

NUVEEN MUNICIPAL VALUE FUND INC  
Form 497  
March 04, 2011  
PROSPECTUS

## 19.6 Million Shares

# Nuveen Municipal Value Fund, Inc. Common Stock

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Nuveen Municipal Value Fund, Inc. (the Fund) is a diversified, closed-end management investment company. The Fund's primary investment objective is current income exempt from federal income tax. The Fund's secondary objective is the enhancement of portfolio value through selection of tax-exempt bonds and municipal market sectors. The Fund seeks to achieve its investment objectives by investing in a portfolio of municipal securities, a significant portion of which Nuveen Asset Management, LLC (Nuveen Asset Management), the Fund's investment sub-adviser, believes are underrated and undervalued, based upon its bottom-up, research-driven investment strategy. Nuveen Asset Management believes its value oriented strategy offers the opportunity to construct a well diversified portfolio of municipal securities that has the potential to outperform major municipal market benchmarks over the longer term. Under normal circumstances, the Fund will invest at least 80% of its net assets in municipal securities:

the income from which is exempt from regular federal income tax; and

that, at the time of investment, are investment grade quality. A security is considered investment grade quality if it is rated within the four highest grades (BBB or Baa or better) by at least one of the nationally recognized statistical rating organizations that rate such security (even if rated lower by another), or is unrated but judged by Nuveen Asset Management to be of comparable quality.

The Fund cannot assure you that it will achieve its investment objectives.

**Investing in the Fund's common stock involves certain risks that are described in the Risk Factors and How the Fund Manages Risks sections of this Prospectus.**

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

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You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest and retain it for future reference. A Statement of Additional Information (SAI), dated February 28, 2011, as supplemented March 4, 2011, containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of the SAI, the table of contents of which is on the last page of this Prospectus, annual and semi-annual reports to shareholders and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787, by writing to the Fund or from the Fund's website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund's website is not part of this Prospectus. You also may obtain a copy of the SAI (and other information regarding the Fund) from the Securities and Exchange Commission's (SEC) web site (<http://www.sec.gov>).

Shares of the Fund's common stock do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other governmental agency.

*Portfolio Contents.* Under normal circumstances, the Fund will invest at least 80% of its net assets in municipal securities, the income from which is exempt from regular federal income tax. Under normal circumstances, the Fund will invest at least 80% of its net assets in municipal securities that at the time of investment are investment grade quality. A security is considered investment grade quality if it is rated within the four highest letter grades by at least one of the nationally recognized statistical rating organizations (NRSROs) that rate such security (even if rated lower by another), or if it is unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 20% of its net assets in municipal securities that at the time of investment are rated below investment grade quality or that are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 10% of its net assets in municipal securities rated below B-/B3 or that are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. The Fund may invest up to approximately 15% of its managed assets in inverse floating rate securities. The Fund cannot assure you that it will achieve its investment objectives.

*No Preferred Shares.* Unless otherwise approved by shareholders, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the Investment Company Act of 1940, as amended, and invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage.

*Adviser and Sub-adviser.* Nuveen Fund Advisors, Inc. (formerly known as Nuveen Asset Management), the Fund's investment adviser, is responsible for determining the Fund's overall investment strategies and their implementation. Nuveen Asset Management, LLC is the Fund's investment sub-adviser and oversees the day-to-day operations of the Fund.

Shares of common stock will not be sold at a price less than current net asset value per share plus the per share amount of the commission to be paid to Nuveen. The Fund and Nuveen will suspend the sale of Common Shares if the per share price of the shares is less than the minimum price. The Fund currently intends to distribute the shares offered pursuant to this Prospectus primarily through at-the-market transactions, although from time to time it may also distribute shares through an underwriting syndicate or a privately negotiated transaction. To the extent shares are distributed other than through at-the-market transactions, the Fund will file a supplement to this Prospectus describing such transaction. For information on how common stock may be sold, see the Plan of Distribution section of this Prospectus.

The common stock is listed on the New York Stock Exchange. The trading or ticker symbol of the common stock of the Fund is NUV.

As of the date of this prospectus, the Fund has sold in this offering an aggregate of 208,955 shares of common stock, representing net proceeds to the Fund of \$1,880,762.62, after payment of commissions on \$1,899,809.55 in the aggregate.

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The date of this Prospectus is February 28, 2011

as supplemented March 4, 2011.

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

**PROSPECTUS SUMMARY**

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

**The Fund**

Nuveen Municipal Value Fund, Inc. (the Fund) is a diversified, closed-end management investment company. See The Fund. The Fund's common stock, \$.01 par value (Common Stock), is traded on the New York Stock Exchange (NYSE) under the symbol NUV. See Description of Shares. As of December 31, 2010, the Fund had 198,058,520 shares of Common Stock outstanding and net assets applicable to Common Stock of \$1,825,994,904.

**Investment Objectives and Policies**

The Fund's primary investment objective is current income exempt from federal income tax. The Fund's secondary objective is the enhancement of portfolio value through selection of tax-exempt bonds and municipal market sectors. The Fund cannot assure you that it will achieve its investment objectives.

The Fund seeks to achieve its investment objectives by investing in a portfolio of municipal securities, a significant portion of which Nuveen Asset Management (defined below under Sub-adviser) believes are underrated and undervalued, based upon its bottom-up, research-driven investment strategy. Underrated municipal securities are those whose ratings do not, in Nuveen Asset Management's opinion, reflect their true creditworthiness. Undervalued municipal securities are securities that, in Nuveen Asset Management's opinion, are worth more than the value assigned to them in the marketplace. Nuveen Asset Management believes its value oriented strategy offers the opportunity to construct a well diversified portfolio of municipal securities that has the potential to outperform major municipal market benchmarks over the longer term. A municipal security's market value generally will depend upon its form, maturity, call features, and interest rate, as well as the issuer's credit quality or credit rating, all such factors examined in the context of the municipal securities market and interest rate levels and trends.

Under normal circumstances and as a fundamental policy, the Fund will invest at least 80% of its net assets in municipal securities, the income from which is exempt from regular federal income tax. See The Fund's Investments for additional information on the types of securities in which the Fund may invest.

The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal securities that provide for the payment of interest income that is exempt from regular federal income tax (collectively, municipal securities). See The Fund's Investments Municipal Securities for additional information on the types of municipal securities in which the Fund may invest. Municipal securities are often issued by state and local governmental entities to finance or refinance public projects, such as roads, schools, and water supply systems. Municipal securities also may be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately

owned transportation, electric utility and pollution control projects. Municipal securities may be issued on a long-term basis to provide long-term 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. Municipal securities also may be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds of the later issuance of long-term debt. The Fund may purchase municipal securities in the form of bonds, notes, leases or certificates of participation; structured as callable or non-callable; with payment forms that include fixed coupon, variable rate, zero coupon, capital appreciation bonds, tender option bonds, and residual interest bonds or inverse floating rate securities. Such municipal securities also may be acquired through investments in pooled vehicles, partnerships, or other investment companies. The Fund may invest up to approximately 15% of its managed assets in inverse floating rate securities.

The Fund also may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including interest rate and credit default swaps), options on financial futures, options on swap contracts, or other derivative instruments. Nuveen Asset Management may use derivative instruments to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or as a substitute for a position in the underlying asset. These types of strategies may generate taxable income. See The Fund's Investments Municipal Securities Derivatives.

Under normal circumstances:

The Fund will invest at least 80% of its net assets in investment grade quality municipal securities. Investment grade quality securities are those that are, at the time of investment, either (i) rated by one of the nationally recognized statistical rating organizations (NRSROs) that rate such securities within the four highest letter grades (including BBB or Baa or better by Standard & Poor's Corporation Ratings Group, a division of The McGraw-Hill Companies (S&P), Moody's Investors Services, Inc. (Moody's) or Fitch Ratings, Inc. (Fitch)), or (ii) unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. Investment grade securities may include securities that, at the time of investment, are rated below investment grade by S&P, Moody's or Fitch, so long as at least one NRSRO rates such securities within the four highest grades (such securities are commonly referred to as split-rated securities). The Fund estimates that, upon completing its invest-up, the average credit quality of its investments will be A+.

The Fund may invest up to 20% of its net assets in municipal securities that at the time of investment are rated below investment grade or are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 10% of its net assets in municipal securities rated below B-/B3 or that are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. This means that the Fund

may invest up to 10% of its net assets in municipal securities, the issuer of which is having financial difficulties, such as being in default on its obligations to pay principal or interest thereon when due or that is involved in bankruptcy or insolvency proceedings (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds.

As a fundamental policy, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the Investment Company Act of 1940, as amended, (the 1940 Act ) and invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage.

The Fund will not invest more than 15% of its net assets in residual interest bonds or inverse floating rate securities.

