

NUVEEN MUNICIPAL HIGH INCOME OPPORTUNITY FUND

Form N-2

March 04, 2013

As filed with the U.S. Securities and Exchange Commission on March 4, 2013

1933 Act File No. 333-

1940 Act File No. 811-21449

## U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.

Post-Effective Amendment No.

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 26

## Nuveen Municipal High Income Opportunity Fund

(Exact name of Registrant as Specified in Charter)

**333 West Wacker Drive, Chicago, Illinois 60606**

(Address of Principal Executive Offices)

(Number, Street, City, State, Zip Code)

(Registrant's Telephone Number, including Area Code): (800) 257-8787

**Kevin J. McCarthy**

**Vice President and Secretary**

**333 West Wacker Drive**

**Chicago, Illinois 60606**

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

*Copy to:*

**Thomas S. Harman**

**Bingham McCutchen LLP**

**2020 K Street NW**

**Washington, DC 20006**

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box)

When declared effective pursuant to section 8(c)

Immediately upon filing pursuant to no-action relief granted to Registrant on November 9, 2010.

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

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<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price Per Unit(1)</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Common Shares, \$0.01 par value	7,700,000	\$14.03	\$108,031,000	\$14,735.43

- (1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 based on the average high and low sales prices of beneficial interest on February 27, 2013 as reported on the NYSE MKT.
- (2) Transmitted prior to filing.

**The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PROSPECTUS**

## 7.7 Million Common Shares

# Nuveen Municipal High Income Opportunity Fund

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Nuveen Municipal High Income Opportunity Fund (the Fund) is a diversified, closed-end management investment company. The Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. The Fund invests at least 80% of its Managed Assets (as defined on page 1 of the Prospectus) in investments the income from which is exempt from regular federal income tax. The Fund seeks to achieve its investment objectives by investing in municipal securities that Nuveen Asset Management, LLC (Nuveen Asset Management), the Fund's investment sub-adviser, believes are underrated and undervalued. The Fund cannot assure you that it will achieve its investment objectives.

On December 14, 2012, the Board of Trustees of the Fund and Nuveen Municipal High Income Opportunity Fund 2 (NYSE: NMD) (together with the Fund, the Funds) approved a merger. The Fund will be the acquiring fund and Nuveen Municipal High Income Opportunity Fund 2 will be the acquired fund. The merger is subject to customary conditions, including shareholder approval at the Funds' regular shareholder meetings. The merger is intended to create a single, larger fund with lower operating expenses and increased trading volume on the exchange for its common shares. A joint Proxy Statement/Prospectus relating to the proposed merger has been filed with the Securities and Exchange Commission (the SEC) and contains important information relating to the merger. Free copies of the Proxy Statement/Prospectus are available on the SEC's web site at [www.sec.gov](http://www.sec.gov). INVESTORS AND SECURITY HOLDERS OF THE FUNDS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER. INVESTORS SHOULD CONSIDER THE INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES OF THE FUNDS CAREFULLY. THE JOINT PROXY STATEMENT/PROSPECTUS CONTAIN INFORMATION WITH RESPECT TO THE INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES OF THE FUNDS AND OTHER IMPORTANT INFORMATION ABOUT THE FUNDS. THE JOINT PROXY STATEMENT/PROSPECTUS CONSTITUTE NEITHER AN OFFER TO SELL SECURITIES, NOR DOES IT CONSTITUTE A SOLICITATION OF AN OFFER TO BUY SECURITIES, IN ANY STATE WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

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

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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.

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 (the SAI ), dated March 4, 2013, 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 SEC's web site (<http://www.sec.gov>).

The Fund's common shares 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.* The Fund invests at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund's use of effective leverage (whether or not those assets are reflected in the Fund's financial statements for purposes of generally accepted accounting principles), such as, but not limited to, the portion of assets in special purpose trusts of which the Fund owns the inverse floater certificates that has been effectively financed by the trust's issuance of floating rate certificates. The Fund invests in municipal securities that Nuveen Asset Management believes are underrated and undervalued. Up to 30% of the Fund's Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. The Fund will invest at least 50% of its Managed 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 grades by all nationally recognized statistical rating organizations that rate such security, or if it is unrated but judged to be of comparable quality by the Fund's investment adviser. The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade quality or that are unrated but judged to be of comparable quality by the Fund's investment adviser. No more than 5% 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 the Fund's investment adviser. 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 10% of its Managed Assets in inverse floating rate securities.

*Adviser and Sub-Adviser.* Nuveen Fund Advisors, LLC, 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 investment operations of the Fund.

Common shares will not be sold at a price less than current net asset value plus the per share amount of the commission to be paid to Nuveen Securities, LLC (Nuveen Securities). The Fund and Nuveen Securities 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 transactions. For information on how Common Shares may be sold, see the Plan of Distribution section of this Prospectus.

Common shares are listed on the NYSE MKT. The trading or ticker symbol of the Fund is NMZ. The Fund's closing price on the NYSE MKT on February 22, 2013 was \$13.97.

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**The date of this Prospectus is March 4, 2013**

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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.**

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**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 High Income Opportunity Fund (the Fund) is a diversified, closed-end management investment company. See The Fund. The Fund's Common shares, \$.01 par value (Common Shares), are traded on the NYSE MKT under the symbol NMZ. See Description of Common Shares. As of December 31, 2012, the Fund had 30,513,725 Common Shares outstanding 510 shares of Variable Rate MuniFund Term Preferred Shares (referred to herein as VMTP Shares) and net assets applicable to Common Shares of \$413,007,191.

**Investment Objectives and Policies**

The Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. The Fund cannot assure you that it will achieve its investment objectives.

