash in lieu of such fractional Common Shares.

Each Board further noted that holders of Target Fund VRDP Shares will receive the same number of Acquiring Fund VRDP Shares with terms substantially identical to the outstanding VRDP Shares of the Target Fund held by such holders immediately prior to the closing of the Reorganization.

Effect on Shareholder Rights. Each Board noted that each Fund is organized as a Maryland corporation. Each Board also noted that the common shareholders of each Fund have substantially similar voting rights and rights with respect to the payment of dividends and distribution of assets upon liquidation of their respective Fund and have no preemptive, conversion or exchange rights.

Each Board also noted that the terms of the Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding.

Alternatives to the Reorganization. In reaching its decision to approve the Reorganization, the Board considered various alternatives, including continuing to operate each Fund as a separate Fund.

Potential Benefits to the Investment Advisor and its Affiliates. Each Board recognized that the Reorganization may result in some benefits and economies of scale for the Investment Advisor and its affiliates. These may include, for example, administrative and operational efficiencies or a reduction in certain operational expenses as a result of the elimination of the Target Fund as a separate fund in the BlackRock closed-end fund complex.

Each Board noted that, if the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be 0.50%.

Each Board also noted that the Investment Advisor will bear approximately $185,000 of the Target Fund s Reorganization expenses and $100,000 of the Acquiring Fund s Reorganization expenses.

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Conclusion. Each Board, including the Independent Board Members, approved the Reorganization Agreement and the Issuance, as applicable, concluding that the Reorganization is in the best interests of its Fund and that the interests of existing common shareholders and VRDP Holders of its Fund will not be diluted with respect to NAV and liquidation preference, respectively, as a result of the Reorganization. This determination was made on the basis of each Board Member s business judgment after consideration of all of the factors taken as a whole with respect to its Fund and the Fund s common and preferred shareholders, although individual Board Members may have placed different weight on various factors and assigned different degrees of materiality to various factors.

Terms of the Reorganization Agreement

The following is a summary of the significant terms of the Reorganization Agreement. This summary is qualified in its entirety by reference to the Form of Reorganization Agreement attached as Appendix A to the Statement of Additional Information.

Valuation of Assets and Liabilities

The respective assets of each of the Funds will be valued on the business day prior to the Closing Date of the Reorganization (the Valuation Time). The valuation procedures are the same for each Fund: the NAV per Common Share of each Fund will be determined after the close of business on the NYSE (generally, 4:00 p.m., Eastern time) at the Valuation Time. For the purpose of determining the NAV of a Common Share of each Fund, the value of the securities held by such Fund plus any cash or other assets (including interest accrued but not yet received) minus all liabilities (including accrued expenses) of such Fund is divided by the total number of Common Shares of such Fund outstanding at such time. Daily expenses, including the fees payable to the Investment Advisor, will accrue at the Valuation Time.

Dividends will accumulate on the Target Fund VRDP Shares up to and including the day immediately preceding the Closing Date. Target Fund VRDP Holders will receive on a one-for-one basis one newly issued VRDP Share of the Acquiring Fund, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the Closing Date. The newly issued Acquiring Fund VRDP Share may be of the same series as the Acquiring Fund s Series W-7 VRDP Shares or a substantially identical series. No fractional Acquiring Fund VRDP Shares will be issued.

The first dividend period for the Acquiring Fund VRDP Shares to be issued in the Reorganization will commence on the Closing Date and end on the day immediately preceding the first dividend payment date for such VRDP Shares, which will be the first business day of the month following the month in which the Closing Date occurs.

Amendments and Conditions

The Reorganization Agreement may be amended at any time prior to the Closing Date with respect to any of the terms therein upon mutual agreement. However, after adoption of the Reorganization Agreement and approval of the Reorganization, no amendment or modification may be made which by law requires further approval by shareholders without such further approval. The obligations of each Fund pursuant to the Reorganization Agreement are subject to various conditions, including a registration statement on Form N-14 being declared effective by the SEC, approval of the Reorganization Agreement by the shareholders of the Target Fund and the VRDP Holders of the Acquiring Fund, certain third-party consents, the approval of the Issuance by the shareholders of the Acquiring Fund, receipt of an opinion of counsel as to tax matters, receipt of an opinion of counsel as to corporate and securities matters and the continuing accuracy of various representations and warranties of the Funds being confirmed by the respective parties.

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Postponement; Termination

Under the Reorganization Agreement, the Board of any Fund may cause the Reorganization to be postponed or abandoned under certain circumstances should such Board determine that it is in the best interests of the shareholders of its respective Fund to do so. The Reorganization Agreement may be terminated, and the Reorganization abandoned at any time (whether before or after adoption thereof by the shareholders of either of the Funds) prior to the Closing Date, or the Closing Date may be postponed: (i) by mutual consent of the Boards of the Funds and (ii) by the Board of either Fund if any condition to that Fund s obligations set forth in the Reorganization Agreement has not been fulfilled or waived by such Board.

Surrender and Exchange of Share Certificates

The Acquiring Fund will issue to Target Fund VRDP Holders book entry interests for the Acquiring Fund VRDP Shares registered in the name of such holders on an one for one basis for each holder s holdings of Target Fund VRDP Shares. The Funds VRDP Shares were issued in book-entry form as global securities, and such global securities were deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of Cede & Co., the nominee of DTC. Beneficial interests in the global securities are held only through DTC and any of its participants.

The Acquiring Fund will issue to Target Fund common shareholders book entry interests for the Acquiring Fund Common Shares registered in the name of such shareholders on the basis of each holder s proportionate interest in the aggregate net asset value of the Target Fund Common Shares. With respect to any Target Fund common shareholder holding certificates evidencing ownership of Target Fund Common Shares as of the Closing Date, and subject to the Acquiring Fund being informed thereof in writing by the Target Fund, the Acquiring Fund will not permit such shareholder to receive new book entry interests of Acquiring Fund Common Shares, until notified by the Target Fund or its agent that such shareholder has surrendered his or her outstanding certificates evidencing ownership of Target Fund Common Shares or, in the event of lost certificates, posted adequate bond. The Target Fund, at its own expense, will request its common shareholders to surrender their outstanding certificates evidencing ownership of Target Fund Common Shares or post adequate bond. From and after the Closing Date, there will be no transfers on the stock transfer books of the Target Fund. If, after the Closing Date, certificates representing Common Shares of the Target Fund are presented to the Acquiring Fund, they will be cancelled and exchanged for book entry interests representing Acquiring Fund Common Shares and cash in lieu of fractional Common Shares, if applicable, distributable with respect to the Target Fund Common Shares in the Reorganization.

Expenses of the Reorganization

Each Fund will bear expenses incurred in connection with the Reorganization. The expenses incurred in connection with the Reorganization include but are not limited to, costs related to the preparation and distribution of materials distributed to each Fund s Board, expenses incurred in connection with the preparation of the Reorganization Agreement, the registration statement on Form N-14 and the separate Joint Proxy Statement to VRDP Holders, the printing and distribution of this Joint Proxy Statement/Prospectus delivered to common shareholders, the separate Joint Proxy Statement delivered to VRDP Holders and any other materials required to be distributed to shareholders, SEC and state securities commission filing fees, and legal and audit fees in connection with the Reorganization, including fees incurred in obtaining the requisite consents of rating agencies, counterparties or service providers to the VRDP Shares, legal fees incurred preparing each Fund s Board materials, attending each Fund s Board meetings and preparing the minutes, auditing fees associated with each Fund s financial statements, stock exchange fees, transfer agency fees, rating agency fees, portfolio transfer taxes (if any) and any similar expenses incurred in connection with the Reorganization, which will be borne directly by the respective Fund incurring the expense or allocated among the Funds proportionately or on another reasonable basis, as appropriate.

The expenses of the Reorganization are estimated to be $300,000 for the Target Fund and $350,000 for the Acquiring Fund. Because of the expected expense savings and other benefits for each Fund, the Investment

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Advisor recommended and the Board of each Fund has approved that its respective Fund be responsible for a portion of its own Reorganization expenses. The Investment Advisor will bear approximately $185,000 of the Target Fund s Reorganization expenses and $100,000 of the Acquiring Fund s reorganization expenses. The common shareholders of the Funds will indirectly bear the costs of the Reorganization. The VRDP Holders of the Funds are not expected to bear any of the costs of the Reorganization.

Neither the Funds nor the Investment Advisor will pay any expenses of shareholders arising out of or in connection with the Reorganization (e.g., expenses incurred by the shareholder as a result of attending the shareholder meeting, voting on the Reorganization or other action taken by the shareholder in connection with the Reorganization). The actual costs associated with the proposed Reorganization may be more or less than the estimated costs discussed herein.

Appraisal Rights

Under Maryland law, stockholders of an investment company whose shares are traded publicly on a national securities exchange, such as Common Shares of the Target Fund, are not entitled to demand the fair value of their shares in connection with a reorganization. However, because the Target Fund s VRDP Shares are not traded publicly on a national securities exchange and the Target Fund will be selling substantially all of its assets to the Acquiring Fund in the Reorganization, the holders of Target Fund VRDP Shares will be entitled under Maryland law to demand and receive payment of the fair value of such Target Fund VRDP Shares upon the consummation of the Reorganization.

Description of Common Shares to Be Issued by the Acquiring Fund

The terms of the Acquiring Fund Common Shares to be issued pursuant to the Reorganization will be identical to the terms of the Acquiring Fund Common Shares that are currently outstanding. The Acquiring Fund Common Shares, when issued, will be fully paid and non-assessable and have no preemptive, conversion or exchange rights or rights to cumulative voting.

Please see Information about the Common Shares of the Funds for additional information about the Funds Common Shares.

Description of VRDP Shares to Be Issued by the Acquiring Fund

Upon the closing of the Reorganization, Target Fund VRDP Holders will receive on a one-for-one basis one newly issued Acquiring Fund VRDP Share, par value $0.10 per share and with a liquidation preference of $100,000 per share (plus any accumulated and unpaid dividends that have accrued on such Target Fund VRDP Share up to and including the day immediately preceding the Closing Date if such dividends have not been paid prior to the Closing Date), in exchange for each Target Fund VRDP Share held by such Target Fund VRDP Holder immediately prior to the closing of the Reorganization. The terms of the outstanding Target Fund VRDP Shares are substantially identical to the terms of the outstanding Acquiring Fund VRDP Shares. The Acquiring Fund VRDP Shares to be issued in connection with the Reorganization will have terms that are substantially identical to the terms of the Funds outstanding VRDP Shares and will rank on a parity with the Acquiring Fund s existing VRDP Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Acquiring Fund. The Reorganization will not result in any changes to the terms of the Acquiring Fund s VRDP Shares currently outstanding. Please see Information about the VRDP Shares of the Funds for additional information about the Funds VRDP Shares.

THE FUNDS

Each Fund is organized as a corporation under the laws of the State of Maryland and a non-diversified, closed-end management investment company registered under the 1940 Act. Each Fund s principal office is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and its telephone number is (800) 882-0052.

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The Acquiring Fund was incorporated under the laws of the State of Maryland on January 27, 1998 and commenced operations on March 11, 1998. The Acquiring Fund was known as MuniHoldings New Jersey Insured Fund, Inc. prior to September 14, 2006 and BlackRock MuniHoldings New Jersey Insured Fund, Inc., prior to November 9, 2010.

The Target Fund was incorporated under the laws of the State of Maryland on August 26, 1992 and commenced operations on October 30, 1992. The Target Fund was known as MuniYield New Jersey Insured Fund, Inc. prior to September 14, 2006 and BlackRock MuniYield New Jersey Insured Fund, Inc., prior to November 9, 2010.

The Acquiring Fund Common Shares are listed on the NYSE as MUJ.

The Target Fund Common Shares are listed on the NYSE as MJI.

Each Fund has a July 31 fiscal year end.

Each Fund has VRDP Shares outstanding. Each Fund s VRDP Shares are not listed on a national stock exchange and have not been registered under the Securities Act, or any state securities laws, and unless so registered, may not be offered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Please see Information about the VRDP Shares of the Funds for additional information.

THE ACQUIRING FUND S INVESTMENTS

Investment Objective and Policies

The Acquiring Fund s investment objective is to provide shareholders with current income exempt from federal income tax and New Jersey personal income taxes. The investment objective of the Acquiring Fund is a fundamental policy that may not be changed without a vote of a majority of the Acquiring Fund s outstanding voting securities.

The Acquiring Fund seeks to achieve its investment objective by investing primarily in a portfolio of municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes (New Jersey Municipal Bonds). The Acquiring Fund invests substantially all (at least 80%) of its assets in New Jersey Municipal Bonds, except at times when the Investment Advisor considers that New Jersey Municipal Bonds of sufficient quantity and quality are unavailable at suitable prices. To the extent that the Investment Advisor considers that suitable New Jersey Municipal Bonds are not available for investment, the Acquiring Fund may purchase municipal obligations exempt from federal income taxes but not New Jersey personal income taxes (Municipal Bonds). The Acquiring Fund may invest directly in such securities or synthetically through the use of derivatives. The Acquiring Fund will maintain at least 80% of its assets in New Jersey Municipal Bonds, except during interim periods pending investment of the net proceeds of public offerings of its securities and during temporary defensive periods. Under normal circumstances, at least 80% of the Acquiring Fund s assets will be invested in municipal obligations with remaining maturities of one year or more. There can be no assurance that the Acquiring Fund s investment objective will be realized.

Ordinarily, the Acquiring Fund does not intend to realize significant investment income subject to federal income tax and New Jersey personal income taxes. The Acquiring Fund may invest all or a portion of its assets in certain tax-exempt securities classified as private activity bonds (in general, bonds that benefit non-governmental entities) that may subject certain investors in the Acquiring Fund to a federal alternative minimum tax.

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The Acquiring Fund may also invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Acquiring Fund nevertheless believes such securities pay interest or distributions that are exempt from federal income taxation (Non-Municipal Tax-Exempt Securities). Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in New Jersey Municipal Bonds and Municipal Bonds, to the extent such investments are permitted by the 1940 Act. Other Non-Municipal Tax-Exempt Securities could include trust certificates or other instruments evidencing interests in one or more long-term New Jersey Municipal Bonds or Municipal Bonds. Certain Non-Municipal Tax-Exempt Securities may be characterized as derivative instruments. For purposes of the Acquiring Fund s investment objective and policies, Non-Municipal Tax-Exempt Securities that pay interest that is exempt from federal income taxes and New Jersey personal income taxes will be considered New Jersey Municipal Bonds and Non-Municipal Tax-Exempt Securities that pay interest that is exempt from federal income taxes will be considered Municipal Bonds.