The Fund may invest up to 15% of its net assets in municipal securities that, at the time of investment, are illiquid (*i.e.*, securities that are not readily marketable). See Risk Factors Illiquid Securities Risk.

The Fund will generally invest in municipal securities with intermediate or long-term maturities. The weighted average maturity of securities held by the Fund may be shortened or lengthened, depending on market conditions and on an assessment by the Fund's portfolio manager of which segments of the municipal securities market offer the most favorable relative investment values and opportunities for tax-exempt income and total return.

The Fund will not invest more than 25% of its net assets in municipal securities in any one industry or in any one state of origin.

The Fund will not invest more than 10% of its net assets in tobacco settlement bonds.

During temporary defensive periods or in order to keep the Fund's cash fully invested, including during the period when the net proceeds of the offering of Common Stock are being invested, the Fund may deviate from its investment policies and objectives. During such periods, the Fund may invest up to 100% of its net assets in short-term investments, including high quality, short-term securities that may be either tax-exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal income tax. Such transactions will be used solely to reduce risk. There can be no assurance that such strategies will be successful. For a more complete discussion of the Fund's portfolio composition, see The Fund's Investments.

See The Fund's Investments and Risk Factors.

**Investment Adviser**

Nuveen Fund Advisors, Inc. ( NFA ), the Fund's investment adviser, is responsible for determining the Fund's overall strategy and its implementation. See Management of the Fund Investment Adviser, Sub-Adviser and Portfolio Manager.

**Sub-adviser**

Nuveen Asset Management, LLC ( Nuveen Asset Management ) serves as the Fund's sub-adviser and is a wholly-owned subsidiary of NFA. Nuveen Asset Management is a registered investment adviser. Nuveen Asset Management oversees the day-to-day operations of the Fund.

Nuveen Investments, LLC ( Nuveen ), a registered broker-dealer affiliate of NFA and Nuveen Asset Management that is involved in the offering of the Fund's Common Stock, has received notice of certain charges that may be brought against it by the Financial Industry Regulatory Authority ( FINRA ) in connection with the marketing of preferred shares. See Plan of Distribution-Distribution Through At-the-Market Transactions.

**Legal Proceedings**

Certain Nuveen leveraged closed-end funds (not including the Fund) were named as nominal defendants in putative shareholder derivative action complaints filed in the Circuit Court of Cook County, Illinois, Chancery Division (the Complaints ). The Complaints, filed on behalf of purported holders of the funds' common shares, also name NFA as a defendant, together with current and former officers and a trustee of each of the funds (together with the nominal defendants, collectively, the Defendants ). The Complaints allege that the Defendants breached their fiduciary duties by favoring the interests of holders of each fund's ARPS over those of its common shareholders in connection with each fund's ARPS refinancing and/or redemption activities. See Legal Proceedings.

**Use of Leverage**

Financial leverage is created as a result of the Fund's investments in residual interest certificates of tender option bond trusts, also called inverse floating rate securities, because the Fund's investment exposure to the underlying bonds held by the trust have been effectively financed by the trust's issuance of floating rate certificates. See The Fund's Investments Municipal Securities Inverse Floating Rate Securities and Risk Factors Inverse Floating Rate Securities Risk.

Leverage involves special risks. See Risk Factors Inverse Floating Rate Securities Risk. There is no assurance that the Fund's leveraging strategy will be successful. The Fund will seek to invest the proceeds of any future financial leverage in a manner consistent with the Fund's investment objectives and policies. See Use of Leverage.

**Offering Methods**

The Fund may offer shares using one or more of the following methods: (i) at-the-market transactions conducted through Stifel, Nicolaus & Company, Incorporated ( Stifel Nicolaus ) which has entered into an Equity Distribution Agreement ( Selected Dealer Agreement ) with Nuveen, one of the Fund's underwriters; (ii) through an underwriting syndicate; and (iii) through privately negotiated transactions between the Fund and specific investors. See Plan of Distribution.

*Distribution Through At-the-Market Transactions.* The Fund from time to time may offer its Common Stock through Stifel Nicolaus, which has entered into the Selected Dealer Agreement with Nuveen pursuant to which Stifel Nicolaus will be acting as Nuveen's exclusive sub-placement agent with respect to at-the-market offerings of the Common Stock. Shares of

Common Stock will only be sold on such days as shall be agreed to by the Fund, Nuveen and Stifel Nicolaus. Shares of Common Stock will be sold at market prices, which shall be determined with reference to trades on the NYSE, subject to a minimum price to be established each day by the Fund. The minimum price on any day will not be less than the current net asset value per share plus the per share amount of the commission to be paid to Nuveen. The Fund and Nuveen will suspend the sale of Common Stock if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen with respect to sales of the Common Stock at a commission rate of up to 1% of the gross proceeds of the sale of Common Stock. Nuveen will compensate Stifel Nicolaus at a fixed rate of .8% of the gross proceeds of the sale of Common Stock sold by Stifel Nicolaus. Settlements of Common Stock sales will occur on the third business day following the date of sale.

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

The offering of Common Stock will be made pursuant to the Selected Dealer Agreement among the Fund, Nuveen and Stifel Nicolaus, which will terminate upon the earlier of (i) the sale of all Shares subject thereto or (ii) termination of the Selected Dealer Agreement. Each of Nuveen and Stifel Nicolaus shall have the right to terminate the Selected Dealer Agreement in its discretion at any time. See "Plan of Distribution - Distribution Through At-the-Market Transactions."

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

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

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



or (ii) 94% of the closing market price of the Fund's Common Stock on the day prior to the offering date. See Plan of Distribution Distribution Through Underwriting Syndicates.

*Distribution Through Privately Negotiated Transactions.* The Fund, through Nuveen, from time to time may sell directly to, and solicit offers from, institutional and other sophisticated investors, who may be deemed to be underwriters as defined in the 1933 Act for any resale of Common Stock. No sales commissions or other compensation will be paid to Nuveen or any other FINRA member in connection with such transactions.

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

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

### **Special Risk Considerations**

Investment in the Fund involves special risk considerations, which are summarized below. The Fund is designed as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program. See Risk Factors for a more complete discussion of the special risk considerations of an investment in the Fund.

*Investment and Market Risk.* An investment in the Fund's Common Stock is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Stock represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your Common Stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions. See Risk Factors Investment and Market Risk

*Current Economic Conditions Credit Crisis Liquidity and Volatility Risk.* The markets for credit instruments, including municipal securities, have experienced periods of extreme illiquidity and volatility since the latter half of 2007. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of debt securities, including municipal securities, and significant and rapid value declines in certain instances. These conditions resulted, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid

and of uncertain value. These market conditions may make valuation of some of the Fund's municipal securities uncertain and/or result in sudden and significant value declines in its holdings. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Stock.

In response to the current national economic downturn, governmental cost burdens may be reallocated among federal, state and local governments. Also, as a result of the downturn, many state and local governments are experiencing significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of those state and local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws.

See Risk Factors Current Economic Conditions Credit Crisis Liquidity and Volatility Risk and Risk Factors Municipal Securities Market Risk.

*Market Discount from Net Asset Value.* Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether shares of Common Stock will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of investment activities. Investors bear a risk of loss to the extent that the price at which they sell their shares is lower in relation to the Fund's net asset value than at the time of purchase, assuming a stable net asset value. Proceeds from the sale of Common Stock in this offering will be reduced by shareholder transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the shares of Common Stock at the time of any offering of Common Stock hereunder, the Fund's net asset value may be reduced by an amount up to the offering costs borne by the Fund (estimated to be an additional .15% of the offering price assuming a Common Stock share offering price of \$9.05 (the Fund's closing price on the NYSE on January 31, 2011)). The net asset value per share of Common Stock also will be reduced by costs associated with any future issuances of common stock. The Common Stock is designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes. See Risk Factors Market Discount from Net Asset Value.

*Credit and Below Investment Grade Risk.* Credit risk is the risk that one or more municipal securities in the Fund's portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 50% (measured at the time of investment) of its managed assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by Nuveen Asset Management; provided, that no more than 10% of

the Fund's managed assets may be invested in municipal securities rated below B-/B3 or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality are predominately speculative with respect to the issuer's capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments. Also, to the extent that the rating assigned to a municipal security in the Fund's portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund compared with a portfolio consisting solely of investment grade securities, may experience the following:

increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;

greater risk of loss due to default or declining credit quality;

adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and

the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

See Risk Factors Credit and Below Investment Grade Risk.

*Interest Rate Risk.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. As interest rates decline, issuers of municipal securities may prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities and potentially reducing the Fund's income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund's value. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change. Because the Fund will invest primarily in long-term municipal securities, the Common Stock net asset value and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of

such lower grade securities in response to changes in interest rates typically have not been highly correlated to the fluctuations of the prices of investment grade quality securities in response to changes in market interest rates. The Fund's use of leverage, as described herein, will tend to increase Common Stock interest rate risk. See Risk Factors Interest Rate Risk.