The Fund seeks to achieve its investment objective primarily by investing at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in various municipal securities, which may include municipal bonds and notes, other securities used to finance and refinance public projects, and related securities and derivative investments 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 used in this document, the term municipal securities refers to all such investments collectively). Managed Assets means the total assets of the Fund, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the express purpose of creating leverage). Total assets for this purpose shall include assets attributable to the Fund's use of effective leverage (whether or not those assets are reflected in the Fund's financial statements for purposes of generally accepted accounting principles), such as, but not limited to, the portion of assets in special purpose trusts of which the Fund owns the inverse floater certificates that has been effectively financed by the trust's issuance of floating rate certificates. The Fund seeks to achieve its investment objectives by investing in municipal securities that Nuveen Asset Management (defined below under Sub-Adviser) believes are underrated and undervalued. Up to 30% of the Fund's Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. For a discussion of how the federal alternative minimum tax may affect shareholders, see Tax Matters.

The Fund will invest at least 50% of its Managed Assets in investment grade quality municipal securities. A security is considered investment grade quality if it is rated within the four highest grades (Baa or BBB or better by Standard & Poor's Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc. (S&P), Moody's Investors Service, Inc. (Moody's) and Fitch Ratings, Inc. (Fitch)) by all nationally recognized statistical rating organizations (NRSROs) that rate such



security, or if it is unrated but judged to be of comparable quality by Nuveen Asset Management.

The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade. Below investment grade quality municipal securities include those municipal securities that are rated investment grade by one or more NRSROs but rated below investment grade by at least one NRSRO. No more than 5% of the Fund's Managed 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. 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). The Fund may invest up to approximately 10% of its Managed Assets in inverse floating rate securities.

As of October 31, 2012, approximately 57% of the Fund's Managed Assets were invested in municipal securities rated investment grade (using the higher of S&P's, Moody's, or Fitch's rating). The relative percentages of the value of the investments attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund's assets by Nuveen Asset Management, market value fluctuations, issuance of additional shares and other events.

See The Fund's Investments and Risk Factors.

**Investment Adviser**

Nuveen Fund Advisors, LLC ( NFALLC ), the Fund's investment adviser, is responsible for determining the Fund's overall strategy and its implementation. NFALLC, a registered investment adviser, is a wholly-owned subsidiary of Nuveen Investments, Inc. ( Nuveen Investments ). Founded in 1898, Nuveen Investments and its affiliates had approximately \$220 billion in assets under management as of September 30, 2012. 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 NFALLC. Nuveen Asset Management is a registered investment adviser. Nuveen Asset Management oversees the day-to-day investment operations of the Fund.

Nuveen Securities, LLC ( Nuveen Securities ), a registered broker-dealer affiliate of NFALLC and Nuveen Asset Management, is involved in the offering of the Fund's Common Shares. See Plan of Distribution-Distribution Through At-the-Market Transactions.

**Use of Leverage**

The Fund currently employs financial leverage primarily through its outstanding VMTP Shares. As of December 31, 2012, the balance outstanding on VMTP Shares and annual dividend rate was 51,000,000 and 1.28%, respectively. As of December 31, 2012, VMTP Shares represented approximately 8% of the Fund's Managed Assets. Preferred shares, including VMTP Shares, have seniority over Common Shares. Financial leverage is also 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. The Fund may also use borrowings as a means of financial leverage. 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 Leverage 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.

The Fund pays a management fee to NFALLC (which in turn pays a portion of its fee to the Fund's subadviser, Nuveen Asset Management) based on a percentage of Managed Assets. Managed Assets include the proceeds realized and managed from the Fund's use of leverage as set forth in the Fund's investment management agreement. NFALLC will be responsible for using leverage to pursue the Fund's investment objective and will base its decision regarding whether and how much leverage to use for the Fund based on its assessment of whether such use of leverage will advance the Fund's investment objective. However, the fact that a decision to increase the Fund's leverage will have the effect, all other things being equal, of increasing Managed Assets and therefore NFALLC's and Nuveen Asset Management's fees means that NFALLC and Nuveen Asset Management may have a conflict of interest in determining whether to increase the Fund's use of leverage. NFALLC will seek to manage that potential conflict 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 Board.

#### **Offering Methods**

The Fund may offer shares using one or more of the following methods: (i) at-the-market transactions through one or more broker-dealers that have entered into a selected dealer agreement with Nuveen Securities, 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 Shares through Nuveen Securities, to certain broker-dealers that have entered into selected dealer agreements with Nuveen Securities. Currently, Nuveen Securities has entered into a selected dealer agreement with UBS Securities LLC ( "UBS" ) pursuant to which UBS will be acting as Nuveen Securities' sub-placement agent with respect to at-the-market offerings of Common Shares. Common Shares will only be sold on such days as shall be agreed to by the Fund and Nuveen Securities. Common Shares will be sold at market prices, which shall be determined with reference to trades on the NYSE MKT, 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 Securities. The Fund and Nuveen Securities will suspend the sale of Common Shares if the per share price of the shares is less than the minimum price.

The Fund will compensate Nuveen Securities with respect to sales of the Common Shares at a fixed commission rate of 1.0% of the gross proceeds of

the sale of Common Shares. Nuveen Securities will compensate broker-dealers participating in the offering at a fixed rate of up to 0.8% of the gross sales proceeds of the sale of Common Shares sold by that broker-dealer. Nuveen Securities may from time to time change the dealer re-allowance. Settlements of Common Share sales will occur on the third business day following the date of sale.

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

The offering of Common Shares pursuant to the Distribution Agreement will terminate upon the earlier of (i) the sale of all Shares subject thereto or (ii) termination of the Distribution Agreement. The Fund and Nuveen Securities each have the right to terminate the Distribution 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.

The Fund's closing price on the NYSE MKT on February 22, 2013 was \$13.97.

UBS, its affiliates and their respective employees hold or may hold in the future, directly or indirectly, investment interests in Nuveen Investments, Inc. and its funds. The interests held by employees of UBS or its affiliates are not attributable to, and no investment discretion is held by, UBS or its affiliates.

The principal business address of Nuveen Securities is 333 West Wacker Drive, Suite 3300, Chicago, Illinois 60606.