The Acquiring Fund invests in investment grade New Jersey Municipal Bonds and Municipal Bonds that are rated at the date of purchase in the four highest rating categories of S&P, Moody s or Fitch or, if unrated, are considered to be of comparable quality by the Investment Advisor. In the case of long-term debt, the investment grade rating categories are AAA through BBB for S&P and Fitch and Aaa through Baa for Moody s. In the case of short-term notes, the investment grade rating categories are SP-1+ through SP-2 for S&P, MIG 1 through MIG 3 for Moody s and F-1+ through F-3 for Fitch. In the case of tax-exempt commercial paper, the investment grade rating categories are A-1+ through A-3 for S&P, P-1 through P-3 for Moody s and F-1+ through F-3 for Fitch. Obligations ranked in the lowest investment grade rating category (BBB, SP-2 and A-3 for S&P; Baa, MIG 3 and P-3 for Moody s; and BBB and F-3 for Fitch), while considered investment grade, may have certain speculative characteristics. There may be sub-categories or gradations indicating relative standing within the rating categories set forth above. See Appendix C Ratings of Investments. In assessing the quality of New Jersey Municipal Bonds and Municipal Bonds with respect to the foregoing requirements, the Investment Advisor takes into account the portfolio insurance as well as the nature of any letters of credit or similar credit enhancement to which particular New Jersey Municipal Bonds and Municipal Bonds are entitled and the creditworthiness of the insurance company or financial institution that provided such insurance or credit enhancements. Insurance is expected to protect the Acquiring Fund against losses caused by a bond issuer s failure to make interest or principal payments. However, insurance does not protect the Acquiring Fund or its shareholders against losses caused by declines in a bond s market value. Also, the Acquiring Fund cannot be certain that any insurance company does not make these payments. If a bond s insurer fails to fulfill its obligations or loses its credit rating, the value of the bond could drop.

The Acquiring Fund may invest in variable rate demand obligations (VRDOs) and VRDOs in the form of participation interests (Participating VRDOs) in variable rate tax-exempt obligations held by a financial institution, typically a commercial bank. The VRDOs in which the Acquiring Fund may invest are tax-exempt obligations, in the opinion of counsel to the issuer, that contain a floating or variable interest rate adjustment formula and a right of demand on the part of the holder thereof to receive payment of the unpaid principal balance plus accrued interest on a short notice period not to exceed seven days. There is, however, the possibility that because of default or insolvency the demand feature of VRDOs may not be honored. The interest rates are adjustable at intervals (ranging from daily to up to one year) to some prevailing market rate for similar investments, such adjustment formula being calculated to maintain the market value of the VRDOs, at approximately the par value of the VRDOs on the adjustment date. The adjustments typically are based upon SIFMA or some other appropriate interest rate adjustment index. VRDOs that contain an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest on a notice period exceeding seven days may be deemed to be illiquid securities. Participating VRDOs provide the Acquiring Fund with a specified undivided interest (up to 100%) in the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDOs from the financial institution on a specified number of days notice, not to exceed seven days.

The average maturity of the Acquiring Fund s portfolio securities varies based upon the Investment Advisor s assessment of economic and market conditions. The net asset value of the shares of common stock of a

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closed-end investment company such as the Acquiring Fund, which invests primarily in fixed-income securities, changes as the general levels of interest rates fluctuate. When interest rates decline, the value of a fixed income portfolio can be expected to rise. Conversely, when interest rates rise, the value of a fixed income portfolio can be expected to decline. Prices of longer-term securities generally fluctuate more in response to interest rate changes than do short-term or medium-term securities. These changes in net asset value are likely to be greater in the case of a fund having a leveraged capital structure, such as that used by the Acquiring Fund. See Risk Factors and Special Considerations Leverage.

The Acquiring Fund invests primarily in long-term New Jersey Municipal Bonds and Municipal Bonds with a maturity of more than ten years. However, the Acquiring Fund may also invest in intermediate-term New Jersey Municipal Bonds and Municipal Bonds with a maturity of between three years and ten years. The Acquiring Fund may also invest in short-term tax-exempt securities, short-term U.S. Government securities, repurchase agreements or cash. Investments in such short-term securities or cash will not exceed 20% of the Acquiring Fund s total assets, except during interim periods pending investment of the net proceeds from public offerings of the Acquiring Fund s securities or in anticipation of the repurchase or redemption of the Acquiring Fund s securities and temporary periods when, in the opinion of the Investment Advisor, prevailing market or economic conditions warrant. The Acquiring Fund does not ordinarily intend to realize significant interest income that is subject to federal income tax and New Jersey personal income taxes.

The Acquiring Fund is classified as non-diversified within the meaning of the 1940 Act, which means that the Acquiring Fund is not limited by the 1940 Act in the proportion of its total assets that it may invest in securities of a single issuer. However, the Acquiring Fund s investments are limited so as to qualify the Acquiring Fund for the special tax treatment afforded RICs under the federal tax laws. In order to qualify as a RIC, the Acquiring Fund must, among other things, satisfy certain requirements relating to the sources of its income, diversification of its assets, and distribution of its income to its shareholders. First, the Acquiring Fund must derive at least 90% of its annual gross income from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock or securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies, or net income derived from interests in qualified publicly traded partnerships (as defined in the Code) (the 90% gross income test). Second, the Acquiring Fund must diversify its holdings so that, at the close of each quarter of its taxable year, (i) at least 50% of the value of its total assets consists of cash, cash items, U.S. Government securities, securities of other RICs and other securities, with such other securities limited in respect of any one issuer to an amount not greater in value than 5% of the value of the Acquiring Fund s total assets and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the total assets is invested in the securities (other than U.S. Government securities and securities of other RICs) of any one issuer, any two or more issuers controlled by the Acquiring Fund and engaged in the same, similar or related trades or businesses, or any one or more qualified publicly traded partnerships. To the extent that the Acquiring Fund assumes large positions in the securities of a small number of issuers, its yield may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market s assessment of the issuers.

Description of New Jersey Municipal Bonds and Municipal Bonds

New Jersey Municipal Bonds and Municipal Bonds include debt obligations issued to obtain funds for various public purposes, including construction of a wide range of public facilities, refunding of outstanding obligations and obtaining funds for general operating expenses and loans to other public institutions and facilities. In addition, certain types of private activity bonds (PABs) are issued by or on behalf of public authorities to finance various privately operated facilities, including, among other things, airports, public ports, mass commuting facilities, multi-family housing projects, as well as facilities for water supply, gas, electricity, sewage or solid waste disposal.

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For purposes of this Joint Proxy Statement/Prospectus, such obligations are Municipal Bonds if the interest paid thereon is exempt from federal income tax and are New Jersey Municipal Bonds if the interest thereon is exempt from federal income tax and New Jersey personal income taxes, even though such bonds may be industrial development bonds or PABs as discussed below. Also, for purposes of this Joint Proxy Statement/Prospectus, Non-Municipal Tax-Exempt Securities as discussed above will be considered New Jersey Municipal Bonds or Municipal Bonds.

The two principal classifications of New Jersey Municipal Bonds and Municipal Bonds are general obligation bonds and revenue bonds, which latter category includes PABs and, for bonds issued on or before August 15, 1986, industrial development bonds or IDBs. New Jersey Municipal Bonds and Municipal Bonds typically are issued to finance public projects, such as roads or public buildings, to pay general operating expenses or to refinance outstanding debt. New Jersey Municipal Bonds and Municipal Bonds 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. New Jersey Municipal Bonds and Municipal Bonds may be issued on a long term basis to provide permanent financing. The repayment of such debt may be secured generally by a pledge of the full faith and credit taxing power of the issuer, a limited or special tax, or any other revenue source, including project revenues, which may include tolls, fees and other user charges, lease payments and mortgage payments. New Jersey Municipal Bonds and Municipal Bonds may also be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds of the later issuance of long-term debt.

General Obligation Bonds. General obligation bonds (other than those of the State of New Jersey which has limited taxing powers) are typically secured by the issuer s pledge of faith, credit and taxing power for the repayment of principal and the payment of interest. The taxing power of any governmental entity may be limited, however, by provisions of its state constitution or laws, and an entity s creditworthiness will depend on many factors, including potential erosion of its tax base due to population declines, natural disasters, declines in the state s industrial base or inability to attract new industries, economic limits on the ability to tax without eroding the tax base, state legislative proposals or voter initiatives to limit ad valorem real property taxes and the extent to which the entity relies on federal or state aid, access to capital markets or other factors beyond the state s or entity s control. Accordingly, the capacity of the issuer of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer s maintenance of its tax base.

Revenue Bonds. Revenue or special obligation bonds are typically payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as from the user of the facility being financed. Accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue or special obligation bond is a function of the economic viability of such facility or such revenue source. Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal securities generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. Such bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Increases in interest rates payable on senior obligations may make it more difficult for issuers to meet payment obligations on subordinated bonds.

Moral Obligation Bonds. New Jersey Municipal Bonds and Municipal Bonds may also include moral obligation bonds, which are normally issued by special purpose public authorities. If an issuer of moral obligation bonds is unable to meet its obligations, the repayment of such bonds becomes a moral commitment but not a legal obligation of the state or municipality in question.

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Municipal Notes. Municipal notes are shorter term municipal debt obligations. They may provide interim financing in anticipation of tax collection, bond sales or revenue receipts. If there is a shortfall in the anticipated proceeds, repayment on the note may be delayed or the note may not be fully repaid, and the Acquiring Fund may lose money.

Municipal Commercial Paper. Municipal commercial paper is generally unsecured and issued to meet short-term financing needs. The lack of security presents some risk of loss to the Acquiring Fund since, in the event of an issuer s bankruptcy, unsecured creditors are repaid only after the secured creditors out of the assets, if any, that remain.

Private Activity Bonds. The Acquiring Fund may purchase New Jersey Municipal Bonds and Municipal Bonds classified as PABs. Interest received on certain PABs is treated as an item of tax preference for purposes of the federal alternative minimum tax and may impact the overall tax liability of certain investors in the Acquiring Fund. There is no limitation on the percentage of the Acquiring Fund s assets that may be invested in New Jersey Municipal Bonds and Municipal Bonds the interest on which is treated as an item of tax preference for purposes of the federal alternative minimum tax. PABs, 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 PABs, 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 federal tax laws may place substantial limitations on the size of such issues. Such bonds are secured primarily by revenues derived from loan repayments or lease payments due from the entity which may or may not be guaranteed by a parent company or otherwise secured. PABs generally are not secured by a pledge of the taxing power of the issuer of such bonds. Therefore, an investor should be aware that repayment of such bonds generally depends on the revenues of a private entity and be aware of the risks that such an investment may entail. Continued ability of an entity to generate sufficient revenues for the payment of principal and interest on such bonds will be affected by many factors including the size of the entity, capital structure, demand for its products or services, competition, general economic conditions, government regulation and the entity s dependence on revenues for the operation of the particular facility being financed.

Municipal Lease Obligations. Also included within the general category of Municipal Bonds are certificates of participation (COPs) issued by government authorities or entities to finance the acquisition or construction of equipment, land and/or facilities. The COPs represent participations in a lease, an installment purchase contract or a conditional sales contract (hereinafter collectively called lease obligations) relating to such equipment, land or facilities. Municipal leases, like other municipal debt obligations, are subject to the risk of non-payment. Although lease obligations do not constitute general obligations of the issuer for which the issuer s unlimited taxing power is pledged, a lease obligation is frequently backed by the issuer s covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain lease obligations contain non-appropriation clauses, which provide that the issuer has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although non-appropriation lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. These securities represent a type of financing that has not yet developed the depth of marketability associated with more conventional securities. Certain investments in lease obligations may be illiquid.

The ability of issuers of municipal leases to make timely lease payments may be adversely impacted in general economic downturns and as relative governmental cost burdens are allocated and reallocated among federal, state and local governmental units. Such non-payment would result in a reduction of income to the Acquiring Fund, and could result in a reduction in the value of the municipal lease experiencing non-payment and a potential decrease in the net asset value of the Acquiring Fund. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Acquiring Fund could

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experience delays and limitations with respect to the collection of principal and interest on such municipal leases and the Acquiring Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in lease payments, the Acquiring Fund might take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Acquiring Fund s operating expenses and adversely affect the net asset value of the Acquiring Fund. When the lease contains a non-appropriation clause, however, the failure to pay would not be a default and the Acquiring Fund would not have the right to take possession of the assets. Any income derived from the Acquiring Fund s ownership or operation of such assets may not be tax-exempt. In addition, the Acquiring Fund s intention to qualify as a regulated investment company under the Internal Revenue Code of 1986, may limit the extent to which the Acquiring Fund may exercise its rights by taking possession of such assets, because as a regulated investment company the Acquiring Fund is subject to certain limitations on its investments and on the nature of its income.

Zero Coupon Bonds. Municipal Bonds may include zero-coupon bonds. Zero coupon bonds are securities that are sold at a discount to par value and do not pay interest during the life of the security. The discount approximates the total amount of interest the security will accrue and compound over the period until maturity at a rate of interest reflecting the market rate of the security at the time of issuance. Upon maturity, the holder of a zero coupon bond is entitled to receive the par value of the security.

While interest payments are not made on such securities, holders of such securities are deemed to have received income (phantom income) annually, notwithstanding that cash may not be received currently. The effect of owning instruments that do not make current interest payments is that a fixed yield is earned not only on the original investment but also, in effect, on all discount accretion during the life of the obligations. This implicit reinvestment of earnings at a fixed rate eliminates the risk of being unable to invest distributions at a rate as high as the implicit yield on the zero coupon bond, but at the same time eliminates the holder s ability to reinvest at higher rates in the future. For this reason, some of these securities may be subject to substantially greater price fluctuations during periods of changing market interest rates than are comparable securities that pay interest currently. Longer term zero coupon bonds are more exposed to interest rate risk than shorter term zero coupon bonds. These investments benefit the issuer by mitigating its need for cash to meet debt service, but also require a higher rate of return to attract investors who are willing to defer receipt of cash.

The Acquiring Fund accrues income with respect to these securities for U.S. federal income tax and accounting purposes prior to the receipt of cash payments. Zero coupon bonds may be subject to greater fluctuation in value and less liquidity in the event of adverse market conditions than comparably rated securities that pay cash interest at regular intervals.

Further, to maintain its qualification for pass-through treatment under the Federal tax laws, the Acquiring Fund is required to distribute income to its shareholders and, consequently, may have to dispose of other, more liquid portfolio securities under disadvantageous circumstances or may have to leverage itself by borrowing in order to generate the cash to satisfy these distributions. The required distributions may result in an increase in the Acquiring Fund s exposure to zero coupon bonds.

In addition to the above-described risks, there are certain other risks related to investing in zero coupon bonds. During a period of severe market conditions, the market for such securities may become even less liquid. In addition, as these securities do not pay cash interest, the Acquiring Fund s investment exposure to these securities and their risks, including credit risk, will increase during the time these securities are held in the Acquiring Fund s portfolio.

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

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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.

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 (a type of municipal security established by the Mello-Roos Community Facilities District Act of 1982), 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.