*Municipal Securities Market Risk.* The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of Nuveen Asset Management than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its bonds at attractive prices. See Risk Factors Municipal Securities Market Risk and Risks Special Risks Related to Certain Municipal Obligations.

*Reinvestment Risk.* Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio's current earnings rate. A decline in income could affect the Common Stock's share market price or your overall returns. See Risks Reinvestment Risk.

*Tax Risk.* The value of the Fund's investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. Additionally, the Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments. See Risk Factors Tax Risk.

*Inverse Floating Rate Securities Risk.* The Fund may invest in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal bonds. See The Fund's Investments Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund's investment in inverse floating rate securities creates financial leverage that provides an opportunity for increased Common Stock net

income and returns, but also creates the risk that Common Stock long-term returns may be reduced if the cost of leverage exceeds the net return on the Fund's investment portfolio.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a tender option bond trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings. Also, the Fund may be required to unwind its tender option bond positions from time to time, which may also require the Fund to sell portfolio securities at time and at prices that are not desirable for the Fund. See Risk Factors Inverse Floating Rate Securities Risk.

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

*Derivatives Risk, Including the Risk of Swaps.* The Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. Whether the Fund's use of derivatives is successful will depend on, among other things, if Nuveen Asset Management correctly forecasts market values, interest rates and other applicable factors. If Nuveen Asset Management incorrectly forecasts these and other factors, the investment performance of the Fund will be unfavorably affected. In addition, the derivatives market is largely unregulated. It is possible that developments in the derivatives market could adversely affect the Fund's ability to successfully use derivative instruments.

The Fund may enter into debt-related derivatives instruments including credit swap default contracts and interest rate swaps. Like most derivative instruments, the use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. In addition, the use of swaps requires an understanding by Nuveen Asset Management not only of the referenced asset, rate or index, but also of the swap itself. The tax consequences with respect to certain credit default swap contracts are uncertain. See Risk Factors Derivatives Risk, Including the Risk of Swaps, Risk Factors Counterparty Risk, Risk Factors Hedging Risk and the SAI.

*Counterparty Risk.* Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital

and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships. See Risk Factors Counterparty Risk.

*Reliance on Investment Adviser and Sub-adviser.* The Fund is dependent upon services and resources provided by its investment adviser, NFA, and Sub-adviser, Nuveen Asset Management, and therefore their parent, Nuveen Investments. Nuveen Investments has a substantial amount of indebtedness. Nuveen Investments, through its own business or the financial support of its affiliates, may not be able to generate sufficient cash flow from operations or ensure that future borrowings will be available in an amount sufficient to enable it to pay its indebtedness with scheduled maturities beginning in 2014 or to fund its other liquidity needs. Nuveen Investments failure to satisfy the terms of its indebtedness, including covenants therein, may generally have an adverse effect on the financial condition of Nuveen Investments.

*Hedging Risk.* The Fund's use of derivatives or other transactions to reduce risks involves costs and will be subject to Nuveen Asset Management's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors. No assurance can be given that Nuveen Asset Management's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so. See Risks Hedging Risk.

*Anti-Takeover Provisions.* The Fund's Articles of Incorporation (the Articles of Incorporation) and the Fund's By-laws (the By-laws) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. These provisions could have the effect of depriving the holders of shares of Common Stock (Common Stockholders) of opportunities to sell their shares of Common Stock at a premium over the then current market price of the Common Stock. See Certain Provisions in the Articles of Incorporation Anti-Takeover Provisions and Risk Factors Anti-Takeover Provisions.

In addition, an investment in the Fund's Common Stock raises other risks, which are more fully disclosed in the Risk Factors section of this Prospectus, including: reinvestment risk, sector and industry risk, special risks relating to certain municipal obligations, market disruption risk, impact of offering methods risk, risks relating to certain affiliations, and risks that provisions in the Fund's Articles of Incorporation could affect the opportunities of Common Stockholders to sell their Common Stock. See Risk Factors.

## Distributions

The Fund pays monthly cash distributions to Common Stockholders at a level rate (stated in terms of a fixed cents per Common Stock share dividend rate) based on the projected performance of the Fund. The Fund's ability to maintain a level Common Stock dividend rate will depend on a number of factors. As portfolio and market conditions change, the rate of dividends on the Common Stock and the Fund's dividend policy could change. Over time, the Fund will distribute all of its net investment income. In addition, the Fund intends to effectively distribute, at least annually, the

net capital gain and taxable ordinary income, if any, to Common Stockholders. You may elect to reinvest automatically some or all of your distributions in additional shares of Common Stock under the Fund's Dividend Reinvestment Plan.

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

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

**Custodian and Transfer Agent**

State Street Bank and Trust Company serves as custodian and transfer agent of the Fund's assets. See Custodian and Transfer Agent.

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**SUMMARY OF FUND EXPENSES**

The purpose of the table below is to help you understand all fees and expenses that you, as a Common Stockholder, would bear directly or indirectly. The table shows the expenses of the Fund as a percentage of the average net assets applicable to Common Stock, and not as a percentage of total assets or managed assets.

| <b>Common Stockholder Transaction Expenses</b> (as a percentage of offering price) |  |   |
|--|--|---|
| Maximum Sales Charge   |  | 4.00%   |
| Offering Costs Borne by the Fund <sup>(1)</sup>                                    |  | .15%  |
|  |  | <b>As a Percentage of<br/>Net Assets<br/>Attributable to<br/>Common Stock<sup>(2)</sup></b> |
| <b>Annual Expenses</b>   |  |   |
| Management Fees:   |  |   |
| Fund-Level Asset Fees  |  | .12%  |
| Fund-Level Gross Income Fees   |  | .23%  |
| Complex-Level Fees   |  | .18%  |
| Interest and Related Expenses from Inverse Floaters <sup>(3)</sup>                 |  | .01%  |
| Other Expenses   |  | .07%  |
|  |  |   |
| <b>Total Annual Expenses</b>   |  | <b>.61%</b>   |

(1) Assuming a Common Stock share offering price of \$9.05 (the Fund's closing price on the NYSE on January 31, 2011).

(2) Stated as a percentage of average net assets attributable to Common Shares for the fiscal year ended October 31, 2010.

(3) Interest expense arises because accounting rules require the Fund to recognize interest attributable to inverse floating rate securities created by selling a fixed-rate bond to a broker-dealer for deposit into the special purpose trust and receiving in turn the residual interest in the trust ( self-deposited inverse floating rate securities ). Because the Fund also recognizes a corresponding amount of interest income (also indirectly), the Fund's Common Stock share net asset value, net investment income, and total return are not affected by this accounting treatment. The actual Interest and Related Expenses from Inverse Floaters incurred in the future may be higher or lower.

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

### Examples

The following examples illustrate the expenses (including the applicable transaction fees, if any, and estimated offering costs of \$1.50) that a Common Stockholder would pay on a \$1,000 investment that is held for the time periods provided in the table. Each example assumes that all dividends and other distributions are reinvested in the Fund and that the Fund's Annual Expenses, as provided above, remain the same. The examples also assume a 5% annual return.<sup>(1)</sup>



**Example # 1 (At-the-Market Transaction)**

The following example assumes a transaction fee of 1.00%, as a percentage of the offering price.

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$18          | \$31           | \$45           | \$87            |

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**Example # 2 (Underwriting Syndicate Transaction)**

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

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$47          | \$60           | \$74           | \$115           |

**Example # 3 (Privately Negotiated Transaction)**

The following example assumes there is no transaction fee.

| <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---------------|----------------|----------------|-----------------|
| \$8           | \$21           | \$35           | \$78            |

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

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- (1) The examples assume that all dividends and distributions are reinvested at common share net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

## FINANCIAL HIGHLIGHTS

The following Financial Highlights table is intended to help a prospective investor understand the Fund's financial performance for the periods shown. Certain information reflects financial results for a single share of Common Stock of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in shares of Common Stock of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal year ended October 31, 2010 has been audited by Ernst & Young LLP, whose report for the fiscal year ended October 31, 2010, along with the financial statements of the Fund including the Financial Highlights for each of the periods indicated therein, are included in the Fund's 2010 Annual Report. A copy of the 2010 Annual Report may be obtained from [www.sec.gov](http://www.sec.gov) or by visiting [www.nuveen.com](http://www.nuveen.com). The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus. Past results are not indicative of future performance.

The following per share data and ratios have been derived from information provided in the financial statements.