*Distribution Through Underwriting Syndicates.* The Fund from time to time may issue additional Common Shares through a syndicated secondary offering. In order to limit the impact on the market price of the Fund's Common Shares, 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 Securities and the underwriting syndicate.

The Fund will offer its shares at a price equal to a specified discount of up to 5% from the closing market price of the Fund's Common Shares on the day prior to the offering date. The applicable discount will be negotiated by the Fund and Nuveen Securities 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 Shares. 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 Common Share or (ii) 91% of the closing market price of the Fund's Common Shares 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 Securities, 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 Shares.

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 Shares 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 Shares, the purchase price to apply to any such sale of Common Shares and the investor seeking to purchase the Common Shares.

Common Shares 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 Common Share of the Fund's Common Shares or (ii) at a discount ranging from 0% to 5% of the average daily closing market price of the Fund's Common Shares at the close of business on the two business days preceding the date upon which Common Shares 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 Shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in Common Shares represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Your Common Shares 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

*Recent Market Conditions.* The financial crisis in the U.S. and global economies over the past several years, including the European sovereign debt crisis, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign, and in the net asset values of many investment companies, including to some extent the Fund. Conditions in the U.S. and global economies have resulted, and may continue to result, in fixed income instruments experiencing unusual liquidity issues, increased price volatility and, in some cases, credit downgrades and increased likelihood of default. The financial condition of

federal, state and local governments may be sensitive to market events, which may, in turn, adversely affect the marketability of notes and bonds they issue. Recent declines in real estate prices and general business activity are reducing tax revenues of many state and local governments and could affect the economic viability of projects that are the sole source of revenue to support various municipal securities. Further, some state and local governments have been and in the future may be subject to direct ballot referenda that could limit their financial flexibility, or their ability to levy taxes or raise tax revenues, which may adversely affect the marketability of notes and bonds issued by those state and local governments. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. Because the situation is widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions. The severity or duration of these conditions may also be affected by policy changes made by governments or quasi-governmental organizations. In addition, on August 5, 2011, S&P lowered its long-term sovereign credit rating on the U.S. federal government debt to AA+ from AAA. The downgrade by S&P could increase volatility in both stock and bond markets, result in higher interest rates and higher U.S. Treasury yields and increase the costs of all kinds of debt. These events could have significant adverse effects on the economy generally.

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

*Economic and Political Events Risk.* The Fund may be more sensitive to adverse economic, business or political developments if it invests a substantial portion of its assets in the bonds of similar projects (such as those relating to the education, health care, housing, transportation, or utilities industries), industrial development bonds, or in particular types of municipal securities (such as general obligation bonds, private activity bonds or moral obligation bonds). Such developments may adversely affect a specific industry or local political and economic conditions, and thus may lead to declines in the bonds' creditworthiness and value.

*Market Discount from Net Asset Value.* Shares of closed-end investment companies like the Fund have during some periods traded at prices lower than net asset value. The Fund cannot predict whether Common Shares 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 Shares 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 Common Shares at the time of any offering of Common Shares 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 0.08% of the offering price assuming a Common Share offering price of \$13.97 (the Fund's closing price on the NYSE MKT on February 22, 2013)).

The net asset value per Common Share will also be reduced by costs associated with any future issuances of Common or preferred shares. The Common Shares are 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 5% 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, and are commonly referred to as junk bonds. 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. Currently, market interest rates are at or near historically low levels. 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 Share 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 Share 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 Risk Factors 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 Share's market price or your overall returns. See Risks Reinvestment Risk.

*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 and satisfy a diversification test on a quarterly basis. If the Fund fails to satisfy the qualifying income or diversification requirements in any taxable year, the Fund may be eligible for relief provisions if the failures are due to reasonable cause and not willful neglect and if a penalty tax is paid with respect to each failure to satisfy the applicable requirements. Additionally, relief is provided for

certain de minimis failures of the diversification requirements where the Fund corrects the failure within a specified period. In order to be eligible for the relief provisions with respect to a failure to meet the diversification requirements, the Fund may be required to dispose of certain assets. If these relief provisions were not available to the Fund and it were to fail to qualify for treatment as a regulated investment company for a taxable year, 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 stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits. To qualify to pay exempt-interest dividends, which are treated as items of interest excludable from gross income for federal income tax purposes, at least 50% of the value of the total assets of the Fund must consist of obligations exempt from regular income tax as of the close of each quarter of the Fund's taxable year. If the proportion of taxable investments held by the Fund exceeded 50% of the Fund's total assets as of the close of any quarter of the Fund's taxable year, the Fund would not satisfy the general eligibility test that would permit it to pay exempt-interest dividends for that taxable year.

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.

*Leverage Risk.* The use of financial leverage created through borrowing, the Fund's outstanding preferred shares, or the use of tender option bonds creates an opportunity for increased Common Share net income and returns, but also creates special risks for Common Shareholders. There is no assurance that the Fund's leveraging strategy will be successful. The risk of loss attributable to the Fund's use of leverage is borne by Common Shareholders. The Fund's use of financial leverage can result in a greater decrease in net asset values in declining markets. The Fund's use of financial leverage similarly can magnify the impact of changing market conditions on Common Share market prices. See *Risk Factors* *Inverse Floating Rate Securities Risk*.