Yields. Yields on Municipal Bonds are dependent on a variety of factors, including the general condition of the money market and of the municipal bond market, the size of a particular offering, the financial condition of the issuer, the maturity of the obligation and the rating of the issue. The ability of the Acquiring Fund to achieve its investment objective is also dependent on the continuing ability of the issuers of the securities in which the Acquiring Fund invests to meet their obligations for the payment of interest and principal when due. There are variations in the risks involved in holding Municipal Bonds, both within a particular classification and between classifications, depending on numerous factors. Furthermore, the rights of owners of Municipal Bonds and the obligations of the issuer of such Municipal Bonds may be subject to applicable bankruptcy, insolvency and similar laws and court decisions affecting the rights of creditors generally and to general equitable principles, which may limit the enforcement of certain remedies.

Federal tax legislation may limit the types and volume of such bonds the interest on which is excludable from income for federal income tax purposes. Such legislation may affect the availability of New Jersey Municipal Bonds and Municipal Bonds for investment by the Acquiring Fund.

Other Investment Policies

The Acquiring Fund has adopted certain other policies as set forth below:

When-Issued, Delayed Delivery Securities and Forward Commitment Securities. The Acquiring Fund may purchase or sell New Jersey Municipal Bonds and Municipal Bonds on a delayed delivery basis or on a when-issued basis at fixed purchase or sale terms. When such transactions are negotiated, the price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. When-issued securities may be sold prior to the settlement date. If the Acquiring Fund disposes of the right to acquire a when-issued security prior to its acquisition, it might incur a gain or loss. At the time the Acquiring Fund enters into a transaction on a when-issued basis, it will designate on its books and records cash or liquid assets with a value not less than the value of the when-issued securities. The value of these assets will be monitored daily to ensure that their marked to market value will at all times equal or exceed the corresponding obligations of the Acquiring Fund.

There can be no assurance that a security purchased on a when issued basis will be issued or that a security purchased or sold through a forward commitment will be delivered. A default by a counterparty may result in the

Acquiring Fund missing the opportunity of obtaining a price considered to be advantageous. The value of securities in these transactions on the delivery date may be more or less than the Acquiring Fund s purchase price. The Acquiring Fund may bear the risk of a decline in the value of the security in these transactions and may not benefit from an appreciation in the value of the security during the commitment period.

If deemed advisable as a matter of investment strategy, the Acquiring Fund may dispose of or renegotiate a commitment after it has been entered into, and may sell securities it has committed to purchase before those securities are delivered to the Acquiring Fund on the settlement date. In these cases the Acquiring Fund may realize a taxable capital gain or loss.

When the Acquiring Fund engages in when-issued, delayed delivery or forward commitment transactions, it relies on the other party to consummate the trade. Failure of such party to do so may result in the Acquiring Fund s incurring a loss or missing an opportunity to obtain a price considered to be advantageous.

The market value of the securities underlying a commitment to purchase securities, and any subsequent fluctuations in their market value, is taken into account when determining the market value of the Acquiring Fund starting on the day the Acquiring Fund agrees to purchase the securities. The Acquiring Fund does not earn interest on the securities it has committed to purchase until they are paid for and delivered on the settlement date.

Indexed and Inverse Floating Obligations. The Acquiring Fund may invest in New Jersey Municipal Bonds and Municipal Bonds yielding a return based on a particular index of value or interest rates. For example, the Acquiring Fund may invest in New Jersey Municipal Bonds and Municipal Bonds that pay interest based on an index of Municipal Bond interest rates. The principal amount payable upon maturity of certain New Jersey Municipal Bonds and Municipal Bonds also may be based on the value of an index. To the extent the Acquiring Fund invests in these types of Municipal Bonds, the Acquiring Fund s return on such New Jersey Municipal Bonds and Municipal Bonds will be subject to risk with respect to the value of the particular index. Interest and principal payable on the Municipal Bonds may also be based on relative changes among particular indices. Also, the Acquiring Fund may invest in so-called inverse floating obligations or residual interest bonds on which the interest rates typically vary inversely with a short-term floating rate (which may be reset periodically by a dutch auction, a remarketing agent, or by reference to a short-term tax-exempt interest rate index). The Acquiring Fund may purchase synthetically-created inverse floating obligations evidenced by custodial or trust receipts. Generally, income on inverse floating obligations will decrease when short-term rates increase, and will increase when short-term rates decrease. Such securities have the effect of providing a degree of investment leverage, since they may increase or decrease in value in response to changes, as an illustration, in market interest rates at a rate that is a multiple (typically two) of the rate at which fixed-rate, long-term, tax-exempt securities increase or decrease in response to such changes. As a result, the market values of such securities generally will be more volatile than the market values of fixed-rate tax-exempt securities. To seek to limit the volatility of these securities, the Acquiring Fund may purchase inverse floating obligations with shorter-term maturities or limitations on the extent to which the interest rate may vary. Certain investments in such obligations may be illiquid.

Call Rights. The Acquiring Fund may purchase a New Jersey Municipal Bond or Municipal Bond issuer s rights to call all or a portion of such New Jersey Municipal Bond or Municipal Bond for mandatory tender for purchase (a Call Right). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related New Jersey Municipal Bonds or Municipal Bonds, subject to certain conditions. A Call Right that is not exercised prior to the maturity of the related New Jersey Municipal Bond or Municipal Bond will expire without value. The economic effect of holding both the Call Right and the related New Jersey Municipal Bond or Municipal Bond is identical to holding a New Jersey Municipal Bond or Municipal Bond as a non-callable security.

Repurchase Agreements. The Acquiring Fund may invest in securities pursuant to repurchase agreements. Repurchase agreements may be entered into only with a member bank of the federal Reserve System or a

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primary dealer in U.S. Government securities or an affiliate thereof. A repurchase agreement is a contractual agreement whereby the seller of securities agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed-upon repurchase price determines the yield during the Acquiring Fund s holding period. The risk to the Acquiring Fund is limited to the ability of the issuer to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed-upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold but the Acquiring Fund might incur a loss if the value of the collateral declines, and might incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by the Acquiring Fund may be delayed or limited.

The Acquiring Fund may not invest in repurchase agreements maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Acquiring Fund s net assets.

In general, for federal and New Jersey personal income tax purposes, repurchase agreements are treated as collateralized loans secured by the securities sold. Therefore, amounts earned under such agreements will not be considered tax-exempt interest.

Leverage

The Acquiring Fund may utilize leverage to seek to enhance the yield and NAV of its Common Shares. However, this objective cannot be achieved in all interest rate environments. The Acquiring Fund currently leverages its assets through the use of VRDP Shares and tender option bonds. The Combined Fund would also utilize such forms of leverage. Each Fund s total economic leverage through the use of VRDP Shares and tender option bonds does not exceed 45% of its respective total assets.

Under the 1940 Act, the Acquiring Fund is permitted to issue debt up to 331/3% of its total assets or equity securities (e.g., preferred shares) up to 50% of its total assets. The Acquiring Fund may voluntarily elect to limit its leverage to less than the maximum amount permitted under the 1940 Act. In addition, the Acquiring Fund may also be subject to certain asset coverage, leverage or portfolio composition requirements imposed by the VRDP Shares governing instruments, counterparties or by agencies rating the VRDP Shares, which may be more stringent than those imposed by the 1940 Act.

The Acquiring Fund is authorized to borrow money in amounts of up to 5% of the value of its total assets at the time of such borrowings; provided, however, that the Acquiring Fund is authorized to borrow moneys in amounts of up to 33-1/3% of the value of its total assets at the time of such borrowings to finance the repurchase of its own Common Shares pursuant to tender offers or otherwise to redeem or repurchase shares of preferred stock or for temporary, extraordinary or emergency purposes.

In general, the concept of leveraging is based on the premise that the financing cost of leverage, which will be based on short-term interest rates, will normally be lower than the income earned by the Acquiring Fund on its longer-term portfolio investments purchased with the proceeds from leverage. To the extent that the total assets of the Acquiring Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Acquiring Fund s common shareholders can benefit from incremental net income. The interest earned on securities purchased with the proceeds from leverage is paid to common shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV.

To illustrate these concepts, assume the Acquiring Fund s Common Shares capitalization is $100 million and it utilizes leverage for an additional $30 million, creating a total value of $130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Acquiring Fund s financing costs on the $30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by the Acquiring Fund with the proceeds from leverage earn income based on longer-term interest rates. In this case, the Acquiring Fund s financing cost of leverage is significantly lower than the income earned on the Acquiring Fund s longer-term investments acquired from leverage proceeds, and therefore the holders of Common Shares are the beneficiaries of the incremental net income.

However, in order to benefit common shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Acquiring Fund s return on assets purchased with leverage proceeds, income to common shareholders will be lower than if the Acquiring Fund had not used leverage. Furthermore, the value of the Acquiring Fund s portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the value of the Acquiring Fund s obligations under its leverage arrangement generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Acquiring Fund s NAVs positively or negatively.

Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Acquiring Fund s intended leveraging strategy will be successful.

Leverage also will generally cause greater changes in the Acquiring Funds NAVs, market prices and dividend rates than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the net asset value and market price of the Acquiring Fund s Common Shares than if the Acquiring Fund were not leveraged. In addition, the Acquiring Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Acquiring Fund to incur losses. The use of leverage may limit the Acquiring Fund s ability to invest in certain types of securities or use certain types of hedging strategies. The Acquiring Fund will incur expenses in connection with the use of leverage, all of which are borne by common shareholders and may reduce income to the Common Shares. During periods in which the Acquiring Fund is using leverage, the fees paid to the Investment Advisor for advisory services will be higher than if the Acquiring Fund did not use leverage, because the fees paid will be calculated on the basis of the Acquiring Fund s total managed assets, which includes the proceeds from leverage. The Acquiring Fund s leveraging strategy may not be successful.

There can be no assurance the Combined Fund will be able to continue to use leverage through the use of preferred shares, tender option bonds or otherwise during periods of instability or illiquidity in the debt markets, during periods of high short-term interest rates or due to other adverse market conditions, because the Combined Fund may not be able to enter into tender option bond transactions or use other forms of leverage during such periods. There can be no assurance that the Combined Fund s leverage strategy will be successful. The use of leverage can create risks. See Risk Factors and Special Considerations Leverage Risk.

Effects of Leverage

Assuming that leverage will represent approximately 39.2% of the Acquiring Fund s total managed assets and that the Acquiring Fund will bear expenses relating to that leverage at an average annual rate of 0.93%, the income generated by the Acquiring Fund s portfolio (net of estimated expenses) must exceed 0.36% in order to cover the expenses specifically related to the Acquiring Fund s use of leverage. Of course, these numbers are merely estimates used for illustration. Actual leverage expenses will vary frequently and may be significantly higher or lower than the rate estimated above.

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 securities held in the Acquiring Fund s portfolio) of (10)%, (5)%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the

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investment portfolio returns experienced or expected to be experienced by the Acquiring Fund. The table further reflects the use of leverage representing 39.2% of the Acquiring Fund s total managed assets and the Acquiring Fund s currently projected annual leverage expense of 0.93%.

Assumed Portfolio Total Return (net of expenses)	(10.00)%	(5.00)%	0.00%	5.00%	10.00%
Common Share Total Return	(17.06)%	(8.83)%	(0.60)%	7.63%	15.86%

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

Preferred Shares

The Acquiring Fund has leverage its portfolio by issuing VRDP Shares. Under the 1940 Act, the Acquiring Fund is not permitted to issue preferred shares if, immediately after such issuance, the liquidation value of the Acquiring Fund s outstanding preferred shares exceeds 50% of its assets (including the proceeds from the issuance) less liabilities other than borrowings (i.e., the value of the Acquiring Fund s assets must be at least 200% of the liquidation value of its outstanding preferred shares). In addition, the Acquiring Fund would not be permitted to declare any cash dividend or other distribution on its Common Shares unless, at the time of such declaration, the value of the Acquiring Fund s assets less liabilities other than borrowings is at least 200% of such liquidation value. Please see Information about the VRDP Shares of the Funds for a description of the Acquiring Fund s VRDP Shares.

For tax purposes, the Acquiring Fund is currently required to allocate tax-exempt interest income, net capital gain and other taxable income, if any, between its Common Shares and preferred shares outstanding in proportion to total dividends paid to each class for the year in which or with respect to which the net capital gain or other taxable income is paid. If net capital gain or other taxable income is allocated to preferred shares, instead of solely tax-exempt income, the Acquiring Fund will likely have to pay higher total dividends to preferred shareholders or make special payments to preferred shareholders to compensate them for the increased tax liability. This would reduce the total amount of dividends paid to the holders of Common Shares, but would increase the portion of the dividend that is tax-exempt. If the increase in dividend payments or the special payments to preferred shareholders are not entirely offset by a reduction in the tax liability of, and an increase in the tax-exempt dividends received by, the holders of Common Shares, the advantage of the Acquiring Fund s leveraged structure to holders of Common Shares will be reduced.

TOBs Residuals

The Acquiring Fund currently leverages its assets through the use of tender option bond trusts (the TOBs Trust). A TOBs Trust historically was established by a third party sponsor forming a special purpose trust into which the Acquiring Fund, or an agent on behalf of the Acquiring Fund, transferred municipal securities. The TOBs Trusts in which the Acquiring Fund currently uses for leverage are structured in this manner. In response to recent regulatory developments, the Acquiring Fund and other BlackRock-advised funds may in the future establish the TOBs Trust themselves, and assume certain responsibilities currently assumed by the third party sponsor. See Recent Developments in the TOBs Trust Market below.

A TOBs Trust typically issues two classes of beneficial interests: TOBs Floaters, which are sold to third party investors, and TOBs Residuals, which are generally issued to one or more funds that transferred securities to the TOBs Trust. The Acquiring Fund may invest in both TOBs Floaters and TOBs Residuals. The Acquiring Fund does not currently intend to invest in TOBs Residuals issued by a TOBs Trust that was not formed by or for

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the Acquiring Fund or other BlackRock-advised fund, although it reserves the right to do so in the future. Other funds managed by the Investment Advisor may also contribute municipal bonds to a TOB Issuer into which the Acquiring Fund has contributed bonds. If multiple funds participate in the same TOB Issuer, the rights and obligations under the TOB Residual will generally be shared among the funds ratably in proportion to their participation.

Below is a diagram outlining the structure for a typical TOBs Trust involving a third party sponsor:

* In this example, which is for illustrative purposes only, the TOBs Sponsor retained $1 of cash to cover its fees and expenses. In addition, the relative dollar amounts of TOBs Residuals and TOBs Floaters, and the degree of leverage risk, may differ significantly from that shown in the illustration.

As diagramed above, a TOBs Trust typically receives municipal securities from one or more funds through the sponsor and then issues TOBs Floaters to third party investors and TOBs Residuals to the funds. A fund is paid the cash (less transaction expenses, which are borne by the fund and therefore common shareholders of the fund indirectly) received by the TOBs Trust from the sale of the TOBs Floaters and typically will invest the cash in additional municipal securities or other investments permitted by its investment policies.