Selected data for a share outstanding throughout the period:

|  | Year Ended October 31, |               |               |               |               |               |
|--|------------------------|---------------|---------------|---------------|---------------|---------------|
|  | 2010                   | 2009          | 2008          | 2007          | 2006          | 2005          |
| <b>PER SHARE OPERATING PERFORMANCE</b> |                        |               |               |               |               |               |
| Beginning Net Asset Value              | \$ 9.51                | \$ 8.60       | \$ 10.12      | \$ 10.39      | \$ 10.15      | \$ 10.11      |
| Investment Operations:                 |                        |               |               |               |               |               |
| Net Investment Income                  | 0.49                   | 0.49          | 0.47          | 0.46          | 0.47          | 0.47          |
| Net Realized/Unrealized Gain (Loss)    | 0.30                   | 0.89          | (1.49)        | (0.23)        | 0.26          | 0.10          |
| <b>Total</b>                           | <b>0.79</b>            | <b>1.38</b>   | <b>(1.02)</b> | <b>0.23</b>   | <b>0.73</b>   | <b>0.57</b>   |
| Less Distributions:                    |                        |               |               |               |               |               |
| Net Investment Income                  | (0.47)                 | (0.47)        | (0.47)        | (0.47)        | (0.47)        | (0.47)        |
| Capital Gains                          | (0.01)                 | (0.03)        | (0.03)        | (0.02)        | (0.02)        | (0.06)        |
| <b>Total</b>                           | <b>(0.48)</b>          | <b>(0.47)</b> | <b>(0.50)</b> | <b>(0.50)</b> | <b>(0.49)</b> | <b>(0.53)</b> |
| Ending Net Asset Value                 | \$ 9.82                | \$ 9.51       | \$ 8.60       | \$ 10.12      | \$ 10.39      | \$ 10.15      |
| Ending Market Value                    | \$ 10.02               | \$ 9.91       | \$ 8.65       | \$ 9.49       | \$ 10.16      | \$ 9.58       |
| Total Returns:                         |                        |               |               |               |               |               |
| Based on Market Value*                 | 6.18%                  | 20.68%        | (3.93)%       | (1.90)%       | 11.51%        | 8.25%         |
| Based on Net Asset Value*              | 8.44%                  | 16.51%        | (10.51)%      | 2.22%         | 7.40%         | 5.73%         |
| <b>RATIOS/SUPPLEMENTAL DATA</b>        |                        |               |               |               |               |               |
| Ending Net Assets (000)                | \$ 1,944,094           | \$ 1,872,031  | \$ 1,684,418  | \$ 1,974,535  | \$ 2,025,964  | \$ 1,979,396  |
| Ratios to Average Net Assets**         |                        |               |               |               |               |               |
| Expenses Including Interest(a)         | 0.61%                  | 0.66%         | 0.65%         | 0.62%         | 0.59%         | 0.60%         |
| Expenses Excluding Interest            | 0.60%                  | 0.64%         | 0.61%         | 0.59%         | 0.59%         | 0.60%         |
| Net Investment Income                  | 5.05%                  | 5.49%         | 4.86%         | 4.53%         | 4.60%         | 4.64%         |
| Portfolio Turnover Rate                | 8%                     | 5%            | 16%           | 10%           | 6%            | 8%            |

\* Total Return Based on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment for the last dividend

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declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based on Net Asset Value is the combination of changes in net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvest price for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

\*\* Ratios do not reflect the effect of custodian fee credits earned on the Fund's net cash on deposit with the custodian bank, where applicable.

- (a) The expense ratios reflect, among other things, the interest expense deemed to have been paid by the Fund on the floating rate certificates issued by the special purpose trusts for the self-deposited inverse floaters held by the Fund, where applicable, as described in Footnote 1 General Information and Significant Accounting Policies, Inverse Floating Rate Securities, in the most recent shareholder report.

|  | Year Ended October 31, |              |              |              |
|--|------------------------|--------------|--------------|--------------|
|  | 2004                   | 2003         | 2002         | 2001         |
| <b>PER SHARE OPERATING PERFORMANCE</b> |                        |              |              |              |
| Beginning Net Asset Value              | \$ 9.92                | \$ 9.98      | \$ 10.17     | \$ 9.77      |
| Investment Operations:                 |                        |              |              |              |
| Net Investment Income                  | 0.48                   | 0.49         | 0.51         | 0.51         |
| Net Realized/Unrealized Gain (Loss)    | 0.26                   | (0.01)       | (0.18)       | 0.42         |
| Total                                  | 0.74                   | 0.48         | 0.33         | 0.93         |
| Less Distributions:                    |                        |              |              |              |
| Net Investment Income                  | (0.49)                 | (0.50)       | (0.51)       | (0.51)       |
| Capital Gains                          | (0.06)                 | (0.04)       | (0.01)       | (0.02)       |
| Total                                  | (0.55)                 | (0.54)       | (0.52)       | (0.53)       |
| Ending Net Asset Value                 | \$ 10.11               | \$ 9.92      | \$ 9.98      | \$ 10.17     |
| Ending Market Value                    | \$ 9.36                | \$ 9.12      | \$ 9.32      | \$ 9.48      |
| Total Returns:                         |                        |              |              |              |
| Based on Market Value*                 | 9.01%                  | 3.66%        | 3.80%        | 17.32%       |
| Based on Net Asset Value*              | 7.77%                  | 4.90%        | 3.32%        | 9.77%        |
| <b>RATIOS/SUPPLEMENTAL DATA</b>        |                        |              |              |              |
| Ending Net Assets (000)                | \$ 1,971,925           | \$ 1,934,433 | \$ 1,946,407 | \$ 1,982,139 |
| Ratios to Average Net Assets**         |                        |              |              |              |
| Expenses Including Interest(a)         | 0.62%                  | 0.64%        | 0.65%        | 0.65%        |
| Expenses Excluding Interest            | 0.62%                  | 0.64%        | 0.65%        | 0.65%        |
| Net Investment Income                  | 4.83%                  | 4.97%        | 5.07%        | 5.09%        |
| Portfolio Turnover Rate                | 13%                    | 36%          | 13%          | 10%          |

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**TRADING AND NET ASSET VALUE INFORMATION**

The following table shows for the periods indicated: (i) the high and low sales prices for shares of Common Stock as reported on the NYSE, (ii) the high and low net asset values of shares of Common Stock, and (iii) the high and low of the discount or premium to net asset value (expressed as a percentage) of shares of Common Stock.

| <u>Fiscal Quarter Ended</u> | <u>Price</u> |            | <u>Net Asset Value</u> |            | <u>Premium/Discount to Net Asset Value</u> |            |
|-----------------------------|--------------|------------|------------------------|------------|--|------------|
|                             | <u>High</u>  | <u>Low</u> | <u>High</u>            | <u>Low</u> | <u>High</u>                                | <u>Low</u> |
| January 31, 2011            | \$ 10.07     | \$ 8.89    | \$ 9.83                | \$ 8.89    | 2.76%                                      | -3.66%     |
| October 31, 2010            | 10.19        | 9.91       | 9.92                   | 9.72       | 4.41                                       | 0.51       |
| July 31, 2010               | 10.00        | 9.76       | 9.73                   | 9.62       | 3.63                                       | 0.31       |
| April 30, 2010              | 9.95         | 9.70       | 9.70                   | 9.57       | 3.03                                       | 1.36       |
| January 31, 2010            | 9.99         | 9.62       | 9.61                   | 9.43       | 5.40                                       | 1.05       |
| October 31, 2009            | 9.95         | 9.34       | 9.88                   | 9.05       | 5.74                                       | -0.83      |
| July 31, 2009               | 9.49         | 9.13       | 9.23                   | 8.93       | 5.21                                       | 0.22       |
| April 30, 2009              | 9.53         | 8.64       | 8.96                   | 8.62       | 7.68                                       | -2.15      |
| January 31, 2009            | 9.51         | 7.90       | 8.89                   | 8.05       | 8.89                                       | -8.63      |

**THE FUND**

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was incorporated under the laws of the State of Minnesota on April 8, 1987. In 1987, the Fund issued an aggregate of 158,000,000 shares of beneficial interest of Common Stock, par value \$0.01 per share, pursuant to the initial public offering thereof. In 1994, the Fund issued an additional 55,576,500 shares of Common Stock in connection with a rights offering. On December 8, 2010, the Fund registered an aggregate of 19,600,000 shares of Common Stock to be offered pursuant to one of three offering methods: at-the-market transactions, underwriting syndicates or privately-negotiated transactions. As of January 31, 2011, of such 19,600,000 shares of Common Stock, the Fund sold an aggregate of 208,955 shares with the remaining shares being offered hereunder. The Fund's Common Stock is listed on the NYSE under the symbol NUV.