Because the long-term municipal securities in which the Fund invests generally pay fixed rates of interest while the Fund's costs of leverage generally fluctuate with short- to intermediate-term yields, the incremental earnings from leverage will vary over time. However, the Fund may use derivatives, such as interest rate swaps, to fix the effective rate paid on all or a portion of the Fund's leverage, in an effort to lower leverage costs over



an extended period. Accordingly, the Fund cannot assure you that the use of leverage will result in a higher yield or return to Common Shareholders. The income benefit from leverage will be reduced to the extent that the difference narrows between the net earnings on the Fund's portfolio securities and its cost of leverage. The income benefit from leverage will increase to the extent that the difference widens between the net earnings on the Fund's portfolio securities and its cost of leverage. If short- or intermediate-term rates rise, the Fund's cost of leverage could exceed the fixed rate of return on longer-term bonds held by the Fund that were acquired during periods of lower interest rates, reducing income and returns to Common Shareholders. This could occur even if short- or intermediate-term and long-term municipal rates rise. Because of the costs of leverage, the Fund may incur losses even if the Fund has positive returns, if they are not sufficient to cover the costs of leverage. The Fund's cost of leverage includes interest on borrowing, dividends paid on VMTP shares, or the interest expense attributable to tender option bonds (See Risk Factors Inverse Floating Rate Securities Risk ), as well as any one-time costs (e.g., issuance costs) and ongoing fees and expenses associated with such leverage.

The Fund is required to maintain certain regulatory and rating agency asset coverage requirements in connection with its use of leverage, in order to be able to maintain the ability to declare and pay Common Share distributions and to maintain the VMTP Shares' rating. An NRSRO could downgrade its ratings on the Fund's outstanding preferred shares, including VMTP Shares. A ratings downgrade of the Fund's preferred shares may result in higher dividend rates and may also force the redemption of such preferred shares at what might be an inopportune time in the market. These factors may result in reduced net earnings or returns to Common Shareholders.

In order to maintain required asset coverage levels, the Fund may be required to alter the composition of its investment portfolio or take other actions, such as redeeming preferred shares or reducing leverage levels with the proceeds from portfolio transactions, at what might be an inopportune time in the market. Such actions could reduce the net earnings or returns to Common Shareholders over time.

Furthermore, the amount of fees paid to NFALLC (which in turn pays a portion of its fees to Nuveen Asset Management) for investment advisory services will be higher if the Fund uses leverage because the fees will be calculated based on the Fund's Managed Assets; this may create an incentive for NFALLC and Nuveen Asset Management to leverage the Fund.

The Fund may invest in the securities of other investment companies, which may themselves be leveraged and therefore present similar risks to those described above and magnify the Fund's leverage risk.

The Fund seeks to manage the risks associated with its use of financial leverage as described below under "How the Fund Manages Risk Investment Portfolio and Capital Structure Strategies to Manage Leverage Risk."

See Risk Factors Leverage Risk and Use of Leverage.

*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 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 may invest in inverse floating rate securities, issued by special purpose trusts that have recourse to the Fund. In Nuveen Asset Management'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 special purpose 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 special purpose 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 the trust, 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. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

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. 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.

The Fund's investment in inverse floating rate securities will create effective leverage, which will create an opportunity for increased Common Share net income and returns, but will also create the possibility that

Common Share long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund. Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the Common Share may be greater for a fund (like the Fund) that relies primarily on inverse floating rate securities to achieve a desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;

If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and

If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by 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 Shares 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 of not only of the referenced asset, rate or index, but also of the swap itself. Successful

implementation of most hedging strategies would generate taxable income. The derivatives market is subject to a changing regulatory environment. It is possible that regulatory or other developments in the derivatives market could adversely affect the Fund's ability to successfully use derivative instruments. See Risk Factors Derivatives Risk, Including the Risk of Swaps, Risk Factors Counterparty Risk, Risk Factors Hedging Risk and the Statement of Additional Information.

*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.

*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 Risk Factors Hedging Risk.

*Potential Conflicts of Interest Risk.* NFALLC and Nuveen Asset Management each provide a wide array of portfolio management and other asset management services to a mix of clients and may engage in ordinary course activities in which their respective interests or those of their clients may compete or conflict with those of the Fund. For example, NFALLC and Nuveen Asset Management may provide investment management services to other funds and accounts that follow investment objectives similar to those of the Fund. In certain circumstances, and subject to its fiduciary obligations under the Investment Advisers Act of 1940, Nuveen Asset Management may have to allocate a limited investment opportunity among its clients, which include closed-end funds, open-end funds and other commingled funds. NFALLC and Nuveen Asset Management have each adopted policies and procedures designed to address such situations and other potential conflicts of interests. For additional information about potential conflicts of interest, and the way in which NFALLC and Nuveen Asset Management address such conflicts, please see the SAI.

*Anti-Takeover Provisions.* The Fund's Declaration of Trust (the Declaration) 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 Common Shareholders of opportunities to sell their Common Shares at a premium over the then current market price of the

Common Shares. See Certain Provisions in the Declaration of Trust and By-Laws Anti-Takeover Provisions and Risks Anti-Takeover Provisions.

In addition, an investment in the Fund's Common Shares 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 Declaration of Trust could affect the opportunities of Common Shareholders to sell their Common Shares. See Risk Factors.

### **Distributions**

The Fund pays monthly cash distributions to Common Shareholders at a level rate (stated in terms of a fixed cents per Common Share dividend rate) based on the projected performance of the Fund. The Fund's ability to maintain a level Common Share dividend rate will depend on a number of factors, including dividends payable on VMTP Shares. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund's dividend policy could change. Over time, the Fund will distribute all of its net investment income (after it pays accrued dividends on VMTP Shares). In addition, the Fund intends to effectively distribute, at least annually, the net capital gain and taxable ordinary income, if any, to Common Shareholders so long as the net capital gain and taxable ordinary income are not necessary to pay accrued dividends on, or redeem or liquidate, any preferred shares, including VMTP Shares, then outstanding or pay any interest and required principal payments on borrowings. You may elect to reinvest automatically some or all of your distributions in additional Common Shares 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 Shareholders and pay federal income tax on the retained gain. As provided under federal tax law, Common Shareholders 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.

### **Special Tax Considerations**

The Fund may invest up to 30% of its Managed Assets in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. If you are, or as a result of investment in the Fund would become, subject to the federal alternative minimum tax, the Fund may not be a suitable investment for you. In addition, 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 taxable as long-term capital gains. See Tax Matters.