TOBs Floaters may have first priority on the cash flow from the securities held by the TOBs Trust and are enhanced with a liquidity support arrangement from a third party liquidity provider which allows holders to tender their position at par (plus accrued interest). A fund, in addition to receiving cash from the sale of the TOBs Floaters, also receives the TOBs Residual. The TOBs Residuals provides the fund with the right (1) to cause the holders of the TOBs Floaters to tender their notes to the TOBs Trust at par (plus accrued interest), and (2) to acquire the municipal securities from the TOBs Trust. In addition, all voting rights and decisions to be made with respect to any other rights relating to the securities held in the TOBs Trust are passed through to the fund, as the holder of the TOBs Residual. This transaction, in effect, creates exposure for the fund to the entire return of the securities in the TOBs Trust, with a net cash investment by the fund that is less than the value of the securities in the TOBs Trust. This multiplies the positive or negative impact of the securities return within the fund (thereby creating leverage). The leverage within a TOBs Trust depends on the value of the securities deposited in the TOBs Trust relative to the value of the TOBs Floaters it issues. In the diagram above, the TOBs Trust receives municipal securities worth $60, issues TOBs Floaters worth $45 and the fund receives a TOBs Residual worth $15. The leverage ratio in the TOBs Trust described in the example is thus 3:1. Increasing the value of the TOBs Floaters issued would increase the leverage ratio of the TOBs Trust.

The TOBs Trust may be terminated without the consent of a fund upon the occurrence of certain events, such as the bankruptcy or default of the issuer of the securities in the TOBs Trust, a substantial downgrade in the

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credit quality of the issuer of the securities in the TOBs Trust, the inability of the TOBs Trust to obtain liquidity support for the TOBs Floaters, a substantial decline in the market value of the securities in the TOBs Trust, or the inability of the sponsor to remarket any TOBs Floaters tendered to it by holders of the TOBs Floaters. In such an event, the TOBs Floaters would be redeemed by the TOBs Trust at par (plus accrued interest) out of the proceeds from a sale of the securities in the TOBs Trust. If this happens, the fund would be entitled to the assets of the TOBs Trust, if any, that remain after the TOBs Floaters have been redeemed at par (plus accrued interest). If there are insufficient proceeds from the sale of these securities to redeem all of the TOBs Floaters at par (plus accrued interest), the party that would bear the losses on those securities would depend upon whether the fund holds a non-recourse TOBs Residual or a recourse TOBs Residual. If the fund holds a non-recourse TOBs Residual, the liquidity provider or holders of the TOBs Floaters would bear the losses on those securities and there would generally be no recourse to the fund s assets. If the fund holds a recourse TOBs Residual, the fund (and, indirectly, holders of the fund s common shares) would typically bear the losses on those securities. In particular, if the fund holds a recourse TOBs Residual, it will typically have entered into an agreement pursuant to which the fund would be required to pay to the liquidity provider the difference between the purchase price of any TOBs Floaters put to the liquidity provider by holders of the TOBs Floaters and the proceeds realized from the remarketing of those TOBs Floaters or the sale of the assets in the TOBs Trust (the Liquidation Shortfall). As a result, the fund investing in a recourse TOB Residual will bear the risk of loss with respect to any Liquidation Shortfall. If multiple funds participate in any such TOB Issuer, these losses will be shared ratably, in proportion to their participation. The Acquiring Fund may invest in both non-recourse and recourse TOBs Residuals to leverage its portfolio.

Under accounting rules, securities of a fund that are deposited into a TOBs Trust are investments of the fund and are presented on the fund s Schedule of Investments and outstanding TOBs Floaters issued by a TOBs Trust are presented as liabilities in the fund s Statement of Assets and Liabilities. Interest income from the underlying security is recorded by the fund on an accrual basis. Interest expense incurred on the TOBs Floaters and other expense related to remarketing, administration and trustee services to a TOBs Trust are reported as expenses of a fund. In addition, under accounting rules, loans made to a TOBs Trust sponsored by a fund may be presented as loans of the fund in the fund s financial statements even if there is no recourse to the fund s assets.

For TOBs Floaters, generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying securities deposited in the TOBs Trust, the holder of the TOBs Floaters relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the TOBs Trust provide for a liquidation of the municipal securities deposited in the TOBs Trust and the application of the proceeds to pay off the TOBs Floaters. The risk associated with TOBs Floaters, however, may be increased in the current market environment as a result of recent downgrades to the credit ratings, and thus the perceived reliability and creditworthiness, of many major financial institutions, some of which sponsor and/or provide liquidity support to TOBs Trusts. This in turn may reduce the desirability of TOBs Floaters as investments, which could impair the viability or availability of TOBs Trusts and reduce, or eliminate completely, the availability of TOBs Residuals as a leveraging option for the Acquiring Fund.

The use of TOBs Residuals will require the Acquiring Fund to earmark or segregate liquid assets in an amount equal to any TOBs Floaters, plus any accrued but unpaid interest due on the TOBs Floaters, issued by TOBs Trusts sponsored by, or on behalf of, the Acquiring Fund that are not owned by the Acquiring Fund. The Acquiring Fund reserves the right to modify its asset segregation policies in the future to the extent that such changes are in accordance with applicable regulations or interpretations. Future regulatory requirements or SEC guidance may necessitate more onerous contractual or regulatory requirements, which may increase the costs or reduce the degree of potential economic benefits of TOBs transactions or limit the Acquiring Fund s ability to enter into or manage TOBs transactions.

Recent Developments in the TOBs Trust Market. On December 10, 2013, regulators published final rules implementing section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Volcker

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Rule), which prohibit banking entities from engaging in proprietary trading of certain instruments and limit such entities investments in, and relationships with, covered funds , as defined in the rules. Banking entities subject to the Volcker Rule are required to fully comply by July 21, 2015. The Volcker Rule may preclude banking entities and their affiliates from (i) sponsoring tender option bond trust programs (as such programs are presently structured) and (ii) continuing relationships with or services for existing tender option bond trust programs. As a result, TOBs Trusts may need to be restructured or unwound. There can be no assurances that TOBs Trusts can be restructured, that new sponsors of TOBs Trusts will develop, or that alternative forms of leverage will be available to the Acquiring Fund. Any alternative forms of leverage may be more or less advantageous to the Acquiring Fund than existing tender option bond leverage.

In response to the Volcker Rule, the Acquiring Fund may itself, rather than a third party, establish, structure and sponsor the TOBs Trusts in which it holds TOBs Residuals. As the sponsor of a TOBs Trust, the Acquiring Fund may become subject to additional risks, including, but not limited to, potential liabilities and obligations resulting from contractual or fiduciary duties associated with being a sponsor of a TOBs Trust or applicable law. The Acquiring Fund may also be subject to more onerous contractual or regulatory requirements as the sponsor of a TOBs Trust, which may increase the costs or reduce the degree of potential economic benefits of such leverage for Acquiring Fund Common Shares.

Under a new tender option bond structure, a fund, such as the Acquiring Fund, may structure and sponsor a TOBs Trust. The fund would be required to assume certain responsibilities and risks as sponsor or trustor of the TOBs Trust or as a holder of TOBs Residuals, including, but not limited to, selling the fund s municipal securities directly to the TOBs Trust, responsibility for offering materials with respect to the interests in the TOBs Trusts, assuming certain tax reporting and compliance-related responsibilities on behalf of the TOBs Trust, and indemnifying the trustee and other service providers to the TOBs Trust. Service providers to a TOBs Trust, such as administrators, liquidity providers, trustees, and remarketing agents, would be acting at the direction of, and as agent of, the fund as the TOBs Residual holder. Similar to the current tender option bond structure, a TOBs Residual holder would deposit municipal securities into the TOBs Trust in exchange for TOBs Residuals, the TOBs Trust would then issue and sell TOBs Floaters to third party investors, and the proceeds of the sale of the TOBs Floaters would be distributed to such TOBs Residual holder. Tendered TOBs Floaters would continue to be supported by a remarketing agent and a liquidity facility. However, the remarketing agent is not anticipated to purchase tendered TOBs Floaters for its own account in the event of a failed remarketing, which may increase the likelihood that a TOBs Trust will be required to terminate the TOBs Trust or liquidate assets of the TOBs Trust to purchase the tendered TOBs Floaters. In the event of a failed remarketing of TOBs Floaters, it is anticipated that the tender option bond documents may provide for the liquidity provider, at its option, advancing a loan to the TOBs Trust the proceeds of which would be used by the TOBs Trust to purchase the tendered TOBs Floaters. The liquidity provider is not obligated to advance such a loan. The TOBs Trust is expected to be the borrower with respect to any such liquidity loan. Any loans made by a liquidity provider are expected to be secured by either the underlying municipal securities held by the TOBs Trust or the purchased TOBs Floaters. Similar to the current structure for TOBs Trusts, a fund may hold either non-recourse TOBs Residuals or recourse TOBs Residuals under the new structure. In the event of a Liquidation Shortfall, there would generally be no contractual recourse to the fund s assets if the fund holds a non-recourse TOBs Residual. However, as described above, a fund would bear the risk of loss with respect to any Liquidation Shortfall if it holds a recourse TOBs Residual.

The SEC and various federal banking and housing agencies recently adopted credit risk retention rules for securitizations (the Risk Retention Rules), which are expected to take effect in 2016. The Risk Retention Rules would require the sponsor of a TOBs Trust to retain at least 5% of the credit risk of the underlying assets supporting the TOBs Trust s securities. The Risk Retention Rules may adversely affect the Acquiring Fund s ability to leverage its assets through the use of TOBs Trusts or increase the costs of such leverage in certain circumstances.

There is no assurance that a restructured TOBs Trust, including those TOBs Trusts that are sponsored by the Acquiring Fund, will be more advantageous to the Acquiring Fund than the existing structure for TOBs Trusts.

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Tender option bond transactions constitute an important component of the municipal bond market. Accordingly, implementation of the Volcker Rule may adversely impact the municipal market, including through reduced demand for and liquidity of municipal bonds and increased financing costs for municipal issuers. Any such developments could adversely affect the Acquiring Fund. The ultimate impact of these rules on the tender option bond market and the overall municipal market is not yet certain.

Information Regarding Options and Futures Transactions

The Acquiring Fund may hedge all or a portion of its portfolio investments against fluctuations in interest rates through the use of options and certain financial futures contracts and options thereon. While the Acquiring Fund s use of hedging strategies is intended to reduce the volatility of the net asset value of its Common Shares, the net asset value of its Common Shares will fluctuate. No assurance can be given that the Acquiring Fund s hedging transactions will be effective. In addition, because of the leveraged nature of the Common Shares, hedging transactions will result in a larger impact on the net asset value of the Common Shares than would be the case if the Common Shares were not leveraged. Furthermore, the Acquiring Fund may only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities when movements in interest rates occur. The Acquiring Fund does not have an obligation to enter into hedging transactions and each may choose not to do so.

Certain federal income tax requirements may limit the Acquiring Fund s ability to engage in hedging transactions. Gains from transactions in options and futures contracts distributed to stockholders will be taxable as ordinary income or, in certain circumstances, as long-term capital gains to stockholders.

In order to maintain ratings on the VRDP Shares from one or more rating agencies, the Acquiring Fund may be required to limit its use of hedging techniques in accordance with the specified guidelines of the applicable rating agencies.

The following is a description of the options and futures transactions in which the Acquiring Fund may engage, limitations on the Acquiring Fund s use of such transactions and risks associated with these transactions. The investment policies with respect to the hedging transactions of the Acquiring Fund are not fundamental policies and may be modified by the Board of Directors of the Acquiring Fund without the approval of the Acquiring Fund s stockholders.

Writing Covered Call Options. The Acquiring Fund is authorized to write (i.e., sell) covered call options with respect to New Jersey Municipal Bonds and Municipal Bonds it owns, thereby giving the holder of the option the right to buy the underlying security covered by the option from the Acquiring Fund at the stated exercise price until the option expires. The Acquiring Fund writes only covered call options, which means that so long as the Acquiring Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option. The Acquiring Fund may not write covered call options on underlying securities in an amount exceeding 15% of the market value of its total assets.

A covered call option is an option in which the Acquiring Fund, in return for a premium, gives another party a right to buy specified securities owned by the Acquiring Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is the attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Acquiring Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Acquiring Fund s ability to sell the underlying security will be limited while the option is in effect unless the Acquiring Fund enters into a closing purchase transaction. A closing purchase transaction cancels out the Acquiring Fund s position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options also serve as a partial hedge to the extent of the premium received against the price of the underlying security declining.

Purchase of Options. The Acquiring Fund may purchase put options in connection with its hedging activities. By buying a put, the Acquiring Fund has a right to sell the underlying security at the exercise price, thus limiting its risk of loss through a decline in the market value of the security until the put expires. The amount of any appreciation in the value of the underlying security will be partially offset by the amount of the premium paid for the put option and any related transaction costs.

Prior to its expiration, a put option may be sold in a closing sale transaction; profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Acquiring Fund s position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Acquiring Fund may purchase call options on securities held in its portfolio on which it has written call options, or on securities which it intends to purchase. The Acquiring Fund will not purchase options on securities if, as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Acquiring Fund would exceed 5% of the market value of the Acquiring Fund s total assets.

Financial Futures Contracts and Options. The Acquiring Fund is authorized to purchase and sell certain financial futures contracts and options thereon solely for the purposes of hedging its investments in New Jersey Municipal Bonds and Municipal Bonds against declines in value and hedging against increases in the cost of securities it intends to purchase. A financial futures contract obligates the seller of a contract to deliver and the purchaser of a contract to take delivery of the type of financial instrument covered by the contract or, in the case of index-based financial futures contracts, to make and accept a cash settlement, at a specific future time for a specified price. A sale of financial futures contracts may provide a hedge against a decline in the value of portfolio securities because such depreciation may be offset, in whole or in part, by an increase in the value of the position in the financial futures contracts or options. A purchase of financial futures contracts may provide a hedge against an increase in the cost of securities intended to be purchased, because such appreciation may be offset, in whole or in part, by an increase in the value of the position in the financial futures contracts.

The purchase or sale of a financial futures contract differs from the purchase or sale of a security in that no price or premium is paid or received. Instead, an amount of cash or securities acceptable to the broker equal to approximately 5% of the contract amount must be deposited with the broker. This amount is known as initial margin. Subsequent payments to and from the broker, called variation margin, are made on a daily basis as the price of the financial futures contract fluctuates making the long and short positions in the financial futures contract more or less valuable.

The Acquiring Fund may purchase and sell financial futures contracts on U.S. Government securities and purchase and sell put and call options on such financial futures contracts for such hedging purposes.

Subject to policies adopted by its Board of Directors, the Acquiring Fund also may engage in transactions in other financial futures contracts, such as financial futures contracts on other municipal bond indices that may become available, if the Investment Advisor should determine that there is normally sufficient correlation between the prices of such financial futures contracts and the New Jersey Municipal Bonds and Municipal Bonds in which the Acquiring Fund invests to make such hedging appropriate.

