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THE NUVEEN SENIOR FLOATING RATE INCOME FUND

Senior Corporate Loan Market Review

September 30, 2005 – 3rd Quarter

The loan market continued to show signs of strength during the third quarter, although skyrocketing energy prices and rising interest rates caused uneasiness in the financial markets. Energy prices continued their upward climb, as two powerful hurricanes damaged the country's energy infrastructure, causing speculation that corporate earnings growth could come under pressure in the coming quarters. Even as the hurricanes caused energy prices to rise and consumer confidence to fall, the Federal Reserve continued raising short-term interest rates during the quarter. The Fed raised the Fed Funds rate by 50 basis points during the quarter. Even though the markets were volatile, the CSFB Leverage Loan Index returned 1.96% during the quarter. As of the end of September the Index had registered 32 consecutive months of positive returns.

Despite investor concerns, conditions in the loan market remained much the same as they did during the first half of the year. Loan volume, although lower for the quarter, continued to be robust; default rates remained low and demand remained strong.

Loan market volume slowed to $60 billion during the third quarter, down from $79 billion in the second quarter and down from $65 billion during the third quarter of 2004. Nonetheless, through the first nine months of 2005, volume is up 15%, to $219 billion, from $189 billion during the comparable period last year. The gain in the year-to-date volume is largely due to the first quarter, when the loan market generated $80 billion of new issues – the most since the second quarter of 1998.

Along with robust volume, default rates continued to remain low. The default rate has been near historic lows over the last 24 months, as the economy continued to show strength – although rising commodity prices could begin to have an impact as we approach 2006. The default rate currently stands at 1.3%, up from 1.0% at the end of 2004 but down from 3.5% at the end of 2003.

As default rates remain low, short-term interest rates continue to rise and performance has been consistent, investors have been drawn to the loan asset class. The depth and variety of leveraged loan investors has expanded rapidly over the last few years. There are currently over 200 different investment manager groups in the market – up substantially from just 74 in 2000. Among these investor groups are CLOs (collateralized loan obligation) and hedge funds which, while impossible to exactly quantify, have been the fastest growing source of demand. Hedge funds were an insignificant demand component as recently as 2001, but this class of investors has become a significant buyer of higher-spread institutional loan products over the last three years.

The intense focus on the loan market from such a large and diverse group of investors has sent the loan market into uncharted waters. Despite record new issue levels and intense buying in the secondary market, there still does not appear to be enough loan

paper in the market to satisfy investors' appetites. As a result, technical demand has contributed to historic high prices and historic low spreads over the LIBOR (London Interbank Offered Rate) benchmark.

The average single B new loan spread is at its lowest point since 1998. The continued tightening in initial spreads reflects optimism about the economy, lower defaults rates, strong primary demand from CLO investors and the belief that interest rates will continue rising in the near term. The benchmark BB spread ended September at L+177 (LIBOR + 177), close to its all-time low. This is just eight basis points wide of April's record low of L+169 and 27 bps inside the 2005 high reading of L+204, from May. The B+/B spread, meanwhile, also narrowed from its 2005 high, ending the third quarter at L+254, 32 bps inside May's reading of L+286. But the average remains 19 bps wide of its all-time low of L+235, from March.

At the same time that spreads have compressed and demand for loans has expanded, investors face an increased number of repriced issues. Because loans are generally callable, and can be paid back at any time at par, borrowers are constantly repricing their loans – essentially paying back their outstanding loan at par and doing a new deal at a lower spread.

Market Outlook

Given the attractive pricing spreads that the loan market is currently offering issuers, we expect the market to continue seeing strong supply – primarily from robust LBO and M&A activity. A few of the large deals currently in the market include Neiman Marcus, Hertz, Toys 'R' Us and NASDAQ's financing its acquisition of Instinet.