**Voting Rights**

The holders of the Fund's VMTP Shares, voting as a separate class, would have the right to elect at least two trustees at all times and to elect a majority of the trustees in the event two full years dividends on the preferred shares, including VMTP Shares, are unpaid. In each case, the remaining trustees would be elected by holders of Common Shares and preferred shares voting together as a single class. The holders of shares of preferred shares, including VMTP Shares, will vote as a separate class or classes on certain other matters as required under the Declaration, the Investment Company Act of 1940, as amended (the "1940 Act") and Massachusetts law. See Description of Shares Preferred Shares Voting Rights and Certain Provisions in the Declaration of Trust.

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**SUMMARY OF FUND EXPENSES**

The table shows the expenses of the Fund as a percentage of the average net assets applicable to Common Shares, and not as a percentage of total assets or Managed Assets.

<b>Shareholder Transaction Expenses</b> (as a percentage of offering price)		<b>As a Percentage of Net Assets Attributable to Common Shares(2)</b>
Maximum Sales Charge		4.00%
Offering Costs Borne by the Fund(1)		0.08%
<b>Annual Expenses</b>		
Management Fees		1.01%
Fees on VMTP Shares and Interest and Related Expenses from Inverse Floaters(3)		0.22%
Other Expenses		0.19%
		<hr/>
<b>Total Annual Expenses</b>		<b>1.42%</b>
		<hr/>

- (1) Assuming a Common Share offering price of \$13.97 (the Fund's closing price on the NYSE MKT on February 22, 2013).
- (2) Stated as percentages of average net assets attributable to Common Shares for the fiscal year ended October 31, 2012, adjusted to reflect the expiration of the Fee and Expense Reimbursement on November 30, 2011, the termination of the borrowing arrangement with the custodian bank on December 21, 2012 and the issuance of \$51 million of Variable Rate MuniFund Term Preferred Shares on that same date, and to exclude the expenses incurred during the 12-month period for dividend disbursing agent fees associated with Auction Rate Preferred Shares that are no longer outstanding.
- (3) Fees on VMTP Shares assumes annual dividends paid, as well as the amortization of offering costs. Interest and Related Expenses from Inverse Floaters includes interest expense that arises because accounting rules require the Fund to treat interest paid by trusts issuing certain inverse floating rate investments held by the Fund as having been paid (indirectly) by the Fund. Because the Fund also recognizes a corresponding amount of interest income (also indirectly), the Fund's net asset value, net investment income, and total return are not affected by this accounting treatment. The actual fees on VMTP Shares and 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 Shareholder, 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 \$0.80) that a shareholder 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.(1)



**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>
\$25	\$55	\$88	\$179

**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>
\$55	\$84	\$115	\$204

**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>
\$15	\$46	\$78	\$171

**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, 2012 has been audited by Ernst & Young LLP, whose report for the fiscal year ended October 31, 2012, 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 2012 Annual Report. A copy of the 2012 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 Common share outstanding throughout each period:

	Year Ended October 31								
PER SHARE OPERATING PERFORMANCE	2012	2011	2010	2009	2008	2007	2006	2005	2004(g)
Beginning Common Share Net Asset Value	\$ 11.59	\$ 12.13	\$ 11.18	\$ 9.63	\$ 15.36	\$ 16.00	\$ 15.36	\$ 14.87	\$ 14.33
Investment Operations:									
Net Investment Income (Loss)	.91	.96	1.04	1.06	1.29	1.23	1.21	1.22	.98
Net Realized/Unrealized Gain (Loss)	1.78	(.57)	.89	1.48	(5.71)	(.66)	.65	.54	.71
Distributions from Net Investment Income to Auction Rate Preferred Shareholders(a)		(.01)	(.01)	(.04)	(.23)	(.24)	(.19)	(.13)	(.08)
Distributions from Capital Gains to Auction Rate Preferred Shareholders(a)					(.02)	*		(.01)	
<b>Total</b>	<b>2.69</b>	<b>.38</b>	<b>1.92</b>	<b>2.50</b>	<b>(4.67)</b>	<b>.33</b>	<b>1.67</b>	<b>1.62</b>	<b>1.61</b>
Less Distributions:									
Net Investment Income to Common Shareholders	(.90)	(.96)	(1.01)	(1.04)	(.98)	(.98)	(1.04)	(1.07)	(.89)
Capital Gains to Common Shareholders					(.09)	*		(.06)	
<b>Total</b>	<b>(.90)</b>	<b>(.96)</b>	<b>(1.01)</b>	<b>(1.04)</b>	<b>(1.07)</b>	<b>(.98)</b>	<b>(1.04)</b>	<b>(1.13)</b>	<b>(.89)</b>
Premium from Common Shares Sold through Shelf Offering	.07	.04	.04	.09	.01	.01			
Offering Costs and Auction Rate Preferred Share Underwriting Discounts	*	*	*	*	*		.01		(.18)
<b>Ending Common Share Net Asset Value</b>	<b>\$ 13.45</b>	<b>\$ 11.59</b>	<b>\$ 12.13</b>	<b>\$ 11.18</b>	<b>\$ 9.63</b>	<b>\$ 15.36</b>	<b>\$ 16.00</b>	<b>\$ 15.36</b>	<b>\$ 14.87</b>