Over-The-Counter Options. The Acquiring Fund may engage in options and futures transactions on exchanges and in the over-the-counter markets (OTC options). In general, exchange-traded contracts are third-party contracts (i.e., performance of the parties obligations is guaranteed by an exchange or clearing corporation) with standardized strike prices and expiration dates. OTC option transactions are two-party contracts with price and terms negotiated by the buyer and seller. The Acquiring Fund will engage in transactions in OTC options only with banks or dealers the Investment Advisor believes to be creditworthy at the time they enter into such transactions. Certain OTC options and assets used to cover OTC options written by the Acquiring Fund are considered to be illiquid. The illiquidity of such options or assets may prevent a successful sale of such options or assets, result in a delay of sale, or reduce the amount of proceeds that otherwise might be realized.

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Risk Factors in Financial Futures Contracts and Options Thereon. Use of futures transactions involves the risk of imperfect correlation in movements in the price of financial futures contracts and movements in the price of the security that is the subject of the hedge. If the price of the financial futures contract moves more or less than the price of the security that is the subject of the hedge, the Acquiring Fund will experience a gain or loss that will not be completely offset by movements in the price of such security. There is a risk of imperfect correlation where the securities underlying financial futures contracts have different maturities, ratings, geographic compositions or other characteristics different from those of the security being hedged. In addition, the correlation may be affected by additions to or deletions from the index that serves as a basis for a financial futures contract. Finally, in the case of financial futures contracts on U.S. Government securities and options on such financial futures contracts, the anticipated correlation of price movements between the U.S. Government securities underlying the futures or options and New Jersey Municipal Bonds and Municipal Bonds may be adversely affected by economic, political, legislative or other developments which have a disparate impact on the respective markets for such securities.

The Commodity Futures Trading Commission (CFTC) subjects advisers to registered investment companies to regulation by the CFTC if a fund that is advised by the investment adviser either (i) invests, directly or indirectly, more than a prescribed level of its liquidation value in CFTC-regulated futures, options and swaps (CFTC Derivatives), or (ii) markets itself as providing investment exposure to such instruments. To the extent the Acquiring Fund uses CFTC Derivatives, it intends to do so below such prescribed levels and will not market itself as a commodity pool or a vehicle for trading such instruments. Accordingly, the Investment Advisor has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act (CEA) pursuant to Rule 4.5 under the CEA. The Investment Advisor is not, therefore, subject to registration or regulation as a commodity pool operator under the CEA in respect of the Acquiring Fund.

When the Acquiring Fund purchases a financial futures contract, or writes a put option or purchases a call option thereon, it will segregate with a custodian or designate on its books and records an amount of cash or liquid assets, so that the amount so segregated or designated, plus the amount of initial and variation margin held in the account of its broker equals the market value of the financial futures contract, thereby ensuring that the use of such financial futures contract is unleveraged.

Although certain risks are involved in options and futures transactions, the Investment Advisor believes that, because the Acquiring Fund will engage in options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Acquiring Fund will not subject the Acquiring Fund to the risks associated with speculation in options and futures transactions.

The volume of trading in the exchange markets with respect to New Jersey Municipal Bonds or Municipal Bond options may be limited, and it is impossible to predict the amount of trading interest that may exist in such options. In addition, there can be no assurance that viable exchange markets will continue to be available.

The Acquiring Fund intends to enter into options and futures transactions, on an exchange or in the over-the-counter market, only if there appears to be a liquid secondary market for such options or futures. There can be no assurance, however, that a liquid secondary market will exist at any specific time. Thus, it may not be possible to close an option or futures transaction. The inability to close options and futures positions also could have an adverse impact on the Acquiring Fund s ability to hedge effectively its portfolio. There is also the risk of loss by the Acquiring Fund of margin deposits or collateral in the event of bankruptcy of a broker with which the Acquiring Fund has an open position in an option or financial futures contract.

The liquidity of a secondary market in a financial futures contract may be adversely affected by daily price fluctuation limits established by commodity exchanges that limit the amount of fluctuation in a financial futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past reached or exceeded the daily limit on a number of consecutive trading days.

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If it is not possible to close a financial futures position entered into by the Acquiring Fund, the Acquiring Fund would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such a situation, if the Acquiring Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so.

The successful use of these transactions also depends on the ability of the Investment Advisor to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent these rates remain stable during the period in which a financial futures contract is held by the Acquiring Fund or move in a direction opposite to that anticipated, the Acquiring Fund may realize a loss on the hedging transaction that is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Acquiring Fund s total return for such period may be less than if it had not engaged in the hedging transaction. Furthermore, the Acquiring Fund will only engage in hedging transactions from time to time and may not necessarily be engaging in hedging transactions when movements in interest rates occur.

Investment Restrictions

The following are fundamental investment restrictions of the Acquiring Fund and may not be changed without the approval of the holders of a majority of the outstanding shares of common stock and the outstanding shares of preferred stock, voting together as a single class, and a majority of the outstanding shares of preferred stock, voting separately as a class. For this purpose and under the 1940 Act, for the common stock and preferred stock voting together as a single class, majority means the lesser of (i) 67% of the shares of each class of capital stock represented at a meeting at which more than 50% of the outstanding shares of each class of capital stock are represented or (ii) more than 50% of the outstanding shares of each class of capital stock, but for the shares of preferred stock voting separately as a single class, majority means more than 50% of the outstanding shares of preferred stock. The Acquiring Fund may not:

1. Make investments for the purpose of exercising control or management.

2. Purchase or sell real estate, commodities or commodity contracts; provided, that the Acquiring Fund may invest in securities secured by real estate or interests therein or issued by companies that invest in real estate or interests therein, and the Acquiring Fund may purchase and sell financial futures contracts and options thereon.

3. Issue senior securities or borrow money except as permitted by Section 18 of the 1940 Act.

4. Underwrite securities of other issuers except insofar as the Acquiring Fund may be deemed an underwriter under the Securities Act of 1933, as amended (the Securities Act), in selling portfolio securities.

5. Make loans to other persons, except that the Acquiring Fund may purchase New Jersey Municipal Bonds, Municipal Bonds and other debt securities and enter into repurchase agreements in accordance with its investment objective, policies and limitations.

6. Invest more than 25% of its total assets (taken at market value at the time of each investment) in securities of issuers in a single industry; provided, that for purposes of this restriction, states, municipalities and their political subdivisions are not considered to be part of any industry.

For purposes of restriction (6), the exception for states, municipalities and their political subdivisions applies only to tax-exempt securities issued by such entities.

Additional investment restrictions adopted by the Acquiring Fund, which may be changed by the Board of Directors without stockholder approval, provided that the Acquiring Fund may not:

a. Purchase securities of other investment companies, except to the extent that such purchases are permitted by applicable law. Applicable law currently prohibits the Acquiring Fund from purchasing the securities of other investment companies except if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is owned by the Acquiring Fund, (ii) 5% of the Acquiring Fund s total assets, taken at market value, would be invested in any one such company, (iii) 10% of the

Acquiring Fund s total assets, taken at market value, would be invested in such securities, and (iv) the Acquiring Fund, together with other investment companies having the same investment advisor and companies controlled by such companies, owns not more than 10% of the total outstanding stock of any one closed-end investment company.

b. Mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any securities owned or held by the Acquiring Fund except as may be necessary in connection with borrowings mentioned in investment restriction (3) above or except as may be necessary in connection with transactions in financial futures contracts and options thereon.

c. Purchase any securities on margin, except that the Acquiring Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities (the deposit or payment by the Acquiring Fund of initial or variation margin in connection with financial futures contracts and options thereon is not considered the purchase of a security on margin).

d. Make short sales of securities or maintain a short position or invest in put, call, straddle or spread options, except that the Acquiring Fund may write, purchase and sell options and futures on New Jersey Municipal Bonds, Municipal Bonds, U.S. Government obligations and related indices or otherwise in connection with bona fide hedging activities and may purchase and sell Call Rights to require mandatory tender for the purchase of related New Jersey Municipal Bonds and Municipal Bonds.

If a percentage restriction on the investment or use of assets set forth above is adhered to at the time a transaction is effected, later changes in percentages resulting from changing values will not be considered a violation.

The Acquiring Fund s VRDP Shares are assigned long-term ratings by Moody s and Fitch. In order to maintain the required ratings, the Acquiring Fund is required to comply with certain investment quality, diversification and other guidelines established by Moody s and Fitch. Such guidelines may be more restrictive than the restrictions set forth above. The Acquiring Fund does not anticipate that such guidelines would have a material adverse effect on its ability to achieve its investment objective. Moody s and Fitch receive fees in connection with their ratings issuances. The Acquiring Fund is also subject to certain covenants and requirements under the terms of the Acquiring Fund VRDP Shares and related documents, including the terms of the liquidity facility supporting the Acquiring Fund VRDP Shares. Such requirements may be more restrictive than the restrictions set forth above. The Acquiring Fund does not anticipate that such requirements would have a material adverse effect on its ability to achieve its investment objective. Please see Information about the VRDP Shares of the Funds for additional information about each Fund s VRDP Shares.

COMPARISON OF THE FUNDS INVESTMENTS

The investment objective, significant investment strategies and operating policies, and investment restrictions of the Combined Fund will be those of the Acquiring Fund. A comparison of the Funds investment objectives, investment policies and investment restrictions, portfolio credit quality and leverage ratios is set forth below.

Summary Comparison of the Funds Investment Objectives and Policies

The Funds have substantially similar (but not identical) investment objectives, investment policies and investment restrictions. The investment objective, significant investment strategies and operating policies, and investment restrictions of the Combined Fund will be those of the Acquiring Fund.

Investment Objectives. The Target Fund s investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes and New Jersey personal income tax as is consistent with its investment policies and prudent investment management. The Acquiring Fund s investment objective is to provide shareholders with current income exempt from federal income tax and New Jersey personal income taxes.

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New Jersey Municipal Bonds. The Funds investment policies are substantially similar. Each Fund invests at least 80% of its assets in municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes. Please see below a comparison of the approximate amount invested in New Jersey Municipal Bonds as a percentage of total assets for (i) each Fund as of December 31, 2014 and (ii) the Combined Fund, assuming the Reorganization had taken place as of December 31, 2014.

Target Fund (MJI)	Acquiring Fund (MUJ)	Pro Forma Combined Fund (MUJ)
93.57%	96.38%	95.57%

Investment Grade Securities. Each Fund currently invests primarily in investment grade municipal bonds. Please see below a comparison of the approximate amount invested in investment grade quality municipal bonds as a percentage of total assets for (i) each Fund as of December 31, 2014 and (ii) the Combined Fund, assuming the Reorganization had taken place as of December 31, 2014.

Credit Ratings(1)	Target Fund (MJI)	Acquiring Fund (MUJ)	Pro Forma Combined Fund (MUJ)(2)
AAA/Aaa	5.01%	8.42%	7.43%
AA/Aa	49.07%	49.45%	49.34%
A	37.40%	34.92%	35.64%
BBB/Baa	5.76%	5.20%	5.36%

(1) Credit quality ratings shown above reflect the highest rating assigned by either S&P s or Moody s if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(2) Reflects the effect of the Reorganization.

Leverage. Each Fund currently engages in leverage through the issuance of VRDP Shares and the use of tender option bonds. Please see below a comparison of certain important ratios related to (i) each Fund s use of leverage as of December 31, 2014 and (ii) the Combined Fund s use of leverage, assuming the Reorganization had taken place as of December 31, 2014:

Ratios	Target Fund (MJI)	Acquiring Fund (MUJ)	Pro Forma Combined Fund (MUJ)
Asset Coverage Ratio	323%	300%	306%
Regulatory Leverage Ratio(1)	30.98%	33.33%	32.66%
Effective Leverage Ratio(2)	36.50%	37.52%	37.22%

(1) Regulatory leverage consists of VRDP Shares issued by the Fund, which is a part of a Fund s capital structure. Regulatory leverage is sometimes referred to as 1940 Act Leverage and is subject to asset coverage limits set forth in the 1940 Act.

(2) Effective leverage is a Fund s effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative investments in the Fund s portfolio. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings, in addition to any regulatory leverage, are included in effective leverage ratios.

Please see Comparison of Investment Objectives and Policies and Comparison of Investment Restrictions below for a more detailed comparison of the Funds investment objectives, policies and restrictions.

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Comparison of Investment Objectives and Policies

A detailed comparison of the Funds investment objectives and investment policies is set forth in the table below.

MJI **(Target Fund)**	**MUJ** **(Acquiring Fund)**
Investment Objective	**Investment Objectives**
The Fund s investment objective is to provide shareholders with as high a level of current income exempt from federal income taxes and New Jersey personal income tax as is consistent with its investment policies and prudent investment management.	The Fund s investment objective is to provide shareholders with current income exempt from federal income tax and New Jersey personal income taxes.
New Jersey Municipal Bonds	**New Jersey Municipal Bonds**
The Fund seeks to achieve its investment objective by investing at least 80% of an aggregate of the Fund s net assets (including proceeds from the issuance of any preferred stock) and the proceeds of any borrowings for investment purposes, in a portfolio of municipal obligations issued by or on behalf of the State of New Jersey, its political subdivisions, agencies and instrumentalities and by other qualifying issuers, each of which pays interest that, in the opinion of bond counsel to the issuer, is excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax) and exempt from New Jersey personal income tax (New Jersey Municipal Bonds).	The Fund seeks to achieve its investment objective by investing primarily in a portfolio of municipal obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from federal income tax and New Jersey personal income taxes (New Jersey Municipal Bonds).
	The Fund invests substantially all (at least 80%) of its assets in New Jersey Municipal Bonds, except at times when the Investment Advisor considers that New Jersey Municipal Bonds of sufficient quantity and quality are unavailable at suitable prices.
	The Fund will maintain at least 80% of its assets in New Jersey Municipal Bonds, except during interim periods pending investment of the net proceeds of public offerings of its securities and during temporary defensive periods.
Municipal Bonds	**Municipal Bonds**
The Fund also may invest in municipal obligations issued by or on behalf of states, territories and possessions of the United States and their political subdivisions, agencies or instrumentalities, each of which pays interest that is excludable from gross income for federal income tax purposes, in the opinion of bond counsel to the issuer, but is not exempt from New Jersey personal income tax (Municipal Bonds). Unless otherwise noted, the term Municipal Bonds also includes New Jersey Municipal Bonds.	To the extent that the Investment Advisor considers that suitable New Jersey Municipal Bonds are not available for investment, the Fund may purchase municipal obligations exempt from federal income taxes but not New Jersey personal income taxes (Municipal Bonds).
The Fund, under normal market conditions, invests primarily in long-term municipal obligations that are investment grade quality at the time of investment.	Under normal circumstances, at least 80% of the Fund s assets will be invested in municipal obligations with remaining maturities of one year or more.