The following provides information about the Fund's outstanding shares of Common Stock as of December 31, 2010:

| <u>Title of Class</u> | <u>Amount Authorized</u> | <u>Amount Held by the Fund or for its Account</u> | <u>Amount Outstanding</u> |
|-----------------------|--------------------------|---|---------------------------|
| Common                | 350,000,000              | 0   | 198,058,520               |

The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

**USE OF PROCEEDS**

The net proceeds from the issuance of Common Stock hereunder will be used by the Fund to invest in municipal securities in accordance with the Fund's investment objectives and policies as stated below. To the extent the Fund uses the net proceeds of any offering to invest in municipal securities, it is presently anticipated that the Fund will be able to invest substantially all of such proceeds in securities that meet the Fund's investment objective and policies within one month from the date on which the proceeds from an offering are received by the Fund. Pending such investment, it is anticipated that the proceeds will be invested in short-term or long-term securities issued by the U.S. Government and its agencies or instrumentalities or in high-quality, short-term money market instruments. See Use of Leverage.

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**THE FUND'S INVESTMENTS**

**Investment Objectives and Policies**

The Fund's primary investment objective is current income exempt from federal income tax. The Fund's secondary investment objective is the enhancement of portfolio value through selection of tax-exempt bonds and municipal market sectors.

Under normal circumstances and as a fundamental policy, the Fund will invest at least 80% of its net assets in municipal securities, the income from which is exempt from regular federal income tax.

The Fund seeks to achieve its investment objectives by investing in a portfolio of municipal securities, a significant portion of which Nuveen Asset Management believes are underrated and undervalued, based upon its bottom-up, research-driven investment strategy. Underrated municipal securities are those whose ratings do not, in Nuveen Asset Management's opinion, reflect their true creditworthiness. Undervalued municipal securities are securities that, in Nuveen Asset Management's opinion, are worth more than the value assigned to them in the marketplace. Nuveen Asset Management believes its value oriented strategy offers the opportunity to construct a well diversified portfolio of municipal securities that has the potential to outperform major municipal market benchmarks over the longer term. A municipal security's market value generally will depend upon its form, maturity, call features, and interest rate, as well as the issuer's credit quality or credit rating, all such factors examined in the context of the municipal securities market and interest rate levels and trends. Nuveen Asset Management may at times believe that securities associated with a particular municipal market sector (for example, electric utilities), or issued by a particular municipal issuer, are undervalued. Nuveen Asset Management may purchase such a security for the Fund's portfolio because it represents a market sector or issuer that Nuveen Asset Management considers undervalued, even if the value of the particular security appears to be consistent with the value of similar securities. Municipal securities of particular types (e.g., hospital bonds, industrial revenue bonds or securities issued by a particular municipal issuer) may be undervalued because there is a temporary excess of supply in that market sector, or because of a general decline in the market price of municipal securities of the market sector for reasons that do not apply to the particular municipal securities that are considered undervalued. The Fund's investment in underrated or undervalued municipal securities will be based on Nuveen Asset Management's belief that their yield is higher than that available on securities bearing equivalent levels of interest rate risk, credit risk and other forms of risk, and that their prices will ultimately rise (relative to the market) to reflect their true value. The Fund attempts to increase its portfolio value relative to the municipal bond market by prudent selection of municipal securities regardless of the direction the market may move. Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Common Stockholders.

The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from regular federal income tax. Municipal securities are often issued by state and local governmental entities to finance or refinance public projects, such as roads, schools, and water supply systems. Municipal securities also may be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned transportation, electric utility and pollution control projects. Municipal securities may be issued on a long-term basis to provide long-term 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. Municipal securities also may be issued to finance projects on a short-term interim basis, anticipating repayment with the proceeds of the later issuance of long-term debt. The Fund may purchase municipal securities in the form of bonds, notes, leases or certificates of participation; structured as callable or non-callable; with payment forms that include fixed coupon, variable rate, zero coupon, capital appreciation bonds, tender option bonds, and residual interest bonds or inverse floating rate securities; or



acquired through investments in pooled vehicles, partnerships, or other investment companies. The Fund may invest up to approximately 15% of its managed assets in inverse floating rate securities.

The Fund also may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including interest rate and credit default swaps), options on financial futures, options on swap contracts, or other derivative instruments. Nuveen Asset Management may use derivative instruments to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or as a substitute for a position in the underlying asset. These types of hedging strategies may generate taxable income. See [The Fund's Investments Municipal Securities Derivatives](#).

Under normal circumstances:

The Fund will invest at least 80% of its net assets in investment grade quality municipal securities. Investment grade quality securities are those that are, at the time of investment either, (i) rated by one of the NRSROs that rate such securities within the four highest letter grades (including BBB or Baa or better by S&P, Moody's or Fitch), or (ii) unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. Investment grade securities may include split-rated securities. The Fund estimates that, upon completing its invest-up, the average credit quality of its investments will be A+.

The Fund may invest up to 20% of its net assets in municipal securities that at the time of investment are rated below investment grade or are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 10% of its net assets in municipal securities rated below B-/B3 or that are unrated by any NRSRO but judged to be of comparable quality by Nuveen Asset Management. This means that the Fund may invest up to 10% of its net assets in municipal securities, the issuer of which is having financial difficulties, such as being in default on its obligations to pay principal or interest thereon when due or that is involved in bankruptcy or insolvency proceedings (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds.

As a fundamental policy, the Fund will not leverage its capital structure by issuing senior securities such as preferred shares or debt instruments. However, the Fund may borrow for temporary, emergency or other purposes as permitted by the 1940 Act and invest in certain instruments, including inverse floating rate securities, that have the economic effect of financial leverage.

The Fund will not invest more than 15% of its net assets in residual interest bonds or inverse floating rate securities.

The Fund may invest up to 15% of its net assets in municipal securities that, at the time of investment, are illiquid (*i.e.*, securities that are not readily marketable). See [Risk Factors Illiquid Securities Risk](#).

The Fund will generally invest in municipal securities with intermediate or long-term maturities. The weighted average maturity of securities held by the Fund may be shortened or lengthened, depending on market conditions and on an assessment by the Fund's portfolio manager of which segments of the municipal securities market offer the most favorable relative investment values and opportunities for tax-exempt income and total return.

The Fund will not invest more than 25% of its net assets in municipal securities in any one industry or in any one state of origin of municipal securities.

The Fund will not invest more than 10% of its net assets in tobacco settlement bonds. Tobacco settlement bonds are bonds that are secured or payable solely from the collateralization of the proceeds from class action or other litigation against the tobacco industry. See [Risk Factors Sector and Industry Risk](#).



The credit quality policies noted above apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, Nuveen Asset Management may consider such factors as Nuveen Asset Management's assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. A general description of the ratings of S&P, Moody's and Fitch of municipal securities is set forth in Appendix A to the SAI.

The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements or escrow accounts. The credit quality of companies that provide such credit enhancements will affect the value of those securities. Although the insurance feature is designed to reduce certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund's income. The Fund may use any insurer, regardless of its rating. A municipal security typically will be deemed to have the rating of its insurer. However, in the event an insurer has a credit rating below the rating of an underlying municipal security or is perceived by the market to have such a lower rating, the municipal security rating would be the more relevant rating and the value of the municipal security would more closely, if not entirely, reflect such rating. As a result, the value of insurance associated with a municipal security may decline and may not add any value. The insurance feature does not guarantee the full payment of principal and interest of an insured obligation, the market value of the insured obligation or the net asset value of the Common Stock represented by such insured obligation.

During temporary defensive periods or in order to keep the Fund's cash fully invested, including during the period when the net proceeds of the offering of Common Stock are being invested, the Fund may deviate from its investment policies and objectives. During such periods, the Fund may invest up to 100% of its net assets in short-term investments, including high quality, short-term securities that may be either tax-exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal income tax. Such transactions will be used solely to reduce risk. There can be no assurance that such strategies will be successful. For more information, see the SAI under Tax Matters.

The Fund's investment objectives and certain investment policies specifically identified as such are considered fundamental and may not be changed without shareholder approval. All of the Fund's other investment policies are not considered to be fundamental by the Fund and can be changed by the Fund's Board of Directors without a vote of the shareholders.

The Fund cannot change its investment objectives or fundamental policies without the approval of the holders of a majority of the outstanding shares of Common Stock. When used with respect to particular shares of the Fund, a majority of the outstanding shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy or (ii) more than 50% of the shares, whichever is less.

#### **Nuveen Asset Management Investment Philosophy and Process**

Nuveen Asset Management is the Fund's investment adviser, responsible for investing the Fund's net assets. Nuveen Asset Management, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments. Founded in 1898, Nuveen Investments and its affiliates had approximately \$197 billion of assets under management as of December 31, 2010, of which approximately \$75.2 billion was in municipal securities. Regarding this approximately \$75.2 billion of tax-exempt municipal securities, approximately \$34.7 billion, \$19.5 billion, \$16.6 billion and \$4.4 billion represent assets relating to closed-end municipal bond funds, open-end municipal bond funds, retail municipal managed accounts and institutional municipal managed accounts, respectively. See Management of the Fund.