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Ending Market Value	\$ 14.22	\$ 11.75	\$ 12.95	\$ 11.92	\$ 11.02	\$ 15.82	\$ 17.25	\$ 15.99	\$ 15.04
Total Returns:									
Based on Market Value(b)	29.84%	(1.22)%	17.90%	20.00%	(24.77)%	(2.68)%	14.79%	14.35%	6.49%
Based on Common Share Net Asset Value(b)	24.55%	4.24%	18.18%	30.90%	(32.63)%	2.14%	11.34%	11.20%	10.38%
<b>Ratios/Supplemental Data</b>									
Ending Net Assets Applicable to Common Shares (000)	\$ 402,573	\$ 323,090	\$ 324,450	\$ 288,963	\$ 230,123	\$ 361,484	\$ 372,700	\$ 357,025	\$ 345,023
Ratios to Average Net Assets Applicable to Common Shares Before Reimbursement(c)(d):									
Expenses(f)	1.42%	1.52%	1.22%	1.53%	1.56%	1.50%	1.21%	1.20%	1.15%**
Net Investment Income (Loss)	7.31%	8.55%	8.66%	10.88%	8.95%	7.31%	7.31%	7.54%	6.75%**
Ratios to Average Net Assets Applicable to Common Shares After Reimbursement(c)(d)(e):									
Expenses(f)	1.41%	1.40%	1.00%	1.17%	1.08%	1.05%	.75%	.74%	.70%**
Net Investment Income (Loss)	7.32%	8.66%	8.88%	11.24%	9.43%	7.76%	7.77%	8.00%	7.20%**
Portfolio Turnover Rate	12%	32%	7%	28%	23%	12%	9%	6%	52%
Auction Rate Preferred Shares at End of Period:									
Aggregate Amount Outstanding (000)	\$	\$	\$ 95,000	\$ 95,000	\$ 155,000	\$ 155,000	\$ 155,000	\$ 155,000	\$ 155,000
Asset Coverage Per \$25,000 Share	\$	\$	\$ 110,382	\$ 101,043	\$ 62,117	\$ 83,304	\$ 85,113	\$ 82,585	\$ 80,649
Borrowings at End of Period:									
Aggregate Amount Outstanding (000)	\$ 50,000	\$ 50,000	\$	\$	\$	\$	\$	\$	\$
Asset Coverage Per \$1,000	\$ 9,051	\$ 7,462	\$	\$	\$	\$	\$	\$	\$

- (a) The amounts shown are based on Common share equivalents.
- (b) 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 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 Common Share Net Asset Value is the combination of changes in common share 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.

- (c) Ratios do not reflect the effect of dividend payments to Auction Rate Preferred shareholders, where applicable; Net Investment Income (Loss) ratios reflect income earned and expenses incurred on assets attributable to Auction Rate Preferred Shares and/or Borrowings, where applicable.
- (d) Ratios do not reflect the effect of custodian fee credits earned on the Fund's net cash on deposit with the custodian bank or legal fee refund, where applicable.
- (e) After expense reimbursement from the Adviser, where applicable. As of November 30, 2011 the Adviser is no longer reimbursing the Fund for any fees or expenses.
- (f) 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, and/or the effect of interest expense and fees paid on borrowings, where applicable, both as described in Footnote 1 General Information and Significant Accounting Policies, Inverse Floating Rate Securities and Footnote 8 Borrowing Arrangements, respectively, in the most recent shareholder report, as follows:

**Year Ended 10/31:**

2012	0.21%
2011	0.15
2010	0.01
2009	0.03
2008	0.20
2007	0.22
2006	
2005	
2004(g)	

(g) For the period November 19, 2003 (commencement of operations) through October 31, 2004.

\* Rounds to less than \$.01 per share.

\*\* Annualized. (Unaudited)

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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 the Common Shares reported as of the end of the day on the NYSE MKT, (ii) the high and low net asset values of the Common Shares, and (iii) the high and low of the premium/(discount) to net asset value (expressed as a percentage) of the Common Shares.

Fiscal Quarter Ended	Price		Net Asset Value		Premium/(Discount) to Net Asset Value	
	High	Low	High	Low	High	Low
	January 2013	\$ 14.52	\$ 13.52	\$ 13.84	\$ 13.45	6.50%
October 2012	\$ 14.28	\$ 13.40	\$ 13.46	\$ 13.18	6.41%	1.28%
July 2012	\$ 14.04	\$ 13.00	\$ 13.29	\$ 12.77	5.72%	0.70%
April 2012	\$ 13.15	\$ 12.17	\$ 12.75	\$ 12.31	5.43%	(1.93)%
January 2012	\$ 13.00	\$ 11.58	\$ 12.35	\$ 11.50	5.80%	(0.77)%
October 2011	\$ 11.75	\$ 10.96	\$ 11.84	\$ 11.39	1.73%	(5.60)%
July 2011	\$ 12.56	\$ 11.30	\$ 11.34	\$ 10.68	13.87%	(0.35)%
April 2011	\$ 11.83	\$ 11.30	\$ 10.68	\$ 10.32	12.99%	7.31%
January 2011	\$ 13.18	\$ 10.73	\$ 12.14	\$ 10.11	9.60%	1.38%

The net asset value per Common Share, the market price and percent of premium/(discount) to net asset value per Common Share on February 22, 2013 were \$13.59, \$13.97 and 2.80%, respectively. As of December 31, 2012, the Fund had 30,513,725 Common Shares outstanding and net assets applicable to Common Shares of \$413,007,191.

**THE FUND**

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on October 8, 2003, pursuant to a Declaration of Trust (the Declaration) governed by the laws of the Commonwealth of Massachusetts. On November 24, 2003, the Fund issued an aggregate of 20,500,000 Common Shares of beneficial interest, par value \$0.01 per share, pursuant to the initial public offering thereof. On December 4, 2003 and January 7, 2004, the Fund issued an additional 2,000,000 and 650,000 Common Shares, respectively, in connection with partial exercises by the underwriters of their over-allotment option. On September 20, 2007, the Fund registered an aggregate of 2,400,000 Common Shares to be offered, pursuant to one of three offering methods: at-the-market transactions, underwriting syndicates or privately-negotiated transactions. Of such 2,400,000 Common Shares, the Fund sold an aggregate of 2,394,165 Common Shares. On January 29, 2010, the Fund registered an additional 2,500,000 Common Shares. As of February 21, 2012, of such 2,505,835 Common Shares, all shares have been sold. On May 25, 2012, the Fund registered an additional 2,800,000 Common Shares. Of such 2,800,000 Common Share, the Fund sold an aggregate of Common Shares. The Fund's Common Shares are listed on the NYSE MKT under the symbol NMZ. On January 23, 2004, the Fund issued the following amounts of MuniPreferred Shares: 3,000 Shares of Series M, 1,600 Shares of Series T and 1,600 Shares of Series W. As of June 21, 2011, all of the Fund's MuniPreferred Shares have been redeemed. On December 21, 2012, the Fund issued 510 Series 2016 VMTP Shares.