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MJI (Target Fund)	MUJ (Acquiring Fund)
Investment Grade Securities	**Investment Grade Securities**
Under normal market conditions, the Fund expects to invest primarily in a portfolio of long-term Municipal Bonds that are commonly referred to as investment grade securities, which are obligations rated at the time of purchase within the four highest-quality ratings as determined by either Moody s, S&P or Fitch. If unrated, such securities will possess creditworthiness comparable, in the opinion of the Investment Advisor, to other obligations in which the Fund may invest.	The Fund invests in investment grade New Jersey Municipal Bonds and Municipal Bonds that are rated at the date of purchase in the four highest rating categories of S&P, Moody s or Fitch or, if unrated, are considered to be of comparable quality by the Investment Advisor.
Non-Municipal Tax Exempt Securities	**Non-Municipal Tax Exempt Securities**
The Fund may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund receives an opinion of counsel to the issuer that such securities pay interest that is excludable from gross income for federal income tax purposes and exempt from New Jersey personal income tax (Non-Municipal Tax Exempt Securities).	The Fund may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund nevertheless believes such securities pay interest or distributions that are exempt from federal income taxation (Non-Municipal Tax-Exempt Securities).
Non-Municipal Tax Exempt Securities could include trust certificates, partnership interests or other instruments evidencing interest in one or more long term municipal securities. Non-Municipal Tax Exempt Securities also may include securities issued by other investment companies that invest in Municipal Bonds, to the extent such investments are permitted by the Fund s investment restrictions and applicable law.	Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in New Jersey Municipal Bonds and Municipal Bonds, to the extent such investments are permitted by the 1940 Act. Other Non-Municipal Tax-Exempt Securities could include trust certificates or other instruments evidencing interests in one or more long-term New Jersey Municipal Bonds or Municipal Bonds.
	Non-Municipal Tax-Exempt Securities that pay interest that is exempt from federal income taxes and New Jersey personal income taxes will be considered New Jersey Municipal Bonds and Non-Municipal Tax-Exempt Securities that pay interest that is exempt from federal income taxes will be considered Municipal Bonds.
Bond Maturity	**Bond Maturity**
The Fund invests primarily in long term Municipal Bonds with maturities of more than ten years.	The Fund invests primarily in long-term New Jersey Municipal Bonds and Municipal Bonds with a maturity of more than ten years.
The Fund also may invest in intermediate term Municipal Bonds with maturities of between three years and ten years.	The Fund may also invest in intermediate-term New Jersey Municipal Bonds and Municipal Bonds with a maturity of between three years and ten years.
The Fund also may invest from time to time in short term Municipal Bonds with maturities of less than three years.	

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MJI (Target Fund)	MUJ (Acquiring Fund)
	The Fund may also invest in short-term tax-exempt securities, short-term U.S. Government securities, repurchase agreements or cash. Investments in such short-term securities or cash will not exceed 20% of the Fund s total assets except during interim periods pending investment of the net proceeds from public offerings of that Fund s securities or in anticipation of the repurchase or redemption of that Fund s securities and temporary periods when, in the opinion of the Investment Advisor, prevailing market or economic conditions warrant.
Defensive Measures/Temporary Investments	**Defensive Measures/Temporary Investments**
For temporary periods or to provide liquidity, the Fund has the authority to invest as much as 20% of its total assets in tax exempt and taxable money market obligations with a maturity of one year or less (such short term obligations being referred to herein as Temporary Investments). In addition, the Fund reserves the right as a defensive measure to invest temporarily a greater portion of its assets in Temporary Investments, when, in the opinion of the Investment Advisor, prevailing market or financial conditions warrant.	The Fund may also invest in short-term tax-exempt securities, short-term U.S. Government securities, repurchase agreements or cash. Investments in such short-term securities or cash will not exceed 20% of the Fund s total assets except during interim periods pending investment of the net proceeds from public offerings of that Fund s securities or in anticipation of the repurchase or redemption of that Fund s securities and temporary periods when, in the opinion of the Investment Advisor, prevailing market or economic conditions warrant.
The Temporary Investments, VRDOs and Participating VRDOs in which the Fund may invest will be in the following rating categories at the time of purchase: MIG-1/VMIG-1 through MIG-3/VMIG-3 for notes and VRDOs and Prime-1 through Prime-3 for commercial paper (as determined by Moody s), SP-1 through SP-2 for notes and A-1 through A-3 for VRDOs and commercial paper (as determined by S&P), or F-1 through F-3 for notes, VRDOs and commercial paper (as determined by Fitch). Temporary Investments, if not rated, must be of comparable quality in the opinion of the Investment Advisor.	
Indexed and Inverse Floating Rate Securities	**Indexed and Inverse Floating Rate Securities**
Same as MUJ	The Fund may invest in New Jersey Municipal Bonds and Municipal Bonds yielding a return based on a particular index of value or interest rates.
	The Fund may invest in so-called inverse floating obligations or residual interest bonds on which the interest rates typically vary inversely with a short-term floating rate (which

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MJI (Target Fund)	MUJ (Acquiring Fund)
	may be reset periodically by a dutch auction, a remarketing agent, or by reference to a short-term tax-exempt interest rate index). The Fund may purchase synthetically-created inverse floating obligations evidenced by custodial or trust receipts.
When-Issued and Forward Commitment Securities	**When-Issued and Forward Commitment Securities**
The Fund may purchase or sell securities that it is entitled to receive on a when issued basis. The Fund may also purchase or sell securities on a delayed delivery basis. The Fund may also purchase or sell securities through a forward commitment.	The Fund may purchase or sell New Jersey Municipal Bonds and Municipal Bonds on a delayed delivery basis or on a when-issued basis at fixed purchase or sale terms.
The Fund has not established any limit on the percentage of its assets that may be committed in connection with these transactions.	
Call Rights	**Call Rights**
Same as MUJ	The Fund may purchase a New Jersey Municipal Bond or Municipal Bond issuer s rights to call all or a portion of such New Jersey Municipal Bond or Municipal Bond for mandatory tender for purchase.
Repurchase Agreements	**Repurchase Agreements**
The Fund may invest in securities pursuant to repurchase agreements.	The Fund may invest in securities pursuant to repurchase agreements.
Repurchase agreements may be entered into only with a member bank of the federal Reserve System or a primary dealer in U.S. Government securities or an affiliate thereof.	Repurchase agreements may be entered into only with a member bank of the federal Reserve System or a primary dealer in U.S. Government securities or an affiliate thereof.
	The Fund may not invest in repurchase agreements maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Fund s net assets.
Borrowings	**Borrowings**
The Fund is authorized to borrow money in amounts of up to 5% of the value of its total assets at the time of such borrowings; provided, however, that the Fund is authorized to borrow moneys in amounts of up to 33 1/3% of the value of its total assets at the time of such borrowings to finance the repurchase of its own common stock pursuant to tender offers or otherwise to redeem or repurchase shares of preferred stock.	The Fund is authorized to borrow amounts of up to 5% of the value of its total assets at the time of such borrowings; provided, however, that each Fund is authorized to borrow moneys in amounts of up to 33 1/3% of the value of its total assets at the time of such borrowings to finance the repurchase of its own common stock pursuant to tender offers or otherwise to redeem or repurchase shares of preferred stock or for temporary, extraordinary or emergency purposes.

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MJI (Target Fund)	MUJ (Acquiring Fund)
VRDOs and Participating VRDOs	**VRDOs and Participating VRDOs**
The Fund may invest in variable rate demand obligations (VRDOs) and VRDOs in the form of participation interests (Participating VRDOs) in variable rate tax-exempt obligations held by a financial institution. It is contemplated that the Fund will not invest more than 20% of its assets in Participating VRDOs.	The Fund may invest in variable rate demand obligations (VRDOs) and VRDOs in the form of participation interests (Participating VRDOs) in variable rate tax-exempt obligations held by a financial institution, typically a commercial bank.
The Temporary Investments, VRDOs and Participating VRDOs in which the Fund may invest will be in the following rating categories at the time of purchase: MIG-1/VMIG-1 through MIG-3/VMIG-3 for notes and VRDOs and Prime-1 through Prime-3 for commercial paper (as determined by Moody s), SP-1 through SP-2 for notes and A-1 through A-3 for VRDOs and commercial paper (as determined by S&P), or F-1 through F-3 for notes, VRDOs and commercial paper (as determined by Fitch).	
Hedging Transactions	**Hedging Transactions**
The Fund may hedge all or a portion of its portfolio investments against fluctuations in interest rates through the use of options and certain financial futures contracts and options thereon.	The Fund may hedge all or a portion of its portfolio investments against fluctuations in interest rates through the use of options and certain financial futures contracts and options thereon.
The Fund is authorized to purchase and sell certain exchange traded financial futures contracts in order to hedge its investments in Municipal Bonds against declines in value, and to hedge against increases in the cost of securities it intends to purchase or to seek to enhance the Fund s return.	The Fund is authorized to write (i.e., sell) covered call options with respect to New Jersey Municipal Bonds and Municipal Bonds it owns. The Fund writes only covered call options, which means that so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option. The Fund may not write covered call options on underlying securities in an amount exceeding 15% of the market value of its total assets.
The Fund may purchase and sell financial futures contracts on U.S. Government securities as a hedge against adverse changes in interest rates.	The Fund may purchase put options in connection with its hedging activities. A Fund will not purchase options on securities if, as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund s total assets.
The Fund may also purchase and sell financial futures contracts on U.S. Government securities as a hedge against adverse changes in interest rates.	The Fund is authorized to purchase and sell certain financial futures contracts and options thereon solely for the purposes of hedging its
The Fund may also purchase and sell financial futures contracts on U.S. Government securities as a hedge against adverse changes in interest rates.	

The Fund may sell a financial futures contract (*i.e.*, assume a short position) in anticipation of a decline in the value of its investments in Municipal Bonds resulting from an increase in interest rates or otherwise. When the Fund intends to purchase

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MJI **(Target Fund)**	**MUJ** **(Acquiring Fund)**
Municipal Bonds, the Fund may purchase futures contracts as a hedge against any increase in the cost of such Municipal Bonds resulting from a decrease in interest rates or otherwise, that may occur before such purchases can be effected.	investments in New Jersey Municipal Bonds and Municipal Bonds against declines in value and hedging against increases in the cost of securities it intends to purchase.
The Fund may also purchase and sell exchange traded call and put options on financial futures contracts. Like the purchase of a futures contract, the Fund will purchase a call option on a futures contract to hedge against a market advance when the Fund is not fully invested. The Fund will purchase a put option on a futures contract to hedge the Fund s portfolio against the risk of rising interest rates.	The Fund may purchase and sell financial futures contracts on U.S. Government securities and purchase and sell put and call options on such financial futures contracts for such hedging purposes.
The Fund will enter into a futures position only if, in the judgment of the Investment Advisor, there appears to be an actively traded secondary market for such futures contracts.	The Fund may engage in options and futures transactions on exchanges and in the over-the-counter markets (OTC options). The Fund will engage in transactions in OTC options only with banks or dealers the Investment Advisor believes to be creditworthy at the time they enter into such transactions.
	The Fund intends to enter into options and futures transactions, on an exchange or in the over-the-counter market, only if there appears to be a liquid secondary market for such options or futures.
Interest Rate Swap Transactions	**Interest Rate Swap Transactions**
In order to seek to hedge the value of the Fund against interest rate fluctuations, to hedge against increases in the Fund s costs associated with the dividend payments on any preferred stock or to seek to increase the Fund s return, the Fund may enter into interest rate swap transactions such as Municipal Market Data AAA Cash Curve swaps (MMD Swaps) or Bond Market Association Municipal Swap Index swaps (BMA Swaps).	No Stated Policy
To the extent that the Fund enters into these transactions, the Fund expects to do so primarily to preserve a return or spread on a particular investment or portion of its portfolio as a duration management technique or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date.	
The Fund may enter into these transactions primarily as a hedge or for duration or risk management rather than as a speculative investment. However, the Fund also may invest in MMD Swaps and BMA Swaps to seek to enhance return or gain or to increase the Fund s yield.	

MJI (Target Fund)	MUJ (Acquiring Fund)
Credit Default Swap Agreements	**Credit Default Swap Agreements**
The Fund may enter into credit default swap agreements for hedging purposes or to seek to increase its return.	No Stated Policy
The Fund will enter into credit default swap agreements only with counterparties who are rated investment grade quality by at least one nationally recognized statistical rating organization at the time of entering into such transaction or whose creditworthiness is believed by the Investment Advisor to be equivalent to such rating.	
Swap Agreements	**Swap Agreements**
The Fund is authorized to enter into swap agreements, which are over-the-counter contracts in which one party agrees to make periodic payments based on the change in the market value of a specific bond, basket of bonds or index in return for periodic payments based on a fixed or variable interest rate or the change in market value of a different bond, basket of bonds or index.	No Stated Policy

Comparison of Investment Restrictions

A comparison of the Funds investment restrictions is set forth in the table below. Fundamental restrictions are designated with an asterisk. Any restriction of a Fund that is not a fundamental restriction may be changed by its Board without shareholder approval.

MJI (Target Fund)	MUJ (Acquiring Fund)
Industry Concentration*	**Industry Concentration***
Same as MUJ	The Fund may not invest more than 25% of its total assets (taken at market value at the time of each investment) in securities of issuers in a single industry; provided, that for purposes of this restriction, states, municipalities and their political subdivisions are not considered to be part of any industry.
	The exception for states, municipalities and their political subdivisions applies only to tax-exempt securities issued by such entities
Control or Management*	**Control or Management***
Same as MUJ	The Fund may not make investments for the purpose of exercising control or management.

* A fundamental investment restriction.

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MJI (Target Fund)	MUJ (Acquiring Fund)
Senior Securities and Borrowings*	**Senior Securities and Borrowings***
The Fund may not issue senior securities other than preferred stock or borrow in excess of 5% of its total assets taken at market value; provided, however, that the Fund is authorized to borrow moneys in excess of 5% of the value of its total assets for the purpose of repurchasing shares of common stock or redeeming shares of preferred stock.	The Fund may not issue senior securities or borrow money except as permitted by Section 18 of the 1940 Act.
The Fund may borrow moneys in excess of 5% of the value of its total assets to the extent permitted by Section 18 of the 1940 Act or otherwise as permitted by applicable law for the purpose of repurchasing shares of common stock or redeeming shares of preferred stock.	
Lending*	**Lending***
The Fund may not make loans to other persons, except that the Fund may purchase New Jersey Municipal Bonds, Municipal Bonds and other debt securities in accordance with its investment objective, policies and limitations.	The Fund may not make loans to other persons, except that the Fund may purchase New Jersey Municipal Bonds, Municipal Bonds and other debt securities and enter into repurchase agreements in accordance with its investment objective, policies and limitations.
Underwriting*	**Underwriting***
Same as MUJ	The Fund may not underwrite securities of other issuers except insofar as the Fund may be deemed an underwriter under the Securities Act in selling portfolio securities
Commodities and Real Estate*	**Commodities and Real Estate***
The Fund may not purchase or sell real estate, real estate limited partnerships, commodities or commodity contracts; provided that the Fund may invest in securities secured by real estate or interests therein or issued by companies that invest in real estate or interests therein, and the Fund may purchase and sell financial futures contracts and options thereon.	The Fund may not purchase or sell real estate, commodities or commodity contracts; provided, that the Fund may invest in securities secured by real estate or interests therein or issued by companies that invest in real estate or interests therein, and the Fund may purchase and sell financial futures contracts and options thereon.
Investments in Investment Companies*	**Investments in Investment Companies**
The Fund may not purchase securities of other investment companies, except (i) in connection with a merger, consolidation, acquisition or reorganization, (ii) by purchase of shares of tax-exempt money market funds advised by the Investment Advisor or its affiliates (as defined in the 1940 Act) to the extent permitted by an exemptive order issued to the Fund by the	The Fund may not purchase securities of other investment companies, except to the extent that such purchases are permitted by applicable law. Applicable law currently prohibits the Fund from purchasing the securities of other investment companies except if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is

* A fundamental investment restriction.