Because this supply is driven by intense demand for new loans, issuers have the upper hand as credit risk has increased. The industry standard for leverage on new deals has risen to approximately 5.5 times debt to EBITDA (earnings before interest, taxes, depreciation, and amortization), and in many cases is even higher, depending on the company and the industry. While current low interest rate market conditions allow issuers to service the interest and principal payments on higher debt loads, we expect debt service to become more onerous as interest rates continue to rise.

The risks we see to the current environment are

- Continued inflationary pressures on input prices across the manufacturing base,
- a slowdown in spending from an overleveraged consumer due to higher energy prices, and
- the mounting US budget deficit.

In addition, rising raw material prices have already begun to affect corporate earnings as we have seen an increase in negative earning news.

Given the current credit environment, we continue to take a defensive stance in positioning our loan portfolios. We do not feel that now is the appropriate time to be reaching for yield or involved with what we consider to be marginal credits. We continue to avoid most automotive related companies.

We have also avoided the vast majority of second lien loans. We do not believe that most second lien loans compensate investors for the risk these credits pose over a credit cycle. We believe when the economy does weaken – whenever that may be- that second lien loans could see significant downside from current levels. We continue to use the robust new issue calendar to upgrade our portfolios and buy companies we feel are defensive in nature.

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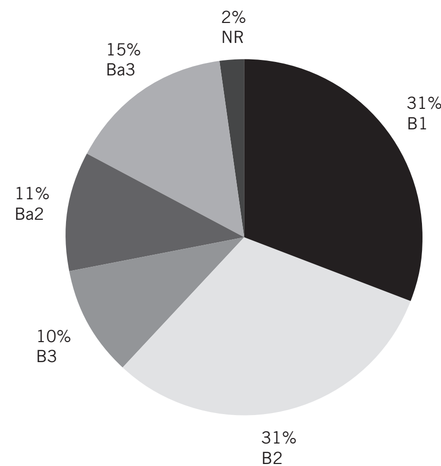
Portfolio Valuation Detail Top 10 Holdings

as of September 30, 2005

	% Of Mkt Value
El Paso Corporation	5.05%
Charter Communications Operating, LLC	4.95%
General Growth Properties, Inc.	4.64%
Jarden Corporation	4.11%
Visant Corporation (FKA Jostens IH Corp.)	3.96%
Graham Packaging Company, LP	3.39%
Rockwood Specialties Group, Inc.	3.36%
Regal Cinemas Corporation	3.33%
Nortek, Inc.	3.32%
K & F Industries, Inc.	3.21%

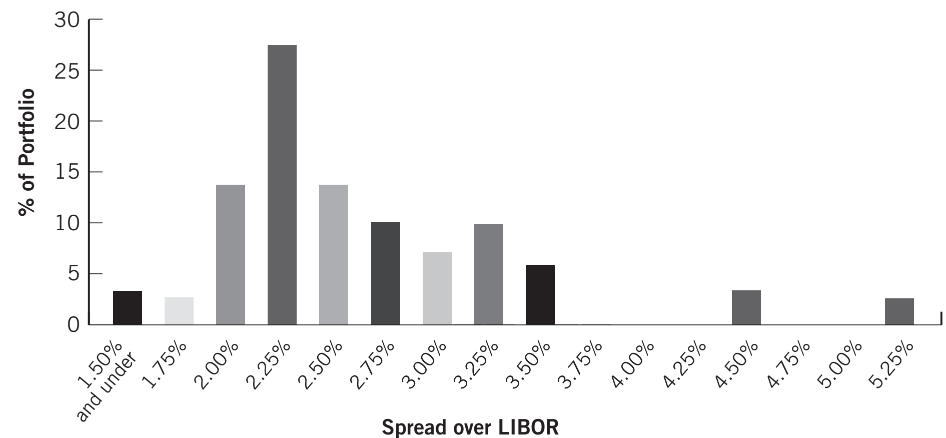
Portfolio Valuation Detail Credit Quality

as of September 30, 2005



Spread Distributions

as of September 30, 2005



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

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