The following provides information regarding the dates and amounts of the Fund's redemption of MuniPreferred Shares since their original issuance:

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<u>Series</u>	<u>No. of Shares</u>	<u>Redemption Date</u>
Series M	310	11/4/2008
Series T	145	11/5/2008
Series W	145	11/6/2008

Series	No. of Shares	Redemption Date
Series W	52	12/11/2008
Series M	96	12/17/2008
Series T	52	12/18/2008
Series M	576	1/6/2009
Series T	312	1/7/2009
Series W	312	1/8/2009
Series M	1,826	6/17/2011
Series T	987	6/20/2011
Series W	987	6/21/2011

The following provides information about the Fund's outstanding shares as of December 31, 2012:

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding
Common	unlimited	0	30,513,725
Preferred	unlimited		
VMTP Shares Series 2016		0	510

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 Shares 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 **Risk Factors** **Leverage Risk** and **Use of Leverage**.

#### THE FUND'S INVESTMENTS

##### Investment Objectives

The Fund's primary investment objective is to provide high current income exempt from regular federal income tax. The Fund's secondary investment objective is to seek attractive total return consistent with its primary objective. Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Common Shareholders. The Fund invests at least 80% of its Managed Assets in investments the income from which is exempt from regular federal income tax. The Fund seeks to achieve its investment objectives by investing

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in municipal securities that Nuveen Asset Management believes are underrated and undervalued. The Fund cannot assure you that it will achieve its investment objectives. See The Fund's Investments Investment Policies.

### **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.

*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 for Diversification.* As of September 30, 2012, the municipal securities market aggregated approximately \$3.7 trillion, with over 55,000 issuers, and a wide array of financing purposes, security terms, offering structures and credit quality. Nuveen Asset Management believes that the size and depth of the municipal securities market may facilitate the creation of a diversified portfolio that reduces exposure to the risks of individual issuers and may lower correlations to other credit and market risks within an investor's overall portfolio.

*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 believes that a bottom-up, value-oriented investment strategy that seeks to identify underrated and undervalued securities and sectors is positioned to capture the opportunities inherent in the municipal securities market and 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.

*Diversification.* Nuveen Asset Management seeks to invest in a large number of sectors, states and specific issuers in order to help insulate a portfolio from events that affect any individual industry, geographic location or credit.

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Portfolio managers normally seek to limit exposure to individual credits over the long-term. Portfolio managers also seek to diversify other portfolio level risks, including 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. Nuveen Asset Management may also sell securities when such securities exceed the portfolio's diversification targets.

### **Investment Policies**

Under normal circumstances, the Fund will invest its Managed Assets in a portfolio of municipal securities that pay interest that is exempt from regular federal income tax. It is a fundamental policy of the Fund that its investment in municipal securities paying interest that is exempt from regular federal income tax will, under normal circumstances, comprise at least 80% of the Fund's Managed Assets. Under normal circumstances, the Fund expects to be fully invested (at least 95% of its Managed Assets) in such tax-exempt municipal securities. Up to 30% of the Fund's Managed Assets may be invested in municipal securities that pay interest that is taxable under the federal alternative minimum tax applicable to individuals. For a discussion of how the federal alternative minimum tax may affect shareholders, see [Tax Matters](#).

The Fund will invest at least 50% of its Managed Assets in investment grade quality municipal securities. A security is considered investment grade quality if it is rated within the four highest grades (Baa or BBB or better by Moody's, S&P or Fitch) by all NRSROs that rate such security, or if it is unrated but judged to be of comparable quality by Nuveen Asset Management.

The Fund may invest up to 50% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade. Below investment grade quality municipal securities include those municipal securities that are rated investment grade by one or more NRSROs but rated below investment grade by at least one NRSRO. No more than 5% of the Fund's Managed 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. 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). The Fund may invest up to approximately 10% of its managed assets in inverse floating rate securities.

As of October 31, 2012, approximately 57% of the Fund's Managed Assets were invested in municipal securities rated investment grade (using the higher of S&P's, Moody's, or Fitch's rating). The relative percentages of the value of the investments attributable to investment grade municipal securities and to below investment grade municipal securities could change over time as a result of rebalancing the Fund's assets by Nuveen Asset Management, market value fluctuations, issuance of additional shares and other events.

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 foregoing credit quality policies 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 Moody's, S&P's and Fitch's ratings of municipal securities is set forth in Appendix A to the SAI. The Fund may also invest in securities of other open-or closed-end investment companies that invest primarily in municipal securities of the types in which the Fund may invest directly. See [The Fund's Investments](#) [Municipal Securities](#) [Other Investment Companies](#) and [Portfolio Composition](#).

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



affect the value of those securities. Although the insurance feature reduces 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 will be deemed to have the rating of its insurer. The insurance feature does not guarantee the market value of the insured obligations or the net asset value of the Common Shares.

The Fund presently intends to limit its investment in tobacco settlement bonds to no more than 10% of its Managed Assets.

Upon Nuveen Asset Management's recommendation, during temporary defensive periods and in order to keep the Fund's cash fully invested, including the period during which the net proceeds of any offering of Common Shares or preferred shares, including VMTP Shares, are being invested, the Fund may deviate from its investment objectives and 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, and if the proportion of taxable investments exceeded 50% of the Fund's total assets as of the close of any quarter of the Fund's taxable year, the Fund would not satisfy the general eligibility test that would permit it to pay exempt-interest dividends for that taxable year. For more information, see the SAI.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding Common Shares and VMTP Shares voting together as a single class, and of the holders of a majority of the outstanding VMTP Shares voting as a separate class. When used with respect to particular shares of the Fund, a majority of the outstanding shares Under the 1940 Act 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. See Description of Shares Preferred Shares Voting Rights for additional information with respect to the voting rights of holders of preferred shares.