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MJI (Target Fund)	MUJ (Acquiring Fund)
Securities and Exchange Commission, or (iii) by purchase in the open market of securities of closed-end investment companies and only if immediately thereafter not more than 10% of the Fund s total assets would be invested in such securities.	owned by the Fund, (ii) 5% of the Fund s total assets, taken at market value, would be invested in any one such company, (iii) 10% of the Fund s total assets, taken at market value, would be invested in such securities, and (iv) the Fund, together with other investment companies having the same investment advisor and companies controlled by such companies, owns not more than 10% of the total outstanding stock of any one closed-end investment company.
Securities on Margin*	**Securities on Margin**
Same as MUJ	The Fund may not purchase any securities on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities (the deposit or payment by the Fund of initial or variation margin in connection with financial futures contracts and options thereon is not considered the purchase of a security on margin).
Short Sales*	**Short Sales**
The Fund may not make short sales of securities or maintain a short position or invest in put, call, straddle or spread options, except that the Fund may write, purchase and sell options and futures on New Jersey Municipal Bonds, Municipal Bonds, U.S. Government obligations and related indices or otherwise in connection with bona fide hedging activities.	The Fund may not make short sales of securities or maintain a short position or invest in put, call, straddle or spread options, except that the Fund may write, purchase and sell options and futures on New Jersey Municipal Bonds, Municipal Bonds, U.S. Government obligations and related indices or otherwise in connection with bona fide hedging activities and may purchase and sell Call Rights to require mandatory tender for the purchase of related New Jersey Municipal Bonds and Municipal Bonds.
Mortgage or Pledge Security for Indebtedness	**Mortgage or Pledge Security for Indebtedness**
The Fund may not mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in Senior Securities and Borrowings above or except as may be necessary in connection with transactions in financial futures contracts and options thereon.	The Fund may not mortgage, pledge, hypothecate or in any manner transfer, as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in Senior Securities and Borrowings above or except as may be necessary in connection with transactions in financial futures contracts and options thereon.

* A fundamental investment restriction.

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MANAGEMENT OF THE FUNDS

The Board of Directors and Officers

The Funds have the same Board Members and officers. The Board of each Fund is responsible for the overall supervision of the operations of the Fund and performs the various duties imposed on the directors of investment companies by the 1940 Act and under applicable state law. A list of the Board Members and officers of the Funds, a brief biography of each Board Member and officer and additional information relating to the Board and officers are included in Management of the Funds in the Statement of Additional Information.

The Investment Advisor

BlackRock Advisors, LLC serves as the investment advisor for each Fund and is expected to continue to serve as investment advisor for the Combined Fund. The Investment Advisor is responsible for the management of each Fund s portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of each Fund.

Each Fund entered into an Investment Management Agreement with the Investment Advisor to provide investment advisory services. For such services, the Target Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.50% of its average daily net assets. The Acquiring Fund currently pays the Investment Advisor a monthly fee at an annual contractual management fee rate of 0.55% of its average daily net assets. Average daily net assets are the average daily value of a Fund s total assets minus its total accrued liabilities.

For the Acquiring Fund, the Investment Advisor has voluntarily agreed to waive its investment advisory fee on the proceeds of the VRDP Shares and tender option bond trusts that exceed 35% of total assets minus the sum of the Acquiring Fund s accrued liabilities (Voluntary Fee Waiver).

If the Reorganization is consummated, the annual contractual investment management fee rate of the Combined Fund will be reduced to 0.50% of the average daily net assets of the Combined Fund. The Combined Fund will not have the benefit of the Voluntary Fee Waiver.

Based on a pro-forma Lipper expense group for the Combined Fund, the estimated total annual fund operating expenses (excluding investment related expenses) and contractual management fee rate are each expected to be in the first quartile. There can be no assurance that future expenses will not increase or that any expense savings for any Fund will be realized as a result of the Reorganization.

A discussion regarding the basis for the approval of the Investment Management Agreement by the Board of each Fund is provided in such Fund s Form N-CSR for such Fund s most recent fiscal year end available at www.sec.gov or by visiting www.blackrock.com.

The Investment Advisor is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and is a wholly owned subsidiary of BlackRock. BlackRock is one of the world s largest publicly-traded investment management firms and has over 20 years of experience managing closed-end products. As of September 30, 2014, BlackRock s assets under management were approximately $4.525 trillion.

BlackRock helps clients meet their goals and overcome challenges with a range of products that include separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®. Headquartered in New York City, as of September 30, 2014, the firm has approximately 12,100 employees in more than 30 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa.

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Portfolio Management Team

Each Fund is managed by a team of investment professionals comprised of Michael Kalinoski, CFA, Director at BlackRock, Theodore R. Jaeckel, Jr., CFA, Managing Director at BlackRock, and Walter O Connor, CFA, Managing Director at BlackRock. Messrs. Kalinoski, Jaeckel and O Connor are each Fund s portfolio managers and are responsible for the day-to-day management of each Fund s portfolio and the selection of its investments. Messrs. Jaeckel and O Connor have been members of each Fund s portfolio management team since 2006. Mr. Kalinoski has been a member of each Fund s portfolio management team since 2011.

The biography of each portfolio manager of the Funds are set forth below:

Portfolio Manager	Biography
Michael Kalinoski, CFA	Director of BlackRock since 2006; Director of Merrill Lynch Investment Managers, L.P. (MLIM) from 1999 to 2006.
Theodore R. Jaeckel, Jr., CFA	Managing Director of BlackRock since 2006; Managing Director of MLIM from 2005 to 2006; Director of MLIM from 1997 to 2005.
Walter O Connor, CFA	Managing Director of BlackRock since 2006; Managing Director of MLIM from 2003 to 2006; Director of MLIM from 1998 to 2003.

After the Reorganization, it is expected that the Acquiring Fund s current portfolio management team, consisting of Messrs. Kalinoski, Jaeckel and O Connor, will continue to comprise the team of investment professionals for the Combined Fund.

The Statement of Additional Information provides additional information about the portfolio managers compensation, other accounts managed by the portfolio managers, and the portfolio managers ownership of securities in each Fund.

Portfolio Transactions with Affiliates

The Investment Advisor may place portfolio transactions, to the extent permitted by law, with brokerage firms affiliated with the Funds and the Investment Advisor, if it reasonably believes that the quality of execution and the commission are comparable to that available from other qualified brokerage firms.

None of the Funds paid brokerage commissions to affiliated broker-dealers during their three most recent fiscal years.

Legal Proceedings

None.

Other Service Providers

The professional service providers for the Funds are as follows:

Service	Service Providers to the Funds
Custodian	State Street Bank and Trust Company
Transfer Agent, Dividend Disbursing Agent and Registrar	Computershare Trust Company, N.A.
Liquidity Provider to VRDP Shares	Bank of America, N.A.
Remarketing Agent to VRDP Shares	Merrill Lynch, Pierce, Fenner & Smith Incorporated
Tender and Paying Agent to VRDP Shares	The Bank of New York Mellon

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Service	Service Providers to the Funds
Accounting Services Provider	State Street Bank and Trust Company
Independent Registered Public Accounting Firm	Deloitte & Touche LLP
Fund Counsel	Skadden, Arps, Slate, Meagher & Flom LLP
Counsel to the Independent Board Members	Debevoise & Plimpton LLP

It is not anticipated that the Reorganization will result in any change in the organizations providing services to the Acquiring Fund as set forth above. As a result of the Reorganization, the service providers to the Acquiring Fund are anticipated to be the service providers to the Combined Fund.

Custody of Assets

The custodian of the assets of each Fund is State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110. The custodian is responsible for, among other things, receipt of and disbursement of funds from each Fund s accounts, establishment of segregated accounts as necessary, and transfer, exchange and delivery of Fund portfolio securities.

Transfer Agent, Dividend Disbursing Agent and Registrar

Computershare Trust Company, N.A., 250 Royall Street, Canton, Massachusetts 02021 serves as each Fund s transfer agent with respect to such Fund s Common Shares.

VRDP Shares Liquidity Provider

Bank of America, N.A., One Bryant Park, 1111 Avenue of the Americas, 9th Floor, New York, New York 10036 serves as the liquidity provider for each Fund s VRDP Shares.

VRDP Shares Remarketing Agent

Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Bryant Park, 1111 Avenue of the Americas, 9th Floor, New York, New York 10036 serves as the remarketing agent for each Fund s VRDP Shares.

VRDP Shares Tender and Paying Agent

The Bank of New York Mellon, One Wall Street, New York, New York 10286, acts as each Fund s tender agent, transfer agent and registrar, dividend disbursing agent and paying agent and redemption price disbursing agent with respect to the VRDP Shares.

INFORMATION ABOUT THE COMMON SHARES OF THE FUNDS

General

Common shareholders of each Fund are entitled to share equally in dividends declared by such Fund s Board as payable to holders of the Fund s Common Shares and in the net assets of the Fund available for distribution to holders of the Common Shares. Common shareholders do not have preemptive or conversion rights and each Fund s Common Shares are not redeemable. Voting rights are identical for the common shareholders of each Fund. Common shareholders of each Fund are entitled to one vote for each Share held by them and do not have any preemptive or preferential right to purchase or subscribe to any Shares of such Fund. Each Fund s Common Shares do not have cumulative voting rights, which means that the holders of more than 50% of a Fund s Common Shares voting for the election of directors can elect all of the directors standing for election by such holders, and, in such event, the holders of the Fund s remaining Common Shares will not be able to elect any directors. The outstanding Common Shares of each Fund are fully paid and non-assessable.

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Whenever preferred shares, including VRDP Shares, are outstanding, a Fund may not declare a dividend or distribution to common shareholders (other than a distribution in Common Shares of the Fund) or purchase its Common Shares unless all accumulated dividends on preferred shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to preferred shares at the time of declaration of such dividend or distribution or at the time of such purchase would be at least 200% after giving effect to the dividend or distribution or purchase price.

Purchase and Sale of Common Shares

Purchase and sale procedures for the Common Shares of each of the Funds are identical. Each Fund s Common Shares are listed on the NYSE. Investors typically purchase and sell Common Shares of the Funds through a registered broker-dealer on the NYSE, thereby incurring a brokerage commission set by the broker-dealer. Alternatively, investors may purchase or sell Common Shares of each of the Funds through privately negotiated transactions with existing common shareholders. Set forth below is information about each Fund s Common Shares as of December 31, 2014.

Fund	Title of Class	Amount Authorized	Amount Held by Fund for its Own Account	Amount Outstanding Exclusive of Amount Shown in Previous Column
MJI	Common Stock	199,996,416	None	8,895,127
MUJ	Common Stock	199,990,153	None	21,305,921

Common Share Price Data

The following tables set forth the high and low market prices for Common Shares of each Fund on the NYSE, for each full quarterly period within each Fund s two most recent fiscal years and each full quarter since the beginning of each Fund s current fiscal year, along with the NAV and discount or premium to NAV for each quotation.

MJI	Market Price		NAV		Premium/(Discount) to NAV	
Period Ended	High	Low	High	Low	High	Low
October 31, 2014	$ 14.28	$ 13.81	$ 16.09	$ 15.81	(11.25)%	(12.65)%
July 31, 2014	$ 14.51	$ 14.08	$ 15.56	$ 15.51	(6.75)%	(9.22)%
April 30, 2014	$ 14.29	$ 13.28	$ 15.35	$ 14.79	(6.91)%	(10.21)%
January 31, 2014	$ 13.45	$ 12.51	$ 14.76	$ 14.26	(8.88)%	(12.27)%
October 31, 2013	$ 13.62	$ 12.60	$ 14.15	$ 13.81	(3.75)%	(8.76)%
July 31, 2013	$ 15.98	$ 13.16	$ 16.29	$ 14.28	(1.90)%	(7.84)%
April 30, 2013	$ 16.35	$ 15.23	$ 16.42	$ 16.02	(0.43)%	(4.93)%
January 31, 2013	$ 17.20	$ 15.96	$ 16.62	$ 16.24	3.49%	(1.72)%
October 31, 2012	$ 17.37	$ 15.72	$ 16.37	$ 16.22	6.11%	(3.08)%
July 31, 2012	$ 16.62	$ 15.47	$ 15.96	$ 16.04	4.14%	(3.55)%

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MUJ Period Ended	Market Price High	Market Price Low	NAV High	NAV Low	Premium/(Discount) to NAV High	Premium/(Discount) to NAV Low
October 31, 2014	$ 14.41	$ 13.86	$ 16.29	$ 15.97	(11.54)%	(13.21)%
July 31, 2014	$ 14.54	$ 14.11	$ 15.85	$ 15.74	(8.26)%	(10.36)%
April 30, 2014	$ 14.34	$ 13.43	$ 15.50	$ 14.99	(7.48)%	(10.41)%
January 31, 2014	$ 13.55	$ 12.62	$ 15.02	$ 14.50	(9.79)%	(12.97)%
October 31, 2013	$ 13.65	$ 12.87	$ 14.33	$ 14.10	(4.75)%	(8.72)%
July 31, 2013	$ 16.13	$ 13.21	$ 16.51	$ 14.46	(2.30)%	(8.64)%
April 30, 2013	$ 16.72	$ 15.12	$ 16.61	$ 16.18	0.66%	(6.55)%
January 31, 2013	$ 17.29	$ 16.40	$ 16.62	$ 16.88	4.03%	(2.84)%
October 31, 2012	$ 16.86	$ 15.90	$ 16.56	$ 16.36	1.81%	(2.81)%
July 31, 2012	$ 16.12	$ 15.35	$ 16.60	$ 16.22	(2.89)%	(5.36)%

For the periods shown in the tables above, the Common Shares of each Fund have traded at both a premium and discount to NAV.

The table below sets forth the market price, NAV, and the premium/discount to NAV of each Fund as of December 31, 2014.