**Investment Philosophy.** Nuveen Asset Management believes that the unique tax treatment of municipal securities and the structural characteristics in the municipal securities market create attractive opportunities to enhance the after-tax total return and diversification of the investment portfolios of taxable investors. Nuveen Asset Management believes that these unique characteristics also present unique risks that may be managed to realize the benefits of the asset class. Nuveen Asset Management considers the following factors:

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

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

*Opportunities to Identify Underrated and Undervalued Municipal Securities.* Within the state and national municipal securities markets, there are issuers with a wide array of financing purposes, security terms, offering structures and credit quality. Nuveen Asset Management believes that the size, depth and other characteristics of the state and national municipal securities markets offer a broad opportunity set of individual issuers in securities that may be underrated and undervalued relative to the general market.

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

**Investment Process.** Nuveen Asset Management employs a bottom-up, research-driven investment strategy that seeks to identify underrated and undervalued municipal securities and sectors to potentially outperform the general municipal securities market over time. The primary elements of Nuveen Asset Management's investment process are:

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

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

*Managing Risk.* Nuveen Asset Management seeks to manage portfolio risks, including, principally, exposure to individual credits and sectors and exposure to calls, and to manage a portfolio's interest rate sensitivity within tolerance bands relative to the relevant benchmark.

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

issues Nuveen Asset Management considers to be undervalued.

*Sell Discipline.* Nuveen Asset Management generally sells securities when it (i) determines a security has become overvalued or over-rated, (ii) identifies credit deterioration, or (iii) modifies a portfolio strategy, such as sector allocation.

### **Portfolio Composition and Other Information**

The Fund's portfolio will be composed principally of the following investments. More detailed information about the Fund's portfolio investments are contained under Portfolio Composition.

### **Municipal Securities**

*General.* The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from regular federal income tax (as previously defined, municipal securities). Municipal securities are often issued by state and local governmental entities to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned transportation, electric utility and pollution control projects. Municipal securities 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. Municipal securities 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. The Fund may purchase municipal securities in the form of bonds, notes, leases or certificates of participation; structured as callable or non-callable; with payment forms including fixed coupon, variable rate, zero coupon, capital appreciation bonds, tender option bonds, and residual interest bonds or inverse floating rate securities; or acquired through investments in pooled vehicles, partnerships or other investment companies. Inverse floating rate securities are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and represent a leveraged investment in an underlying municipal security, which could have the economic effect of financial leverage.

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

Municipal securities may also be issued on behalf of private entities or for private activities, such as housing, medical and educational facility construction, or for privately owned industrial development and pollution control projects. General obligation bonds are backed by the full faith and credit, or taxing authority, of the issuer and may be repaid from any revenue source; revenue bonds may be repaid only from the revenues of a specific facility or source. The Fund may also purchase municipal securities that represent lease obligations, municipal notes, pre-refunded municipal securities, private activity bonds, tender option bonds and other related securities and derivative instruments that create exposure to municipal bonds, notes and securities and that provide for the payment of interest income that is exempt from regular federal income tax.

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

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

A municipal security's market value generally will depend upon its form, maturity, call features, and interest rate, as well as the credit quality of the issuer, all such factors examined in the context of the municipal securities market and interest rate levels and trends.

*Municipal Leases and Certificates of Participation.* The Fund also may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase which is issued by a state or local government to acquire equipment and facilities. Income from such obligations is generally exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Fund's original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where Nuveen Asset Management believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days' notice, of all or any part of the Fund's participation interest in the underlying municipal securities, plus accrued interest.

*Municipal Notes.* Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer's receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer's payment obligations under the notes or that refinancing will be otherwise unavailable.



*Pre-Refunded Municipal Securities.* The principal of and interest on pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

*Private Activity Bonds.* Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues. The Fund's distributions of its interest income from private activity bonds may subject certain investors to the federal alternative minimum tax. See Tax Matters.

*Inverse Floating Rate Securities.* The Fund may invest in inverse floating rate securities. Inverse floating rate securities (sometimes referred to as inverse floaters or residual interests of a tender option bond) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: short-term floating rate municipal securities (sometimes referred to as short-term floaters or tender option bonds), which are sold to third party investors, and inverse floating rate municipal securities, which the Fund would purchase. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees. The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal security deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the face value of the short-term floaters in relation to the residual inverse floaters that are issued by the special purpose trust. In addition, all voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters' value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying bonds due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.*, when bond values are falling), but tend to out-perform the market of fixed rate bonds when

interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity based upon the liquidity of the underlying bonds deposited in a special purpose trust.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In NFA's discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of such inverse floater, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. Such agreements may expose the Fund to a risk of loss that exceeds its investment in the inverse floating rate securities. Absent a shortfall and forbearance agreement, the Fund would not be required to make such a reimbursement. If the Fund chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Fund could incur a loss.

The Fund's investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund's inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the "gearing"). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund's anticipated effective leverage ratio.

Investments in inverse floating rate securities create effective leverage. The use of leverage creates special risks for Common Stockholders. See *Leverage* and *Risk Factors - Inverse Floating Rate Securities Risk*. The Fund will segregate or earmark liquid assets with its custodian in accordance with the 1940 Act to cover its obligations with respect to its investments in special purpose trusts. See also *Segregation of Assets* in the Statement of Additional Information.

*Tender Option Bonds.* A tender option bond is a municipal security (generally held pursuant to a custodial arrangement) having a relatively long maturity and bearing interest at a fixed rate substantially higher than prevailing short-term, tax-exempt rates. The bond is typically issued with the agreement of a third party, such as a bank, broker-dealer or other financial institution, which grants the security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees equal to the difference between the bond's fixed coupon rate and the rate, as determined by a remarketing or similar agent at or near the commencement of such period, that would cause the securities, coupled with the tender option, to trade at par on the date of such determination. Thus, after payment of this fee, the security holder effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, an institution will not be obligated to accept tendered bonds in the event of certain defaults or a significant downgrade in the credit rating assigned to the issuer of the bond. The Fund intends to invest in tender option bonds the interest on which will, in the opinion of bond counsel, counsel for the issuer of interests therein or counsel selected by Nuveen Asset Management, be

exempt from regular federal income tax. However, because there can be no assurance that the Internal Revenue Service (the IRS) will agree with such counsel's opinion in any particular case, there is a risk that the Fund will not be considered the owner of such tender option bonds and thus will not be entitled to treat such interest as exempt from such tax. Additionally, the federal income tax treatment of certain other aspects of these investments, including the proper tax treatment of tender option bonds and the associated fees in relation to various regulated investment company tax provisions, is unclear. The Fund intends to manage its portfolio in a manner designed to eliminate or minimize any adverse impact from the tax rules applicable to these investments.

*Special Taxing Districts.* Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds. Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

*When-Issued and Delayed Delivery Transactions.* The Fund may buy and sell municipal securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. This type of transaction may involve an element of risk because no interest accrues on the bonds prior to settlement and, because bonds are subject to market fluctuations, the value of the bonds at time of delivery may be less (or more) than cost. A separate account of the Fund will be established with its custodian consisting of cash, cash equivalents, or liquid securities having a market value at all times at least equal to the amount of the commitment.

*Zero Coupon Bonds.* A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

*Structured Notes.* The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending upon a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index or indices or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss. These types of investments may generate taxable income.

*Derivatives.* The Fund may invest in certain derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including interest rate and credit default swaps), options on financial futures, options on swap contracts or other derivative instruments. The Fund may also use credit default swaps and interest rate swaps. Credit default swaps may require initial premium (discount) payments as well as periodic payments (receipts) related to the interest leg of the swap or to the default of a reference obligation. If the Fund is a seller of a contract, the Fund would be required to pay the par (or other agreed upon) value of a referenced debt obligation to the counterparty in the event of a default or other credit event by the reference issuer, such as a U.S. or foreign corporate issuer, with respect to such debt obligations. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would be subject to investment exposure on the notional amount of the swap. If the Fund is a buyer of a contract, the Fund would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event (such as a credit downgrade) by the reference issuer, such as a U.S. or foreign corporation, with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the counterparty would keep the stream of payments and would have no further obligations to the Fund. Interest rate swaps involve the exchange by the Fund with a counterparty of their respective commitments to pay or receive interest, such as an exchange of fixed-rate payments for floating rate payments. The Fund will usually enter into interest rate swaps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

Nuveen Asset Management may use derivative instruments to seek to enhance return, to hedge some of the risk of the Fund's investments in municipal securities or as a substitute for a position in the underlying asset. These types of strategies may generate taxable income.

There is no assurance that these derivative strategies will be available at any time or that Nuveen Asset Management will determine to use them for the Fund or, if used, that the strategies will be successful.

*Other Investment Companies.* The Fund may invest up to 10% of its net assets in securities of other open- or closed-end investment companies (including exchange-traded funds (ETFs)) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund may invest in investment companies that are advised by NFA, Nuveen Asset Management or their respective affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the Securities and Exchange Commission. As a shareholder in an investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory and administrative fees with respect to assets so invested. Common Stockholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies.