If you are, or as a result of investment in the Fund would become, subject to the federal alternative minimum tax, the Fund may not be a suitable investment for you because the Fund expects that a significant portion of its investments will pay interest that is taxable under the federal alternative minimum tax. Special rules apply to corporate holders. In addition, distributions of net capital gain will be taxable as long-term capital gains. See Tax Matters.

### **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. 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.

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.

The Fund will primarily invest in municipal securities with long-term maturities in order to maintain a weighted average maturity of 15 to 30 years, but the weighted average maturity of obligations held by the Fund may be shorter, depending on market conditions. In comparison to maturity (which is the date on which a debt instrument ceases and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration.

*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.

*Inverse Floating Rate Securities.* The Fund may invest up to approximately 10% of its Managed Assets in inverse floating rate securities. Inverse floating rate securities (sometimes referred to as inverse floaters) 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: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). Both classes of beneficial interests are represented by certificates. 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, the institution granting the tender option 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 total face value of the short-term floaters in relation to the value of the residual inverse floaters that are issued by the special purpose trust. The Fund expects to make limited investments in inverse floaters, with leverage ratios that may vary at inception between one and three times. 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, 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 securities 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 outperform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields exceeding the 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 securities 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 Nuveen Asset Management'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 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 may invest in both inverse floating rate securities and floating rate securities (as discussed below) issued by the same special purpose trust.

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.

Investments in inverse floating rate securities create effective leverage. The use of leverage creates special risks for Common Shareholders. See Risk Factors Inverse Floating Rate Securities Risk.

*Floating Rate Securities.* The Fund may also invest in floating rate securities issued by special purpose trusts. Floating rate securities may take the form of short-term floating rate securities or the option period may be substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter term than the final maturity or first call date of the underlying bond deposited in the trust, the Fund as the holder of the floating rate security relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the trust provide for a liquidation of the municipal security deposited in the trust and the application of the proceeds to pay off the floating rate security. The trusts that are organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the floating rate security.

*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 typically 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, the holder receives the par value of the zero coupon bond, which generates a return equal to 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. This original issue discount (OID) approximates the total amount of interest the security will accrue and compound prior to its maturity and reflects the payment deferral and credit risk associated with the instrument. Because zero coupon securities and other OID instruments do not pay cash interest at regular intervals, the instruments' ongoing accruals require ongoing judgments concerning the collectability of deferred payments and the value of any associated collateral. As a result, these securities may be subject to greater value fluctuations and less liquidity in the event of adverse market conditions than comparably rated securities that pay cash on a current basis. Because zero coupon bonds, and OID instruments generally, allow an issuer to avoid or delay the need to generate cash to meet current interest payments, they may involve greater payment deferral and credit risk than coupon loans and bonds that pay interest currently or in cash. The Fund generally will be required to distribute dividends to shareholders representing the income 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, and use the cash proceeds to make income distributions to its shareholders. For accounting purposes, these cash distributions to shareholders will not be treated as a return of capital.

Further, NFALLC collects management fees on the value of a zero coupon bond or OID instrument attributable to the ongoing non-cash accrual of interest over the life of the bond or other instrument. As a result, NFALLC receives non-refundable cash payments based on such non-cash accruals while investors incur the risk that such non-cash accruals ultimately may not be realized.

*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 use also 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. See Hedging Strategies and Other Uses of Derivatives and Segregation of Assets in the SAI.

*Limitations on the Use of Futures, Futures Options and Swaps.* Pursuant to a claim for exemption filed with the National Futures Association on behalf of the Fund, the Fund is not deemed to be a commodity pool operator or a commodity pool under the Commodity Exchange Act (CEA) and neither it nor NFALLC or Nuveen Asset Management is currently subject to registration or regulation as such under the CEA with respect to the Fund. In February 2012, the Commodity Futures Trading Commission (CFTC) announced substantial amendments to certain exemptions, and to the conditions for reliance on those exemptions, from registration as a commodity pool operator. Under amendments to the exemption provided under CFTC Regulation 4.5, if the Fund uses futures, options on futures, or swaps other than for bona fide hedging purposes (as defined by the CFTC), the aggregate initial margin and premiums on these positions (after taking into account unrealized profits and unrealized losses on any such positions and excluding the amount by which options that are in-the-money at the time of purchase are in-the-money) may not exceed 5% of the Fund's net asset value, or alternatively, the aggregate net notional value of those positions may not exceed 100% of the Fund's net asset value (after taking into account unrealized profits and unrealized losses on any such positions). The CFTC amendments to Regulation 4.5 took effect on December 31, 2012, and the Fund intends to comply with amended Regulation 4.5's requirements such that NFALLC and/or Nuveen Asset Management will not be required to register with respect to the Fund as a commodity pool operator with the CFTC. The Fund reserves the right to engage in transactions involving futures, options thereon and swaps to the extent allowed by CFTC regulations in effect from time to time and in accordance with the Fund's policies. The requirements for qualification as a regulated investment company may limit the extent to which the Fund may enter into futures transactions, engage in options transactions or engage in swap transactions.

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 Managed 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. In addition, the Fund may invest a portion of its Managed Assets in pooled investment vehicles (other than investment companies) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund generally expects that it may invest in other investment companies and/or other pooled investment vehicles either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its Common Shares or borrowings, or during periods when there is a shortage of attractive, high-yielding municipal securities available in the market. The Fund may invest in investment companies that are advised by the NFALLC, Nuveen Asset Management or their respective affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC. The Fund has not applied for and currently does not intend to apply for such relief. As a stockholder 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 shareholders 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, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled Risk Factors, the net asset value and market value of leveraged shares will be more volatile and the yield to Common Shareholders will tend to fluctuate more than the yield generated by unleveraged shares.