Fund	Market Price	NAV	Premium/(Discount) to NAV
MUJ	$14.50	$16.21	(10.55)%
MJI	$14.46	$16.13	(10.35)%

To the extent the Target Fund Common Shares are trading at a wider discount (or a narrower premium) than the Acquiring Fund at the time of the Reorganization, the Target Fund s common shareholders would have the potential for an economic benefit by the narrowing of the discount or widening of the premium. To the extent the Target Fund Common Shares are trading at a narrower discount (or wider premium) than the Acquiring Fund at the time of the Reorganization, Target Fund common shareholders may be negatively impacted if the Reorganization is consummated. Acquiring Fund common shareholders would only benefit from a premium/discount perspective to the extent the Acquiring Fund s post-Reorganization discount (or premium) improves.

There can be no assurance that, after the Reorganization, Common Shares of the Combined Fund will trade at, above or below NAV. Upon consummation of the Reorganization, the Acquiring Fund Common Shares may trade at a price that is less than the Acquiring Fund Common Shares current market price. In the Reorganization, common shareholders of the Target Fund will receive the Acquiring Fund Common Shares based on the relative NAVs (not the market values) of the respective Fund s Common Shares. The market value of the Common Shares of the Combined Fund may be less than the market value of the Common Shares of any Fund prior to the Reorganization.

Performance Information

The performance table below illustrates the past performance of an investment in Common Shares of each Fund by setting forth the average total returns for the Funds for the periods indicated. A Fund s past performance does not indicate how its Common Shares will perform in the future.

		Average Annual Total Returns as of December 31, 2014					
Fund	Trailing 12-month Distribution Rate based on December 31, 2014 NAV	One Year ended December 31, 2014 based on NAV	One Year ended December 31, 2014 based on Market Price	Five Years ended December 31, 2014 based on NAV	Five Years ended December 31, 2014 based on Market Price	Ten Years ended December 31, 2014 based on NAV	Ten Years ended December 31, 2014 based on Market Price
MUJ	5.48%	19.08%	17.63%	8.04%	7.59%	6.31%	5.50%
MJI	5.51%	20.52%	18.70%	8.41%	7.99%	6.41%	5.41%

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INFORMATION ABOUT THE VRDP SHARES OF THE FUNDS

Each Fund s Articles of Incorporation authorizes the issuance of 200,000,000 shares of capital stock, par value $0.10 per share, of all classes. Each Fund s Board is authorized to issue shares of preferred stock without approval of common shareholders. Set forth below is information about each Fund s VRDP Shares as of December 31, 2014.

Fund	Title of Class	Amount Authorized	Amount Authorized Under Each Series		Amount Held by Fund for its Own Account	Amount Outstanding Exclusive of Amount Shown in Previous Column	Issue Date	Mandatory Redemption Date
MJI	Preferred Shares	644	Series W-7	644	None	644	6/30/11	7/01/41
MUJ	Preferred Shares	1,727	Series W-7	1,727	None	1,727	6/30/11	7/01/41

VRDP shares of the Funds are fully paid and non-assessable and have no preemptive, exchange, conversion or cumulative voting rights.

Below is a table that details, as of December 31, 2014, each Fund s current leverage attributable to VRDP Shares as a percentage of its total net assets and the Combined Fund s leverage attributable to VRDP Shares on a pro forma basis as a percentage of its total net assets assuming the Reorganization was consummated December 31, 2014.

Fund	Shares Outstanding	Liquidation Preference Per Share	Aggregate Liquidation Preference	Total Managed Assets	As Percentage of Managed Net Assets
MJI	644	$ 100,000	$ 64,400,000	$ 225,896,742	28.51%
MUJ	1,727	$ 100,000	$ 172,700,000	$ 552,802,116	31.24%
Pro Forma Combined Fund (MUJ)*	2,371	$ 100,000	$ 237,100,000	$ 778,698,859	30.45%

* Assumes no Target Fund VRDP Holder exercises appraisal rights. Figures will be reduced by the amount of VRDP Shares for which appraisal rights are exercised.

Each Fund has issued VRDP Shares, $100,000 liquidation value per share, with a final mandatory redemption date of July 1, 2041. In connection with the Reorganization, the Acquiring Fund expects to issue 644 Acquiring Fund VRDP Shares to Target Fund VRDP Holders. Following the completion of the Reorganization, the Combined Fund is expected to have 2,371 VRDP Shares outstanding. The VRDP Shares were offered to qualified institutional buyers in private transactions exempt from registration under the Securities Act and include a liquidity feature that allows the holders of VRDP Shares to have their shares purchased by the liquidity provider in the event of a failed remarketing.

The annualized dividend rates for the VRDP Shares for each Fund s most recent fiscal year end were as follows:

Fund	Rate
MJI	0.46%
MUJ	0.46%

Each Fund s VRDP Shares have the benefit of an unconditional demand feature pursuant to a purchase agreement provided by Bank of America, N.A. acting as liquidity provider to ensure full and timely repayment of the liquidation preference amount plus any accumulated and unpaid dividends to holders upon the occurrence of

certain events (the Liquidity Facility). Each Fund entered into a fee agreement with the liquidity provider (the Fee Agreement) in connection with the Liquidity Facility that require a per annum liquidity fee payable to the liquidity provider. The Fee Agreement between each Fund and the liquidity provider is scheduled to expire, unless renewed or terminated in advance, on April 19, 2017.

The Liquidity Facility requires the liquidity provider to purchase all VRDP Shares tendered for sale that were not successfully remarketed. Each Fund is required to redeem such Fund s VRDP Shares owned by the liquidity provider after six months of continuous, unsuccessful remarketing. Upon the occurrence of the first unsuccessful remarketing, such Fund is required to segregate liquid assets to fund the redemption. In the event the Fee Agreement for a Fund is not renewed or is terminated in advance, and the Fund does not enter into a fee agreement with an alternate liquidity provider, the Fund s VRDP Shares will be subject to mandatory purchase by the liquidity provider prior to the termination of the Fee Agreement. There is no assurance a Fund will replace such redeemed VRDP Shares with any other preferred shares or other form of leverage.

Except during the Special Rate Period (as defined and described below), holders of VRDP Shares have the right to give notice on any business day to tender the VRDP Shares for remarketing in seven days, the VRDP Shares are subject to a mandatory tender for remarketing upon the occurrence of certain events, and should a remarketing be unsuccessful, the dividend rate for such VRDP Shares will reset to a maximum rate as defined in the governing documents of the VRDP Shares. Each Fund s VRDP Shares are also subject to certain restrictions on transfer outside of the remarketing process. Except during the Special Rate Period, each Fund may incur remarketing fees at the annual rate of 0.10% on the aggregate principal amount of such Fund s VRDP Shares.

Each Fund is required to redeem its VRDP Shares on the maturity date for such VRDP Shares, unless earlier redeemed or repurchased. Six months prior to the maturity date, the Fund is required to begin to segregate liquid assets with the Fund s custodian to fund the redemption. In addition, each Fund is required to redeem certain of its outstanding VRDP Shares if it fails to maintain certain asset coverage, basic maintenance amount or leverage requirements.

Subject to certain conditions, each Fund s VRDP Shares may be redeemed, in whole or in part, at any time at the option of such Fund. The redemption price per VRDP Share is equal to the liquidation value per VRDP Share plus any outstanding unpaid dividends, except that a redemption premium may be applicable during the Special Rate Period.

Except during the Special Rate Period, dividends on each Fund s VRDP Shares are payable monthly at a variable rate set weekly by the remarketing agent. Such dividend rates are generally based upon a spread over a base rate and cannot exceed a maximum rate. In the event of a failed remarketing, the dividend rate of the VRDP Shares will be reset to a maximum rate. The maximum rate is determined based on, among other things, the long-term preferred share rating assigned to the VRDP Shares and the length of time that the VRDP Shares fail to be remarketed. The maximum rate of the VRDP Shares will not exceed 15% per annum, exclusive of any applicable gross-up payments or increased dividend payment relating to the inclusion in any dividend of net capital gains or ordinary income taxable for regular federal income tax purposes. At the date of issuance, the VRDP Shares of each Fund were assigned a long-term rating of Aaa from Moody s and AAA from Fitch. Subsequent to the issuance of the VRDP Shares, Moody s completed a review of its methodology for rating securities issued by registered closed-end funds. As of December 31, 2014, the VRDP Shares of each Fund were assigned a long-term rating of Aa2 from Moody s under its new ratings methodology. The VRDP Shares of each Fund continue to be assigned a long-term rating of AAA from Fitch.

The short-term ratings on the VRDP Shares were withdrawn by Moody s, Fitch and/or S&P at the commencement of the Special Rate Period, as described below. The short-term ratings on each Fund s VRDP Shares are directly related to the short-term ratings of the liquidity provider for such VRDP Shares. Changes in the credit quality of the liquidity provider could cause a change in the short-term credit ratings of the VRDP Shares. Except during the Special Rate Period, a change in the short-term credit rating of the liquidity provider or

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the VRDP Shares may adversely affect the dividend rate paid on such VRDP Shares, although the dividend rate paid on the VRDP Shares is not directly related to the short-term rating. The liquidity provider may be terminated prior to the scheduled termination date if the liquidity provider fails to maintain short-term debt ratings in one of the two highest rating categories.

Each Fund s VRDP Shares are senior in priority to such Fund s Common Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of such Fund. Each Fund s VRDP Shares will rank on a parity with other preferred shares of such Fund as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of such Fund. The 1940 Act prohibits the declaration of any dividend on the Fund s Common Shares or the repurchase of the Fund s Common Shares if the Fund fails to maintain the asset coverage of at least 200% of the liquidation preference of the outstanding VRDP Shares. In addition, pursuant to the VRDP Shares governing instruments, each Fund is restricted from declaring and paying dividends on classes of shares ranking junior to or on parity with the VRDP Shares or repurchasing such shares if the Fund fails to declare and pay dividends on the VRDP Shares, redeem any VRDP Shares required to be redeemed under the VRDP Shares governing instruments or comply with the basic maintenance amount requirement of the agencies rating the VRDP Shares.

Each Fund s VRDP Holders have voting rights equal to such Fund s common shareholders (one vote per Share) and will vote together with such common shareholders (one vote per Share) as a single class. However, each Fund s VRDP Holders, voting as a separate class, are also entitled to elect two Board Members for such Fund. In addition, the 1940 Act requires that along with approval by shareholders that might otherwise be required, the approval of a 1940 Majority of the VRDP Holders of a Fund, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the VRDP Shares of the Fund, (b) change the Fund s sub-classification as a closed-end investment company or change its fundamental investment restrictions or (c) change its business so as to cease to be an investment company.

On April 17, 2014, each Fund commenced a three-year special rate period ending April 19, 2017 (the Special Rate Period) with respect to their respective VRDP Shares. The Liquidity Facility remains in effect for the duration of the Special Rate Period and the VRDP Shares are still subject to mandatory redemption by each Fund on their respective mandatory redemption date. However, the VRDP Shares will not be remarketed or subject to optional or mandatory tender events during such time. The short-term ratings of the VRDP Shares were withdrawn by Moody s, Fitch and/or S&P upon the commencement of the Special Rate Period. Short-term ratings may be re-assigned upon the termination of the Special Rate Period.

During the Special Rate Period, each Fund is required to maintain the same asset coverage, basic maintenance amount and leverage requirements for the VRDP Shares as was required prior to the Special Rate Period.

During the Special Rate Period, each Fund will pay each of the liquidity provider and remarketing agent a nominal fee at the annual rate of 0.01% and will also pay dividends monthly based on the sum of Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index and a percentage per annum based on the long-term ratings assigned to the VRDP Shares (Ratings Spread). As of December 31, 2014, the VRDP Shares of each Fund were assigned long-term ratings of Aa2 from Moody s and AAA from Fitch. The dividend rate of the VRDP Shares of each Fund as of December 31, 2014 were as follows:

Fund	**Rate**
MJI	0.92%
MUJ	0.92%

The Ratings Spread will increase in the event the VRDP Shares are rated below Aaa/AAA by all of the rating agencies rating the VRDP Shares at the time such Ratings Spread is determined, up to a maximum of 4.00% in the event the VRDP Shares are either rated below Baa3/BBB1 by at least one of the rating agencies then rating the VRDP Shares or not rated by any rating agency.

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In addition, if a Fund redeems its VRDP Shares on a date that is one year or more before the end of the Special Rate Period and the VRDP Shares of the Fund are rated above A1/A by Moody s and Fitch respectively, then such redemption is subject to a redemption premium payable to the Fund s VRDP Holders based on the time remaining in the Special Rate Period, subject to certain exceptions for redemptions that are required to maintain minimum asset coverage requirements.

Under each Fund s Fee Agreement with the liquidity provider, to the extent the liquidity provider together with certain affiliates individually or in the aggregate own at least 20% of the outstanding VRDP Shares and the Fund has not failed to pay dividends on the VRDP Shares for two years, the liquidity provider agreed to enter into and maintain a voting trust agreement and convey into the voting trust the right to vote all of its VRDP Shares owned by it or such affiliates, with respect to: (i) the election of the two members of the Board for which VRDP Holders are entitled to vote under the 1940 Act and all other rights given to VRDP Holders with respect to the election of the Board; (ii) the conversion of the Fund from a closed-end management investment company to an open-end fund, or to change the Fund s classification from diversified to non-diversified; (iii) the deviation from a policy in respect of concentration of investments in any particular industry or group of industries as recited in the Fund s registration statement; and (iv) borrowing money, issuing senior securities, underwriting securities issued by other persons, purchasing or selling real estate or commodities or making loans to other persons other than in accordance with the recitals of policy with respect thereto in the Fund s registration statement.

Prior to April 19, 2017, each Fund and its VRDP Holders may mutually agree to extend the Special Rate Period. If the Special Rate Period is not extended, the VRDP Shares will revert back to remarketable securities and will be remarketed and available for purchase by qualified institutional investors. There is no assurance that the VRDP Shares will be remarketed or purchased by investors after the termination of the Special Rate Period. If the VRDP Shares are not remarketed or purchased, then a failed remarketing will occur. As described above under VRDP Shares Generally, in the event of a failed remarketing, the dividend rate of the VRDP Shares will be reset to the maximum rate and the VRDP Shares that have not been remarketed are required to be purchased by the liquidity provider and subject to redemption by the Fund after six months of continuous, unsuccessful remarketing.

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FINANCIAL HIGHLIGHTS

BlackRock MuniYield New Jersey Quality Fund, Inc. (MJI)

The Financial Highlights table is intended to help you understand the Target Fund s financial performance for the periods shown. Certain information reflects the financial results for a single Common Share of the Target Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in the Target Fund (assuming reinvestment of all dividends and/or distributions, if applicable). The information for the periods shown has been audited by Deloitte & Touch LLP, the Target Fund s independent registered public accounting firm. Financial statements for the fiscal year ended July 31, 2014 and the Report of the Independent Registered Public Accounting Firm thereon appear in the Target Fund s Annual Report for the fiscal year ended July 31, 2014, which is available upon request.

BlackRock MuniYield New Jersey Quality Fund, Inc. (MJI)	**Year Ended July 31,**		**Period November 1, 2007 to July 31, 2008**	**Year Ended October 31,**
	2014	**2013**		