Nuveen Asset Management will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available municipal security investments. In addition, because the securities of other investment companies may be leveraged subject to leverage risk, the Fund may indirectly be subject to those risks. These types of investments may generate taxable income. See Risk Factors Other Investment Companies Risk.

### **Portfolio Turnover**

The Fund may engage in portfolio trading when considered appropriate, but short-term trading will not be used as the primary means of achieving the Fund's investment objectives. Although the Fund cannot accurately predict its annual portfolio turnover rate, it is generally not expected to exceed 25% under normal circumstances. However, there are no limits on the Fund's rate of portfolio turnover, and investments may be sold without



regard to length of time held when, in Nuveen Asset Management's opinion, investment considerations warrant such action. A higher portfolio turnover rate would result in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. Although these commissions and expenses are not reflected in the Fund's Total Annual Expenses on page 13 of this prospectus, they will be reflected in the Fund's total return. In addition, high portfolio turnover may result in the realization of net short-term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income. See Tax Matters.

### PORTFOLIO COMPOSITION

As of December 31, 2010, approximately 100% of the market value of the Fund's portfolio was invested in long-term municipal bonds. The following table sets forth certain information with respect to the composition of the Fund's investment portfolio as of December 31, 2010.

| Credit Rating*      | Percent     |
|---------------------|-------------|
| AAA/U.S. guaranteed | 19%         |
| AA                  | 30%         |
| A                   | 22%         |
| BBB                 | 18%         |
| BB or Lower         | 7%          |
| Unrated             | 4%          |
| <b>Total</b>        | <b>100%</b> |

\* Using the higher of S&P's or Moody's rating, if available.

### USE OF LEVERAGE

Financial leverage is created through the Fund's investments in residual interest certificates of tender option bond trusts, also called inverse floating rate securities, because the Fund's investment exposure to the underlying bonds held by the trust have been effectively financed by the trust's issuance of floating rate certificates. See The Fund's Investments Municipal Securities Inverse Floating Rate Securities and Risk Factors Inverse Floating Rate Securities. Leverage involves special risks. There is no assurance that the Fund's leveraging strategy will be successful. The Fund will seek to invest the proceeds from financial leverage in a manner consistent with the Fund's objectives and policies.

The Fund's investments in inverse floating rate securities pay dividends at rates based on short-term periods which are reset periodically. So long as the Fund's portfolio is invested in securities that provide a higher rate of return than the Fund's cost of leverage (after taking expenses into consideration), the leverage will cause you to receive a higher current rate of return than if the Fund were not leveraged.

Changes in the value of the Fund's bond portfolio will be borne entirely by the Common Stockholders. If there is a net decrease (or increase) in the value of the Fund's investment portfolio, the leverage will decrease (or increase) the net asset value per share of Common Stock to a greater extent than if the Fund were not leveraged.

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The Fund pays Nuveen Asset Management a management fee based on a percentage of Managed Assets. Managed Assets for this purpose includes the proceeds realized from the Fund's use of financial leverage. See Management of the Fund Investment Management Agreement. Nuveen Asset Management will base its decision whether and how much to leverage the Fund based solely on its assessment of whether such use of leverage will advance the Fund's investment objective. Nuveen Asset Management will be responsible for using leverage to achieve the Fund's investment objective. However, the fact that a decision to increase the Fund's

leverage will have the effect of increasing Managed Assets and therefore Nuveen Asset Management's management fee means that Nuveen Asset Management may have an incentive to increase the Fund's use of leverage. Nuveen Asset Management will seek to manage that incentive by only increasing the Fund's use of leverage when it determines that such increase is consistent with the Fund's investment objective, and by periodically reviewing the Fund's performance and use of leverage with the Fund's Board of Directors.

## RISK FACTORS

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in Common Stock.

### Investment and Market Risk

An investment in the Fund's Common Stock is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Stock represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your Common Stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions. In addition, if the current national economic downturn deteriorates into a prolonged recession, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected.

### Current Economic Conditions Credit Crisis Liquidity and Volatility Risk

The markets for credit instruments, including municipal securities, have experienced periods of extreme illiquidity and volatility since the latter half of 2007. General market uncertainty and consequent repricing risk have led to market imbalances of sellers and buyers, which in turn have resulted in significant valuation uncertainties in a variety of debt securities, including municipal securities, and significant and rapid value decline in certain instances. These conditions resulted, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads and a lack of price transparency, with many debt securities remaining illiquid and of uncertain value. These market conditions may make valuation of some of the Fund's municipal securities uncertain and/or result in sudden and significant value declines in its holdings. A significant decline in the value of the Fund's portfolio would likely result in a significant decline in the value of your investment in Common Stock. In addition, illiquidity and volatility in the credit markets may directly and adversely affect the setting of dividend rates on the Common Stock. This volatility may also impact the liquidity of inverse floating rate securities in the Fund's portfolio. See Risk Factors Inverse Floating Rate Securities Risk.

In response to the current national economic condition, governmental cost burdens may be reallocated among federal, state and local governments. Also, as a result of the downturn, many state and local governments are experiencing significant reductions in revenues and consequently difficulties meeting ongoing expenses. As a result, certain of these state and local governments may have difficulty paying principal or interest on their outstanding debt and may experience ratings downgrades of their debt. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. See Risk Factors Municipal Securities Market Risk.



### **Market Discount from Net Asset Value**

Shares of closed-end investment companies like the Fund have during some periods traded at prices higher than net asset value and have during other periods traded at prices lower than net asset value. The Fund cannot predict whether shares of Common Stock will trade at, above or below net asset value. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of investment activities. Investors bear a risk of loss to the extent that the price at which they sell their shares is lower in relation to the Fund's net asset value than at the time of purchase, assuming a stable net asset value. Proceeds from the sale of Common Stock in this offering will be reduced by transaction costs (if applicable, which vary depending on the offering method used). Depending on the premium of the shares of Common Stock at the time of any offering of Common Stock hereunder, the net asset value per share of Common Stock may be reduced by the amount of offering costs borne by the Fund (estimated to be an additional .15% of the offering price assuming a per share of Common Stock offering price of \$9.05 (the Fund's closing price on the NYSE on January 31, 2011)). The net asset value per share of Common Stock also will be reduced by costs associated with any future offerings of common stock. The Common Stock is designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

### **Credit and Below Investment Grade Risk**

Credit risk is the risk that one or more municipal securities in the Fund's portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. In general, lower-rated municipal securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Fund's net asset value or dividends. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% of its net assets in municipal securities that are rated below investment grade at the time of investment or that are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund's net assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. This means that the Fund may invest in municipal securities that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition (such securities are commonly referred to as distressed securities). Municipal securities of below investment grade quality, commonly referred to as junk bonds, are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal when due, and are susceptible to default or decline in market value due to adverse economic and business developments. Also, to the extent that the rating assigned to a municipal security in the Fund's portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund, compared with a portfolio consisting solely of investment grade securities, may experience the following:

increased price sensitivity resulting from changing interest rates and/or a deteriorating economic environment;

greater risk of loss due to default or declining credit quality;

adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and

the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

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

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

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

The Fund may invest up to 10% of its net assets in distressed securities. Distressed securities are securities issued by companies that are involved in bankruptcy or insolvency proceedings or are experiencing other financial difficulties at the time of acquisition by the Fund. The issuers of such securities may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these

companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. Distressed securities frequently do not produce income while they are outstanding and may require the Fund to bear certain extraordinary expenses in order to protect and recover its investment.

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

### **Interest Rate Risk**

Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. As interest rates decline, issuers of municipal securities may prepay principal earlier than scheduled, forcing the Fund to reinvest in lower-yielding securities and potentially reducing the Fund's income. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund's value. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change. Because the Fund will invest primarily in longer-term municipal securities, the net asset value and market price per share will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter-term municipal securities. Because the values of lower-rated and comparable unrated debt securities are affected both by credit risk and interest rate risk, the price movements of such lower grade securities typically have not been highly correlated to the fluctuations of the prices of investment grade quality securities in response to changes in market interest rates. The Fund's investments in inverse floating rate securities, as described herein under **Inverse Floating Rate Securities Risk**, will tend to increase Common Stock interest rate risk.

### **Municipal Securities Market Risk**

Investing in the municipal securities market involves certain risks. 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. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of Nuveen Asset Management than if the Fund were a stock fund or taxable bond fund. The secondary market for municipal securities, particularly the below investment grade bonds in which the Fund may invest, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the 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 the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses. Any income derived from the Fund's ownership or operation of such assets may not be tax-exempt.



### **Reinvestment Risk**

Reinvestment risk is the risk that income from the Fund's portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the portfolio's current earnings rate. A decline in income could affect the market price of the shares of Common Stock or their overall returns.

### **Inverse Floating Rate Securities Risk**

The Fund may invest in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal bonds. See The Fund's Investments Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund's investment in inverse floating rate securities will create effective leverage. Any effective leverage achieved through the Fund's purchase of inverse floating rate securities will create an opportunity for increased Common Stock net income and returns, but will also create the possibility that Common Stock long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

There is no assurance that the Fund's strategy of investing in inverse floating rate securities will be successful.

Inverse floating rate securities have varying degrees of liquidity based, among other things, upon the liquidity of the underlying securities deposited in a tender option bond trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings. Also, the holder of the floating rate securities that has provided the leverage associated with the fund's inverse floating rate securities may cause the fund to purchase or otherwise retire those floating rate securities (i.e., to effectively cause the fund to repay the leverage provided by such holder), which may require the Fund to raise cash through the sale of portfolio securities at times and at prices that are not desirable for the Fund.

### **Insurance Risk**

The Fund may purchase municipal securities that are secured by insurance, bank credit agreements or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. 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

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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. In such a case, the value of insurance associated with a municipal security would

decline and may not add any value. The insurance feature of a municipal security does not guarantee the full payment of principal and interest through the life of an insured obligation, the market value of the insured obligation or the net asset value of the Common Stock represented by such insured obligation.

### **Tax Risk**

To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (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 Fund's current and accumulated earnings and profits.

The value of the Fund's investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal securities. This could in turn affect the Fund's net asset value and ability to acquire and dispose of municipal securities at desirable yield and price levels. Additionally, the Fund is not a suitable investment for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments.

### **Taxability Risk**

The Fund will invest in 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 federal income tax purposes, and Nuveen Asset Management will not independently verify that opinion. Subsequent to the Fund's acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund's shareholders to increased federal income tax liabilities.

The IRS may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

Distributions of ordinary taxable income (including any net short-term capital gain) will be taxable to shareholders as ordinary income (and not eligible for favorable taxation as qualified dividend income), and capital gain dividends will be subject to capital gains taxes. See Tax Matters.

### **Borrowing Risks**

The Fund may borrow for temporary or emergency purposes, or to repurchase its shares. Borrowing may exaggerate changes in the net asset value of the Fund's shares and may affect the Fund's net income. When the Fund borrows money, it must pay interest and other fees, which will reduce the fund's returns if such costs exceed the returns on the portfolio securities purchased or retained with such borrowings. Any such borrowings are intended to be temporary. However, under certain market conditions, including periods of low demand or decreased liquidity in

the municipal bond market such borrowings might be outstanding for longer periods of time.



### **Other Investment Companies Risk**

The Fund may invest in the securities of other investment companies. Such securities may be leveraged. As a result, the Fund may be indirectly exposed to leverage through an investment in such securities. Utilization of leverage is a speculative investment technique and involves certain risks. An investment in securities of other investment companies that are leveraged may expose the Fund to higher volatility in the market value of such securities and the possibility that the Fund's long-term returns on such securities (and, indirectly, the long-term returns of the Common Stock) will be diminished.

### **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 Common Stock and the distributions can decline. In addition, during any period of rising inflation, interest rates on borrowings would likely increase, which would tend to further reduce returns to Common Stockholders.

### **Sector and Industry Risk**

The Fund may invest up to 25% of its net assets in municipal securities in any one industry or in any one state of origin. In addition, subject to the concentration limits of the Fund's investment policies and guidelines, the Fund may invest a significant portion of its net assets in certain sectors of the municipal securities market, such as hospitals and other health care facilities, charter schools and other private educational facilities, special taxing districts and start-up utility districts, and private activity bonds including industrial development bonds on behalf of transportation companies such as airline companies, whose credit quality and performance may be more susceptible to economic, business, political, regulatory and other developments than other sectors of municipal issuers. If the Fund invests a significant portion of its net assets in the sectors noted above, the Fund's performance may be subject to additional risk and variability. To the extent that the Fund focuses its net assets in the hospital and healthcare facilities sector, for example, the Fund will be subject to risks associated with such sector, including adverse government regulation and reduction in reimbursement rates, as well as government approval of products and services and intense competition. Securities issued with respect to special taxing districts will be subject to various risks, including real-estate development related risks and taxpayer concentration risk. Further, the fees, special taxes or tax allocations and other revenues established to secure the obligations of securities issued with respect to special taxing districts 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. Charter schools and other private educational facilities are subject to various risks, including the reversal of legislation authorizing or funding charter schools, the failure to renew or secure a charter, the failure of a funding entity to appropriate necessary funds and competition from alternatives such as voucher programs. Issuers of municipal utility securities can be significantly affected by government regulation, financing difficulties, supply and demand of services or fuel and natural resource conservation. The transportation sector, including airports, airlines, ports and other transportation facilities, can be significantly affected by changes in the economy, fuel prices, labor relations, insurance costs and government regulation.

The Fund presently intends to limit investments in tobacco settlement bonds to 10% of its net assets. Tobacco settlement bonds are municipal securities that are backed solely by expected revenues to be derived from lawsuits involving tobacco related deaths and illnesses which were settled between certain states and American tobacco companies. Tobacco settlement bonds are secured by an issuing state's proportionate share in the Master Settlement Agreement (MSA). The MSA is an agreement, reached out of court in November 1998 between 46 states and nearly all of the U.S. tobacco manufacturers. Under the terms of the MSA, the actual amount of future settlement payments by tobacco manufacturers is dependent on many factors, including, but not limited to, annual domestic cigarette shipments, reduced cigarette consumption, increased taxes on cigarettes, inflation, financial capability of tobacco companies, continuing litigation and the possibility of tobacco manufacturer bankruptcy. Payments made by tobacco manufacturers could be negatively impacted if the decrease in tobacco consumption is significantly greater than the forecasted decline.



### **Special Risks Related to Certain Municipal Obligations**

The Fund may invest in municipal leases and certificates of participation in such leases. 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 non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the governmental issuer is prevented from maintaining occupancy of the leased 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 non-appropriation or foreclosure might prove difficult, time consuming and costly, and may result in a delay in recovering or the failure to fully recover the Fund's original investment. In the event of non-appropriation, the issuer would be in default and taking ownership of the assets may be a remedy available to the Fund, although the Fund does not anticipate that such a remedy would normally be pursued. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. 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 Fund may be dependent upon the municipal authority issuing the certificates 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.

### **Derivatives Risk, Including the Risk of Swaps**

The Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. Whether the Fund's use of derivatives is successful will depend on, among other things, if Nuveen Asset Management correctly forecasts market values, interest rates and other applicable factors. If Nuveen Asset Management incorrectly forecasts these and other factors, the investment performance of the Fund will be unfavorably affected. In addition, the derivatives market is largely unregulated. It is possible that developments in the derivatives market could adversely affect the Fund's ability to successfully use derivative instruments.

The Fund may enter into debt-related derivatives instruments including credit swap default contracts and interest rate swaps. Like most derivative instruments, the use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. In addition, the use of swaps requires an understanding by Nuveen Asset Management not only of the referenced asset, rate or index, but also of the swap itself. Because they are two-party contracts and because they may have terms of greater than seven days, swap agreements may be considered to be illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. It is possible that developments in the swaps market, including potential government regulation, could adversely affect the Fund's ability to terminate existing swap agreements or to realize amounts to be received under such agreements. See also, [Counterparty Risk](#), [Hedging Risk](#) and the SAI.

### **Counterparty Risk**

Changes in the credit quality of the companies that serve as the Fund's counterparties with respect to derivatives, insured municipal securities or other transactions supported by another party's credit will affect the value of those instruments. Certain entities that have served as counterparties in the markets for these



transactions have recently incurred significant financial hardships including bankruptcy and losses as a result of exposure to sub-prime mortgages and other lower quality credit investments that have experienced recent defaults or otherwise suffered extreme credit deterioration. As a result, such hardships have reduced these entities' capital and called into question their continued ability to perform their obligations under such transactions. By using such derivatives or other transactions, the Fund assumes the risk that its counterparties could experience similar financial hardships.

### **Hedging Risk**

The Fund's use of derivatives or other transactions to reduce risk involves costs and will be subject to Nuveen Asset Management's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings or other factors. No assurance can be given that Nuveen Asset Management's judgment in this respect will be correct. In addition, no assurance can be given that the Fund will enter into hedging or other transactions at times or under circumstances in which it may be advisable to do so.

### **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 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 Fund's portfolio.

### **Illiquid Securities Risk**

The Fund may invest in municipal securities and other instruments that, at the time of investment, are illiquid. Illiquid securities are securities that are not readily marketable and may include some restricted securities, which are securities that may not be resold to the public without an effective registration statement under the 1933 Act, if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by the Fund or at prices approximating the value at which the Fund is carrying the securities on its books.

### **Market Disruption Risk**